

AUDITOR-GENERAL'S REPORT FINANCIAL AUDITS

Volume One 2010



The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

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

Peter Achterstraat
Auditor-General

Sydney
April 2010

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 incorporates The Legislature. Section Two provides comments on financial audits of government agencies. It 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 part of the comment 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** represent the more important findings. By targeting these, 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 parts of the comment 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 parts 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.

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.

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Section One

The Legislature

Members' Additional Entitlements

AUDIT OPINION

Members substantially complied with the requirements of the Parliamentary Remuneration Tribunal's (PRT) Determination for the year ended 30 June 2009.

KEY ISSUES

Loyalty and Incentive Scheme Points

I recommend the Legislature design and implement procedures that encourage Members to utilise accrued loyalty/reward benefits during their parliamentary term to reduce the overall cost of travel expenditure.

The PRT Determination provides for Members' travelling expenses for Parliamentary duties through the 'Electorate Charter Transport Allowance', 'Electorate to Sydney Travel Allowance', the 'Travelling Allowance for Recognised Office Holders' and the 'Logistic Support Allocation'.

Members accrue frequent flyer points from their travel. The Legislature did not have a system in place that ensured accrued loyalty/reward benefits were used to reduce Members' parliamentary business travel expenditure. The Determination requires unused benefits accrued by a Member to be forfeited when the Member is no longer in Parliament.

Last year I recommended the Legislature implement a system to ensure accrued loyalty/reward points are used for parliamentary purposes as required by the PRT Determination. Compliance with the Determination was not monitored during the year ended 30 June 2009. This increased the risk that points accruing to members' loyalty or incentive scheme accounts may be used for non-parliamentary businesses. Since our audit, management advised procedures are now in place to monitor compliance.

Sydney Allowance

I recommend the Tribunal consider introducing sanctions against Members who claim their Sydney Allowance annually but return unspent monies late.

The Sydney Allowance is provided to Members who reside in non-metropolitan electorates to compensate for the additional costs associated with staying in Sydney to attend to Parliamentary business. A Member can choose to receive the Sydney Allowance as either an annual fixed allowance or a daily rate. The choice is made at the start of each financial year by each Member.

Members who receive their Sydney Allowance as an annual fixed allowance are required by the PRT Determination to return any unspent portion to Parliament by 30 September each year. Three Members did not return unused monies within the required time frame and the reconciliation for these Members were still outstanding at the time of our audit.

Year ended 30 June	Legislative Assembly			Legislative Council		
	2009	2008	2007	2009	2008	2007
Members receiving entitlement on an annual basis	25	22	25	8	7	7
Members' reconciliations submitted on time	22	21	21	8	7	4

Source: The Legislature

This issue was also raised by the PRT in its report dated 30 May 2008 and by the Parliament's annual submission to the PRT in 2009.

Logistic Support Allocation

I recommend the Legislature consider implementing controls to ensure Members comply with the Tribunal's rules banning the use of the Logistic Support Allocation for electioneering purposes or political campaigning.

The Logistic Support Allocation can be used by Members to purchase goods and services but not for direct electioneering purposes or political campaigning.

The Tribunal in its May 2009 Determination (for the year ending 30 June 2010), at the request of the Parliaments' Presiding Officers, ruled that promotional items such as fridge magnets, notepads, shopping lists, key rings, pens, shopping bags, balloons, and frisbees should not be funded from the Logistic Support Allocation.

During the year ended 30 June 2009, prior to the clarification by the Tribunal, a number of Members used their Logistic Support Allocation to advertise their contact details on various promotional items. The more significant amounts claimed by Members for these items were:

Item	Amount \$
Fridge magnets	63,923
Notepads	37,686
Shopping lists	16,097
Pens	18,332
Shopping bags	2,970

These types of claims from Members should cease following the Tribunal's clarification that 'the provision of such items is inconsistent with the guidelines and general conditions regarding additional entitlements for Members. Management advised that controls are now in place to prevent the use of the LSA for electioneering or political campaigning.

Administration of Entitlements

In response to a review conducted in 2008, the Legislature introduced measures to improve the management of Members' entitlements as shown below.

Old Members' Entitlements System	New Members' Entitlements System - Measures Implemented from 1 July 2009
The responsibility for administration of the Members' Entitlements System was delegated to the Presiding Officers. Parliamentary Administration subsequently designed and implemented systems whereby Parliamentary staff scrutinised claims. Accountability for compliance with the conditions of the determination was borne by Parliamentary Administration.	A risk management approach that requires Members to self-assess the validity of their own claims. This places the onus on the Member to show that any expenditure or claim for reimbursement relates to their Parliamentary duties. The self-assessment approach is supported by the robust internal audit program.
Documentation for claims was provided to Parliamentary staff for scrutiny.	Documentation for all claims (except for Sydney Allowance) to be retained by the Member for audit purposes and not submitted to Parliamentary staff. Documents such as tax invoices still need to be provided to the Legislature to satisfy Australian Taxation Office requirements.
Members not subject to a formal four-year Internal Audit Plan.	Members will be subject to internal audit at least once in a four year period.
Private credit cards were used with subsequent reimbursement sought.	Members will be provided with credit cards to incur expenses without having to seek reimbursement. A pilot program is currently testing the operational efficiency of this system. Members can still use their own private credit cards.
Findings from Internal and external audit programs were not reported in the annual report.	The inclusion of findings from the internal and external audit programs and details of expenditure from entitlements in the Annual Report

OTHER INFORMATION

Members allowances are:

Entitlement	Expected expenditure *	Actual Expenditure	Variance	Average Expenditure per eligible member 2009
	\$	\$	%	\$
Electorate Allowance	6,216,335	6,192,987	--	45,874
Sydney Allowance	1,940,400	1,666,578	14.0	23,473
Logistic Support Allocation	4,077,905	3,670,880	10.0	26,221
Electorate Mailout Account	5,888,271	4,675,332	21.0	50,272
Committee Allowance	19,531	16,605	15.0	2,076
Electorate Charter Transport Allowance	97,180	45,464	53.0	7,577
Travelling Allowance for Recognised Office Holders	(a)	--	--	--
Total	18,239,622	16,267,845	11.0	na

* Source: PRT Determination 2008.

na not applicable.

(a) Expected expenditure has not been provided as the maximum remuneration limits for this allowance is not defined.

A summary of maximum and minimum amounts claimed by entitlement type:

Entitlement	Maximum amount claimed/paid by an eligible Member \$	Minimum amount claimed/paid by an eligible Member \$
Electorate Allowance	80,095**	38,975**
Sydney Allowance	43,585	5,400
Logistic Support Allocation	54,297	178
Electorate Mailout Account	70,352	10,451
Committee Allowance	3,910	462
Electorate Charter Transport Allowance	20,336	62
Travelling Allowance for Recognised Office Holders	--	--

Source: PRT Determination.

** The quantum of the electorate allowance is fixed depending on the geographical electoral grouping of the Member and paid with the monthly salary of the Member.

Electorate Allowance

The Electorate Allowance is provided to Members to assist with performing parliamentary duties including the cost of leasing or purchasing a motor vehicle.

Members	Electorate allowance payable per annum
Member of the Legislative Assembly	\$38,975 to \$80,095
Member of the Legislative Council	\$45,645

Source: PRT Determination 2008.

Sydney Allowance (SA)

The Sydney Allowance is given to Members whose principal place of residence is in a non-metropolitan electorate. The allowance compensates for the additional costs associated with staying in Sydney to attend sessions of Parliament, meetings of Parliamentary committees or other Parliamentary business. Additional costs include accommodation, meals and incidental costs.

In order to receive the allowance, each Member must certify to the Clerk of the Legislative Assembly or the Clerk of the Parliaments, their principal place of residence.

A Member can elect to receive a fixed annual allowance or a daily rate. The choice is made at the start of each financial year. Members who receive the allowance annually are required to return to Parliament any unspent portions.

The table below illustrates the daily rate and the number of nights that an eligible Member could claim for the year ended 30 June 2009:

Maximum allowable overnight stay.**	Amount payable for overnight stay where accommodation costs are incurred ** \$	In transit to and from Sydney where no over night stay is involved
From 105 - 180 nights	240	Actual reasonable expenses for meals and incidentals up to a maximum of \$74.35 per day

Source: PRT Determination 2008.

** If a Member chooses to receive the daily rate of allowance and the member exceeds the set number of overnight stays, he/she will be reimbursed actual costs, up to the daily maximum, upon production of tax invoices/receipts for each such occasion.

Committee Allowance

Committee Allowances are paid to Chairpersons of Joint, Select, and Standing Committees in recognition of the additional responsibilities of the office. Given the statutory nature of the Public Accounts Committee and its role in Government activities, an annual rate of allowance is payable to all Committee Members.

Range	Entitlement
Chairpersons of Joint, Select and Standing Committees	\$170 for each day that Parliament was not sitting
Public Accounts Committee Members	\$3,910 per annum

Electorate to Sydney Travel

Members of the Legislative Assembly and Legislative Council, who reside in particular electorate groups and zones, qualify for return air travel vouchers between their electorates/zones and Sydney as follows:

Categories	Electorate to Sydney Travel Entitlement (number of single journeys per annum)
Basic entitlement for all eligible members	104
Additional entitlement for office holders (Ministers of the Crown, Party Leaders, Presiding Officers and their deputies)	32
Additional entitlement for other officer holders (Deputy Leader of an eligible party and Deputy Leader of the Opposition)	16

Source: PRT Determination 2008.

Travel is restricted to economy class and is not transferrable between members, relatives, or Members' staff. Alternatively, the entitlement may be used to meet the cost of using a private or rental vehicle but must not exceed the cost of an economy airfare.

Logistic Support Allocation

Members and Recognised Office Holders of the Legislative Assembly and Legislative Council are entitled to this annual allocation as follows:

Member Type	Minimum allocation p.a. \$	Maximum allocation p.a. \$
Member and office holders of the Legislative Assembly	30,615	39,030
Member and office holders of the Legislative Council	20,765	31,675

Source: PRT Determination 2008.

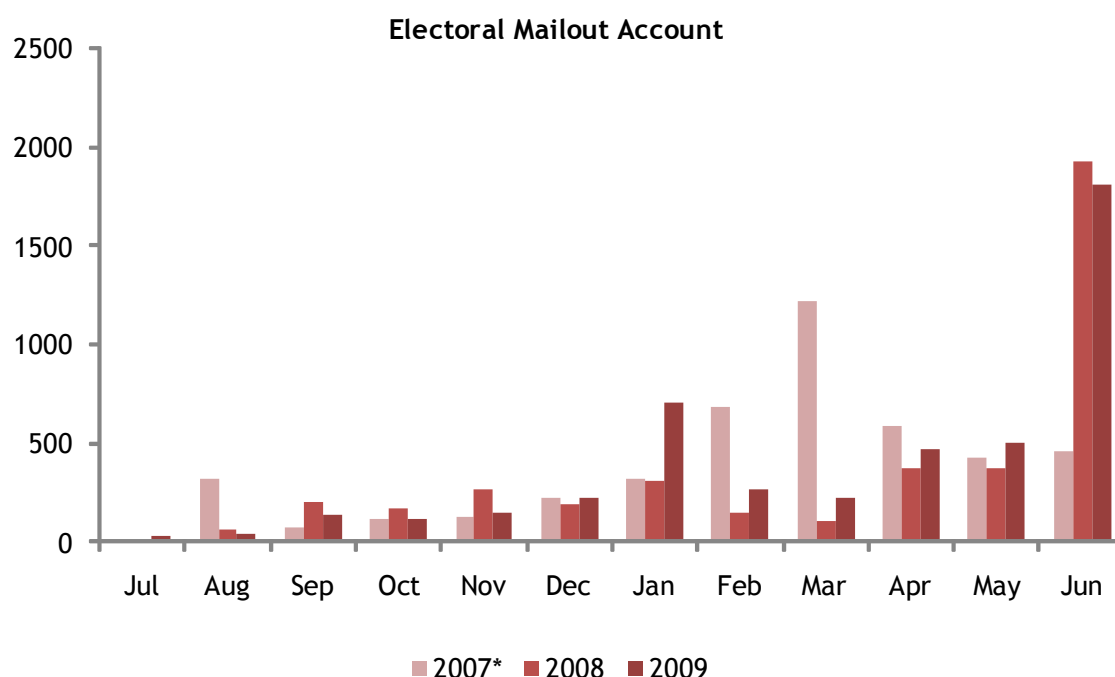
Electorate Mailout Account

Members of the Legislative Assembly are provided with an annual amount to fund the cost of preparing and distributing newsletters to their electorate twice each year. The Electorate Mailout Account cannot be used for any other purpose. The table below shows the minimum and maximum entitlement for the year ended 30 June 2009.

Range	Annual Entitlement \$
Minimum	58,228
Maximum	70,407

Source: PRT Determination 2008.

Members spent \$4.7 million in 2008-09 (\$4.1 million in 2007-08) of the total available allocation of \$5.9 million (\$5.8 million).



* An election was held in March 2007.

Electorate Charter Transport for Members of the Legislative Assembly

Members of the largest electorates are provided with the Electorate Charter Transport allowance to meet charter transport costs incurred within their electorates. Charter transport includes charter aircraft, vehicle costs and any other mode of transport deemed appropriate by the Speaker of the Legislative Assembly.

The allowance must only be used in connection with Parliamentary duties and cannot be used during election campaigns or for other electioneering or party political activities.

Members can receive between \$6,980 and \$21,080 a year.

Travelling Allowances for Recognised Office Holders

Recognised Office Holders such as the Premier, Deputy Premier and senior Ministers, receive a travelling allowance for all travel undertaken in relation to their role as a Recognised Office Holder. The allowance cannot be claimed when the Member travels on Parliamentary business in their own capacity.

Recognised Office Holders may also claim additional expenses exceeding the entitlement incurred by an approved relative who accompanied them to a State or official function.

Equipment, Services and Facilities

Parliament provides Members of the Legislative Assembly and the Legislative Council with the equipment, services and facilities necessary to perform their Parliamentary duties including:

- a fitted out, equipped and maintained office with secretarial services at Parliament House
- a fitted out, equipped and maintained Electorate Office for Members of the Legislative Assembly
- equipment and ancillary services in the Member's private residence including a telephone and facsimile machine, for the performance of Parliamentary duties
- portable equipment such as a mobile telephone and a notebook computer
- a separate facsimile line and data line installed in the homes of each Member of the Legislative Council
- administrative support from Presiding Officers.

The Role of the Parliamentary Remuneration Tribunal

The Tribunal's principal function is to determine 'additional' entitlements available to Members of Parliament.

These additional entitlements fall into two categories:

- Those in the nature of allowances:
 - Electorate Allowance
 - Sydney Allowance
 - Committee Allowance
- Those in the nature of fixed allocations:
 - Electorate to Sydney travel
 - Logistic Support Allocation
 - Electorate Mailout Account for Members of the Legislative Assembly
 - Electorate Charter Transport for Members of the Legislative Assembly
 - Travelling allowance for Recognised Office Holders
 - Equipment services and facilities.

The Legislature pays the additional entitlements where Members incur the actual costs. It can either reimburse the Member or pay third parties (e.g. travel providers) for services to the Member.

The additional entitlements determined by the PRT are separate to:

- Members' annual basic salaries, set by the *Parliamentary Remuneration Act 1989* (the Act)
- additional salaries paid to Ministers and certain other office holders, set out in Schedule 1 of the Act as varying percentages of their basic salaries
- expense allowances paid to Ministers and certain other office holders, set out in Schedule 1 of the Act as varying percentages of their basic salaries.

Further comments on the Legislature were reported in Volume 8 2009 Auditor-General's Report to Parliament.

Section Two



Commentary on Government Agencies

Minister for Climate Change and the Environment

**Waste Recycling and Processing Corporation
(WSN Environmental Solutions)**

Waste Recycling and Processing Corporation (WSN Environmental Solutions)

AUDIT OPINION

The audit of the Corporation's financial statements for the year ended 30 June 2009 resulted in an unqualified Independent Auditor's Report. However, the Independent Auditor's Report drew attention to a significant uncertainty in the determination of a provision for net costs associated with a major contract. The Corporation determined that no provision was required.

KEY ISSUES

Proposed Sale

On 23 March 2010, the Government enacted the *Waste Recycling and Processing Corporation (Authorised Transaction) Act 2010* for the sale of the Corporation.

The Act, among other things:

- creates a new Government agency, Waste Assets Management Corporation (WAMC) to hold and manage assets transferred from Waste Recycling and Processing Corporation
- establishes a Special Deposits Account to be administered by the Treasurer to receive the sale proceeds and settle landfill liabilities
- provides for transfer of any of the Corporation's assets to the private sector
- settles all outstanding WAMC landfill liabilities and pays the balance of the proceeds to the Consolidated Fund.

Efficiency of the Performance of the Corporation (Repeat Issue)

We recommend the Corporation liaise with The Treasury to resolve the difficulties in complying with the requirements of the *Waste Recycling and Processing Corporation Act 2001* (the Act).

The Act requires the Corporation to operate at least as efficiently as any comparable businesses. The Corporation's view is that there are no similar comparable businesses operating in the same environment. In the absence of comparable businesses the Corporation has been unable to perform efficiency assessments since its inception.

PERFORMANCE INFORMATION

The Corporation provided the following information regarding its trade performance:

Trade Volumes

Year ended 30 June	Target	Actual				
	2009	2009	2008	2007	2006	2005
Total waste received ('000 tonnes)	<i>na</i>	1,990	1,967	1,846	1,928	2,076
Total waste sent to landfill ('000 tonnes)	<i>na</i>	1,571	1,616	1,559	1,528	1,678

Source: Waste Recycling and Processing Corporation (unaudited).
na: not available.

Financial Performance

Year ended 30 June	Target*	Actual				
	2009	2009	2008	2007	2006	2005
Earnings before interest and tax (\$m)	23.9	16.0	29.9	19.3	16.2	15.6
Return on average equity (%)	9.7	3.8	10.0	6.5	7.3	6.7
Return on average assets (%)	6.4	4.0	7.8	5.9	5.8	6.3
Interest cover (times)	<i>na</i>	6.0	13.9	5.8	10.7	5.2
Debt to equity ratio (%)	19.4	30.4	17.1	--	35.9	31.4
Dividend paid to Government (\$m)	8.2	6.8	4.8	5.3	5.4	3.5

Source: Waste Recycling and Processing Corporation (unaudited).

* Target agreed with shareholder Ministers in the Statement of Corporate Intent.
na: not available.

The Corporation did not meet its earnings, return on average equity and average assets earnings targets due to unplanned expenses of:

- \$6.5 million for legal costs arising from contract disputes, and
- \$3.8 million due to delays in the commencement of the waste treatment plant at Jack's Gully in the Camden area.

OTHER INFORMATION

We identified opportunities for the Corporation to improve existing procedures. We will further discuss our findings with management and where appropriate report them to management.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2009 \$'000	2008 \$'000
REVENUE		
Waste processing revenue	270,569	231,043
Other	9,727	16,796
OPERATING REVENUE	280,296	247,839
EXPENSE		
Employee benefits expense	52,321	38,789
Depreciation and amortisation	22,441	19,655
Government waste levy	60,785	56,324
Contract and other expense	135,227	106,762
OPERATING EXPENSES	270,774	221,530
PROFIT BEFORE TAX	9,522	26,309
Income tax equivalent expense	1,810	6,051
PROFIT	7,712	20,258
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		
Superannuation actuarial losses	(1,929)	(857)
Other Gains/(Losses)	117	(6,018)
TOTAL INCOME RECOGNISED FOR THE YEAR	5,900	13,383

The increase of \$39.5 million in waste processing revenue was mainly due to additional council contracts won during the year with an annual rise in processing charges including a Government waste levy.

A rise in the number of full time equivalent employees by 78 for the new waste treatment plant at Jack's Gully contributed to the increase in employee benefits expenses.

The movement in contract and other expenses reflects the additional costs from the new council contracts and increases in:

- freight, waste disposal and operating costs of \$3.8 million resulting from delays in the commencement of the new waste treatment plant at Jack's Gully
- contract payments of \$4.0 million
- borrowing costs of \$2.9 million
- lease and rental expenses by \$2.7 million, and
- legal costs of \$4.6 million.

Abridged Balance Sheet

At 30 June 2009	2009 \$'000	2008 \$'000
Current assets	43,949	51,517
Non-current assets	353,427	330,749
TOTAL ASSETS	397,376	382,266
Current liabilities	79,331	77,182
Non-current liabilities	113,437	102,567
TOTAL LIABILITIES	192,768	179,749
NET ASSETS	204,608	202,517

The net increase in non-current assets \$22.7 million is mainly due to capital expenditure of \$9.6 million on landfill cell construction and \$16.4 million on the new waste treatment plant at Jack's Gully offset by \$3.6 million depreciation on these assets.

Non-current liabilities increased due to additional borrowings principally to fund capital projects.

Liabilities included \$38.2 million provision for the rehabilitation of landfill sites (\$40.8 million at 30 June 2008).

CORPORATION ACTIVITIES

The Corporation is a statutory State owned corporation constituted under the *Waste Recycling and Processing Corporation Act 2001* to provide a waste processing, recycling and disposal service. It manages waste management centres, including seven solid waste transfer stations, four engineered landfills, and three materials recycling facilities.

For further information on the Corporation, refer to www.wsn.com.au.

Minister for Commerce

**Workers Compensation Nominal Insurer
(trading as The NSW WorkCover Scheme)**

Workers Compensation Nominal Insurer (trading as The NSW WorkCover Scheme)

AUDIT OPINION

The audit of the Scheme's financial report for the year ended 30 June 2009 resulted in an unqualified Independent Auditor's Report.

KEY ISSUES

Financial Position of the Scheme

The Scheme had a net asset deficiency of \$1.5 billion at 30 June 2009 compared to a surplus of \$625 million at 30 June 2008. The continuing poor performance of investment markets, changes in discount and inflation rates applied to the Scheme's liabilities due to the global financial crisis, plus changes in the assumptions used by the Scheme's actuary to calculate the outstanding claims liability all had an adverse impact on the Scheme's financial position.

While the Scheme aims to maintain an assets to liabilities ratio greater than 100 per cent, for the reasons stated above this ratio had decreased to 89 per cent at 30 June 2009.

The Scheme's actuary has projected the Scheme's assets to liabilities ratio will improve over the next five years as follows:

At 30 June	2009 \$m	2010 \$m	2011 \$m	2012 \$m	2013 \$m	2014 \$m
Total Assets	11,596	12,266	13,054	13,897	14,782	15,728
Total Liabilities	13,078	13,344	13,762	14,408	15,071	15,788
DEFICIT	1,482	1,078	708	511	289	60
Funding Ratio (%)	89	92	95	97	98	100

Source: Scheme Actuary Report 30 June 2009 (unaudited).

By 30 June 2014, the Scheme's actuary estimates the Scheme will be almost fully funded and that this will be achieved without having to increase premium rates or reduce compensation benefits paid.

PERFORMANCE INFORMATION

Investment Performance of the Scheme

The following table shows the Scheme's actual and benchmark investment return percentages for the last three years:

Year ended 30 June	Investment Performance per annum		
	2009 %	2008 %	2007 %
Investment (loss)/return	(7.9)	(0.5)	13.5
Benchmark (loss)/return	(8.7)	(1.5)	12.7

Source: WorkCover New South Wales Annual Report (unaudited).

The Scheme has outperformed its benchmark each year. The investment losses incurred in 2008 and 2009 were consistent with the poor performance in global financial markets.

Creditworthiness of the Scheme's Investments

Cash and interest bearing investments comprise 65 per cent of the Scheme's investments. An investment's credit rating is a key measure of its creditworthiness (or likelihood of default). Credit ratings of the Scheme's cash and interest bearing investments at 30 June were:

At 30 June	2009 %	2008 %
RATING:		
AAA/aaa	64	82
AA/Aa	13	13
A/A	20	5
BBB	3	--
TOTAL	100	100

Source: WorkCover New South Wales Annual Report.

Investments rated BBB- and above are considered investment grade. There has been a decrease in the Scheme's holding of AAA rated investments as a result of the global financial crisis as credit ratings for many financial institutions fell. The Scheme has not incurred any direct losses as a result of entities collapsing since the global financial crisis began in 2007.

Lower rated investments are more susceptible to adverse changes in issuer circumstances and economic conditions, which may impact the value of the investment.

OTHER INFORMATION

Inadequate Processes within a Scheme Agent

The Scheme operates through seven Scheme Agents who issue policies, collect premiums and process claims. Financial information from the Scheme Agents is aggregated and included in the Nominal Insurer's financial report for revenues, expenses, assets and liabilities.

The auditors of one of the Scheme Agents were unable to confirm that exceptions identified during their audit did not have a material impact on some of the Agent's balances provided to the Scheme. The Scheme is monitoring the corrective action taken by the Scheme Agent to address the causes of these exceptions. The exceptions were not material to the Scheme's financial report.

Workers Compensation Legislation Amendment (Financial Provisions) Act 2008

The Scheme provides funding towards the operations of the WorkCover Authority of New South Wales (the Authority). The *Workers Compensation Legislation Amendment (Financial Provisions) Act 2008* introduced a new funding model for the Authority with effect from 1 July 2008. Under the new model the Authority is funded by the Scheme only to the extent of its annual funding needs, which the Minister approves in advance. Under the previous model the Authority received a fixed percentage of the Scheme's premium income and reimbursement of costs incurred on the Scheme's behalf.

For 2008-09, the Minister approved total funding of \$195 million by the Scheme, \$76.8 million more than the funding under the previous model in 2007-08. In conjunction with the introduction of the new funding model the Authority returned \$34.0 million of surplus cash to the Scheme in 2008-09.

FINANCIAL INFORMATION**Abridged Income Statement**

Year ended 30 June	2009 \$m	2008 \$m
Net earned premiums	2,572	2,440
Investment income	(798)	(60)
Other income	80	148
TOTAL REVENUE	1,854	2,528
Net claims incurred	3,237	2,088
Management fees	309	320
Statutory levies	267	183
Other expenses	148	124
TOTAL EXPENSES	3,961	2,715
DEFICIT	2,107	187

Investments continued to underperform due to the continued poor performance of financial markets. The poor result was largely due to realised investment losses of \$824 million compared to realised gains of \$328 million in 2007-08.

The increase in net claims incurred of \$1.1 billion was due to the increase in the outstanding claims liability which is discussed below.

Abridged Balance Sheet

At 30 June	2009 \$m	2008 \$m
Investments	9,480	13,114
Other	2,116	1,498
TOTAL ASSETS	11,596	14,612
Outstanding claims	12,002	10,486
Other	1,076	3,501
TOTAL LIABILITIES	13,078	13,987
NET (LIABILITIES)/ASSETS	(1,482)	625

Investments decreased by \$3.6 billion due to decreases in the value of the Scheme's investments as a result of the global financial crisis and changes in the presentation of derivative assets and liabilities. In 2009 swap derivatives are disclosed on a net basis where net settlement is likely to occur, while in 2008 these derivatives were disclosed on a gross basis.

The changes in presentation equally reduced the reported value of investments and other liabilities by about \$1.9 billion compared to 2007-08, but had no impact on net assets.

Outstanding claims increased by \$1.5 billion largely due to changes in discount and inflation rates (\$715 million) and other assumptions used by the Scheme's actuary (\$703 million). New claims incurred in 2009 were \$1.7 billion (\$1.5 billion in 2008), while claims payments were \$1.6 billion (\$1.5 billion).

Investments

At 30 June	2009 \$m	2008 \$m
Indexed and interest bearing securities	5,834	7,013
Australian equities	398	536
International equities	1,145	629
Unit trusts	2,007	2,988
Derivative assets	96	1,948
TOTAL INVESTMENTS	9,480	13,114
Derivative liabilities	(103)	(1,963)
NET INVESTMENTS	9,377	11,151

As noted above, the reporting of derivative assets and liabilities was changed this year.

The overall asset allocation of the fund has changed slightly since last year. The Scheme has allocated three per cent to commodities. This was achieved by reducing the exposure to Australian and international equities each by 1.5 per cent.

SCHEME ACTIVITIES

The Scheme was established under the *Workers Compensation Act 1987*. It comprises two entities, the Workers Compensation Nominal Insurer and the Workers Compensation Insurance Fund. The Nominal Insurer manages the Insurance Fund.

The Nominal Insurer operates as a licensed workers compensation insurer. The Insurance Fund holds premiums, investment funds and all other funds received. Effective operation of the Nominal Insurer and Insurance Fund commenced on 1 July 2005 when the assets and liabilities of the former WorkCover Scheme Statutory Funds were transferred to the Insurance Fund and the Nominal Insurer.

The WorkCover Authority does not control, but does act, for the Nominal Insurer.

The *Workplace Injury Management and Workers Compensation Act 1998* established the Workers Compensation Insurance Fund Investment Board to determine investment policies for Insurance Fund assets. The Investment Board reports to the Minister on the investment performance of the Insurance Fund.

For further information on the Scheme, refer to www.workcover.nsw.gov.au.

Minister for Finance

**WorkCover Authority of New South Wales
Workers' Compensation (Dust Diseases) Board**

Refer to Appendix 1 for:

Office of the WorkCover Authority

WorkCover Authority of New South Wales

AUDIT OPINION

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

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

PERFORMANCE INFORMATION

Workplace Injury Rates

Year ended 30 June	Workplace Injuries			
	2008	2007	2006	2005
Incidence rates (a)	10.0	10.0	11.0	13.4
Frequency rates (b)	9.8	9.7	8.9	8.3
Fatalities	53	69	75	62
Permanent disability	4,775	5,205	6,686	8,710

Source: New South Wales Workers Compensation Statistical Bulletin 2007-08 (unaudited).

(a) incidence rates measure the number of injuries per 1,000 employees.

(b) frequency rate is the number of injuries per million hours worked.

To measure the effectiveness of its activities to minimise workplace injury, the Authority looks at changes in the incidence rates for major injuries and workplace fatalities. The Authority has advised that the most recent figures available are for 2007-08 and show work related injury rates are at their lowest levels since 1987.

Enforcement Activity

Year ended 30 June	Notices Issued		
	2009	2008	2007
Penalty notices (a)	690	619	726
Prohibition notices (b)	769	994	1,127
Improvement notices (c)	10,863	13,109	13,243
Confirmation of advice records (d)	2,460	3,919	1,217

Source: WorkCover Authority Annual Report (unaudited).

(a) issued for offences under the Occupational Health and Safety Act 2000, Occupational Health and Safety Regulation 2001 and the Occupational Health and Safety (Clothing Factory Registration) Regulation 2001 where it appears that a person has committed an offence.

(b) issued in response to an immediate risk to the health or safety of any person and prohibit the activity until the risk is remedied. These will usually, but not always, constitute a breach of the OHS Act or OHS Regulation 2001.

(c) issued in response to apparent breaches of the OHS Act, the OHS Regulation or the OHS (Clothing Factory Registration) Regulation 2001 or for administrative breaches of legislation, to rectify systems of work or hazards which do not pose an immediate risk to the health or safety of any person.

(d) encourage employers to examine how they can make improvements to the way they are managing OHS/WC more generally.

The Authority focuses on providing information and advice to ensure employers meet their workplace safety obligations. This has generally resulted in a reduction in the number of prohibition and penalty notices issued.

OTHER INFORMATION

Workers Compensation Legislation Amendment (Financial Provisions) Act 2008

The *Workers Compensation Legislation Amendment (Financial Provisions) Act 2008* introduced a new funding model for the Authority from 1 July 2008. Under the new model the Minister approves in advance the Authority's annual funding from the Workers' Compensation Nominal Insurer trading as the NSW WorkCover Scheme (the Scheme). Under the previous model the Authority received a fixed percentage of premium income received by the Scheme and reimbursement of costs incurred on the Scheme's behalf.

For 2008-09, the Minister approved total funding of \$195 million by the Scheme, \$76.8 million more than the funding under the previous model in 2007-08. The increase was to address declines in income from other sources and employee award and CPI increases.

FINANCIAL INFORMATION

Abridged Income Statements

Year ended 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Contributions	259,744	173,373	259,744	173,373
Investment loss	(2,943)	(257)	(2,943)	(257)
Other	31,196	29,212	32,031	30,523
TOTAL REVENUE	287,997	202,328	288,832	203,639
TOTAL EXPENSES	341,099	329,652	341,934	330,963
DEFICIT	53,102	127,324	53,102	127,324

The \$86.4 million increase in contributions was largely due to the increase in funding received from the Scheme under the new funding model.

Expenses include \$34.2 million (\$84.0 million in 2007-08) in surplus funds transferred back to the Scheme in accordance with the *Workers Compensation Legislation Amendment (Financial Provisions) Act 2008*.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Cash and investments	168,940	173,640	168,939	173,639
Other	89,701	132,776	87,662	129,587
TOTAL ASSETS	258,641	306,416	256,601	303,226
Outstanding claims	110,192	101,614	110,192	101,614
Other	160,161	162,985	158,121	159,795
TOTAL LIABILITIES	270,353	264,599	268,313	261,409
NET (LIABILITIES)/ASSETS	(11,712)	41,817	(11,712)	41,817

In 2008, other assets included \$36.0 million receivable from the Scheme. This was not the case this year, as under the new funding model contributions from the Scheme are paid in the financial year they relate to.

Outstanding claims increased as a result of increases in expected future claim payments and claims handling expenses. In addition, lower discount rates were applied to the outstanding claims provision this year due to the global financial crisis.

The transfer of surplus cash to the Scheme, the increase in outstanding claims and an increase in superannuation liabilities resulted in the Authority's negative net asset position at 30 June 2009. However, the new funding model will ensure the Authority has sufficient funds available to continue operations.

AUTHORITY ACTIVITIES

The WorkCover Authority of New South Wales is constituted under the *Workplace Injury Management and Workers Compensation Act 1998*.

The Authority:

- promotes the prevention of work-related injuries and diseases and assists workplaces to become healthier and safer
- promotes prompt, efficient and effective management of injuries to persons at work
- ensures efficient operation of workers compensation insurance arrangements
- co-ordinates the administration of schemes relating to workers compensation and occupational health and safety legislation.

The Authority directs, controls and manages four active funds, namely WorkCover Authority Fund; Insurers' Guarantee Fund; Emergency and Rescue Workers Compensation Fund; and Bush Fire Fighters Compensation Fund. The Authority's financial report combines the results and financial positions of these funds. The NSW WorkCover Scheme's operations are not included in the financial report.

The Chief Executive Officer of the Authority and the Board of Directors are subject to the control and direction of the Minister for Finance.

For further information on the Authority, refer to www.workcover.nsw.gov.au.

CONTROLLED ENTITY

Workers Compensation Commission of New South Wales

Year ended 30 June	2009 \$'000	2008 \$'000
Revenue	33,138	31,962
Personnel services expenses	12,076	10,460
Other expenses	21,062	21,502
Profit	--	--
Net assets (at 30 June)	--	--

The Commission's operations are funded by the Authority.

The Commission is constituted under the *Workplace Injury Management and Workers Compensation Act 1998*. The Commission is an independent statutory tribunal that resolves workers' compensation disputes between injured workers and employers.

For further information on the Commission, refer to www.wcc.nsw.gov.au.

Workers' Compensation (Dust Diseases) Board

AUDIT OPINION

The audit of the Board's financial report for the year ended 30 June 2009 resulted in an unqualified Independent Auditor's Report.

KEY ISSUES

Dust Diseases Levy paid by the NSW Self Insurance Corporation

In last year's report I recommended the Board liaise with the NSW Self Insurance Corporation (the Corporation) to ensure the dust diseases levy applied by the Corporation complies with the *Workers' Compensation (Dust Diseases) Act 1942* and the associated Goods and Services Tax (GST) is treated correctly.

Determination of the appropriate levy to be applied by the Corporation was not resolved during 2008-09.

For a number of years the Corporation has applied the lowest dust diseases levy rate to calculate the levy payable. This potentially conflicts with the Act, which requires a range of levy rates to be applied by self-insurers depending on the business classification of their employees. The levy rates vary from 0.025 per cent to four per cent of employee wages. The rates increase for those business classifications with a greater risk of dust related illness. New South Wales Government employees covered by the Corporation are likely to be in the lower risk business classifications.

The Board has advised that the Corporation will be applying the range of levy rates set out in the Act from 2009-10. The issue of whether an adjustment is required for previous years is unresolved.

The Corporation had also been deducting GST from the calculated dust diseases levies, which are exempt from GST. In 2008-09, this issue was resolved and approximately \$1.4 million of incorrectly deducted GST was recovered by the Board.

PERFORMANCE INFORMATION

Year ended 30 June	Actual Performance		
	2009	2008	2007
Compensation applications received	808	837	688
Medical Authority certificates issued for dust diseases	336	301	334
Compensation awards approved (a)	480	406	446
Compensation paid (\$m)	62.8	56.8	56.6

Source: Dust Diseases Board Annual Report (unaudited except for compensation paid figures).

(a) Includes awards to workers and dependants.

The Board's actuary has forecast that the peak of claims for compensation will be between 2014 and 2018.

Investment Performance of the Board

The following table compares the returns earned on the Board's investments against similar New South Wales Treasury Corporation (TCorp) investments:

Type of Investment	TCorp 2009 %	The Board's Return		
		2009 %	2008 %	2007 %
0 - 2 y Cash Plus	5.35	5.09	6.42	6.49
2 - 7 y Bond Market	0.73	8.05	4.74	4.12
7+ y Long Term	(10.33)	(25.99)	(18.16)	18.71

Source: Dust Diseases Board (unaudited).

The Board's investments are held with 12 fund managers, including TCorp, across cash, bond market and long term growth facilities. The bond markets facility has an investment horizon of two to seven years, while the long term growth facility has an investment horizon of seven years and over. These facilities have the potential to earn higher returns over the long term than cash based facilities, but can experience greater volatility in the short to medium term.

The poor performance on equities and property reflects the underperformance of these sectors as a result of the global financial crisis.

OTHER INFORMATION

Formal Service Level Agreement with the WorkCover Authority of New South Wales

In the previous year's report I recommended the Board enter into a formal service level agreement with the WorkCover Authority of New South Wales (the Authority) on the administration of the calculation and collection of the dust diseases levy. The Board agreed on a Memorandum of Understanding with the Authority in August 2009.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2009 \$'000	2008 \$'000
Dust diseases levy	85,616	90,449
Investment loss	(59,293)	(54,469)
Movement in outstanding contributions	24,396	171,301
Other	728	1,562
TOTAL REVENUE	51,447	208,843
Outstanding claims liability increase/(decrease)	(44,054)	115,804
Finance cost	89,128	92,932
Other	6,373	107
TOTAL EXPENSES	51,447	208,843
PROFIT	--	--

The Board's income and expenditure are subject to large variations driven by movements in the outstanding claims liability. In 2008-09, the outstanding claims liability decreased slightly compared to a significant increase in the previous year. The liability is actuarially assessed each year and changes in economic and other assumptions can significantly change the outcome.

The cost of compensation claims and other costs of the Board are recovered from employers through the dust diseases levy. The movement in outstanding contributions represents the change in future levies required to fund these costs. As a result of the decrease in outstanding claims, income from outstanding contributions was significantly lower in 2008-09 than in 2007-08.

The loss on investments of \$59.3 million is due to the continued poor performance of global investment markets during the year.

Abridged Balance Sheet

At 30 June	2009 \$'000	2008 \$'000
Contributions receivable	1,039,570	1,015,174
Investments	430,227	515,039
Other assets	158,836	127,441
TOTAL ASSETS	1,628,633	1,657,654
Outstanding claims	1,616,039	1,648,120
Other liabilities	10,968	7,908
TOTAL LIABILITIES	1,627,007	1,656,028
NET ASSETS	1,626	1,626

As noted above, contributions receivable represents the current shortfall in outstanding claims to be funded through future levies.

BOARD'S ACTIVITIES

The Board administers fortnightly compensation payments as well as medical expense payments to eligible disabled workers who contract a specified dust disease. Workers' dependants receive lump sum payments as well as fortnightly compensation payments where the worker subsequently dies as a result of a dust disease. Rates of compensation are adjusted periodically to account for increases in the cost of living.

The Board also administers funds held in trust on behalf of dependant beneficiaries. The Board is also responsible for meeting the operating cost of the Dust Diseases Tribunal, which was created to expedite the common law claims of dust disease sufferers. The *Workers' Compensation (Dust Diseases) Act 1942*, gives the Board authority to impose levies each year to meet its annual operating costs.

The Board is a statutory authority established under the Act. It is subject to the direction and control of the Minister for Finance. For further information on the Workers' Compensation (Dust Diseases) Board, refer to www.ddb.nsw.gov.au.

Minister for Health

Justice Health

Justice Health

AUDIT OPINION

The audits of Justice Health and its controlled entity's financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

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

KEY ISSUES

Working Capital

Working capital ratio is a measure of an entity's liquidity and its ability to meet short term debt obligations. It is calculated by dividing current assets by current liabilities. A working capital of 100 per cent or more is generally considered desirable to ensure an entity can meet its debts when they fall due.

The working capital position for the last four years based on Justice Health's financial reports is shown below.

At 30 June	2009	2008	2007	2006
Current assets (\$'000)	8,954	6,522	4,390	5,133
Current liabilities* (\$'000)	24,064	14,332	12,829	10,800
Working capital deficit (\$'000)	15,110	7,810	8,439	5,667
Working capital ratio (%)	37.2	45.5	34.2	47.5
Number of times current liabilities exceed current assets	2.7	2.2	2.9	2.1

* Australian Accounting Standards require all unconditional employee entitlement liabilities to be reported as current liabilities irrespective of when they are expected to be settled. For our analysis we have excluded long service leave liabilities expected to be settled later than 12 months from the year-end.

Working capital has reduced marginally in the current financial year to 37.2 per cent (45.5 per cent in 2007-08).

Justice Health is able to operate at a lower working capital ratio due to continuous cash contributions from the Department. Although Justice Health is funded by grants from the Department, the declining trend should be addressed to ensure sufficient funding is on hand for the timely payment of creditors and to avoid operational problems.

Financial Report and Supporting Work Papers (Repeat Issue)

I have previously recommended Justice Health improve its quality control procedures over the preparation of its financial report to ensure reporting timeframes are achieved

The financial report initially submitted to the Audit Office contained misstatements and several supporting work papers were not received on agreed dates. These matters contributed to Justice Health not achieving statutory reporting timeframes.

PERFORMANCE INFORMATION

Justice Health's major service deliveries for the last two years are shown below.

Year ended 30 June	2009	2008
Total non-admitted patients (occasions of service)	3,652,619	3,615,883
Mental health inpatient (bed days)	43,698	49,882
Screened for mental health problems (number of patients)	14,758	14,746
Received comprehensive mental assessments (number of patients)	2,354	1,900
Vaccinated against Hepatitis B (number of patients)	2,997	3,468
Vaccinated against seasonal influenza (number of patients)	3,945	5,075
Released from custody on maintenance pharmacotherapy (number of patients)	2,098	2,245

(unaudited).

OTHER INFORMATION

Asset Stock Take

I recommend that Justice Health strengthen its policies and procedures in relation to plant and equipment stock takes.

In 2008-09, Justice Health did not perform a stock take of items of plant and equipment.

Justice Health should strengthen its stock take procedures by:

- assigning accountability for the stock take process
- requiring all cost centres to complete and return stock take sheets
- preparing a summary report detailing the result of the stock take
- investigating and obtaining explanations for variations, especially stock shortages
- ensuring the property, plant and equipment register and general ledger are adjusted for the results of the stock take.

New Forensic Hospital

A private sector company was engaged to finance, design, construct and maintain a new forensic hospital at Malabar. This project, undertaken jointly between the Department of Corrective Services and Justice Health, was completed during 2008-09.

Upon commissioning, Justice Health recognised the new forensic hospital asset at a value of \$86.3 million. It also recognised a finance lease liability for the same amount, payable over 35 years to July 2034.

The new Forensic Hospital focuses on mentally ill patients within the criminal justice system as well as certain civil community patients.

Internal Controls

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

FINANCIAL INFORMATION

Abridged Operating Statements

Year ended 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Employee related	92,800	79,791	--	--
Personnel services	--	--	92,800	79,791
Grants and Subsidies	1,018	1,084	1,018	1,084
Other expenses	36,080	21,408	36,043	21,408
OPERATING EXPENSES	129,898	102,283	129,861	102,283
OPERATING REVENUE	3,082	2,469	4,887	4,298
Loss on disposal of non-current assets	61	55	61	55
NET COST OF SERVICES	126,877	99,869	125,035	98,040
Government contributions	120,841	99,896	119,036	98,067
(DEFICIT)/SURPLUS	(6,036)	27	(5,999)	27

Employee related expenses increased mainly due to a rise in the full time equivalent number of employees from 792 at 30 June 2008 to 980 at 30 June 2009, largely as a result of the opening of the forensic hospital. Increases in the award rates, annual leave and long service leave expenses were also noted.

Other expenses increased primarily due to new finance, operating and depreciation costs associated with the opening of the forensic hospital.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	8,954	6,522	9,022	6,522
Non-current assets	102,468	10,658	102,468	10,658
TOTAL ASSETS	111,422	17,180	111,490	17,180
Current liabilities	33,748	23,862	33,781	23,862
Non-current liabilities	84,476	441	84,476	441
TOTAL LIABILITIES	118,224	24,303	118,257	24,303
NET LIABILITIES	6,802	7,123	6,767	7,123

Current assets increased due to a rise in receivables. The increase in current liabilities is mainly due higher accrued expenses and liabilities for employee leave. Leave liabilities rose due to increases in the actuarial adjustment and award rates, together with a number of staff attaining the seven year service period for long service leave.

The increase in non-current assets and non-current liabilities reflects the recognition of the new forensic hospital and associated finance lease liability. In view of the net liabilities position of Justice Health, the Department of Health has provided assurances that it will help ensure Justice Health can pay its liabilities when they fall due.

JUSTICE HEALTH ACTIVITIES

Justice Health is responsible for providing health care to people who come into contact with the criminal justice system.

For further information on Justice Health, refer to www.justicehealth.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

Justice Health Special Purpose Service Entity

Minister for Primary Industries

Refer to Appendix 1 for:

Belgenny Farm Agricultural Heritage Centre Trust

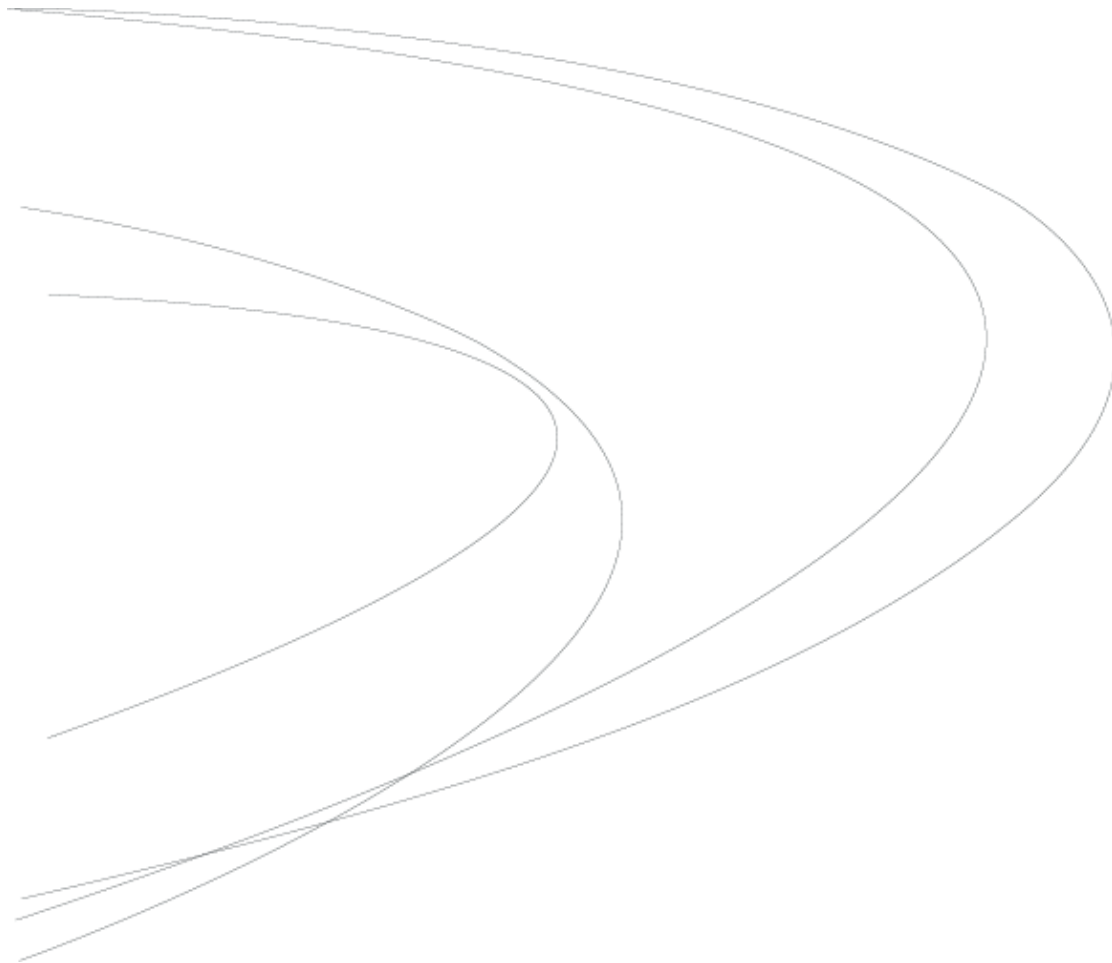
Treasurer

Refer to Appendix 1 for:

Residual Business Management Corporation

Appendices

Appendix 1 Agencies not reported elsewhere in this Volume



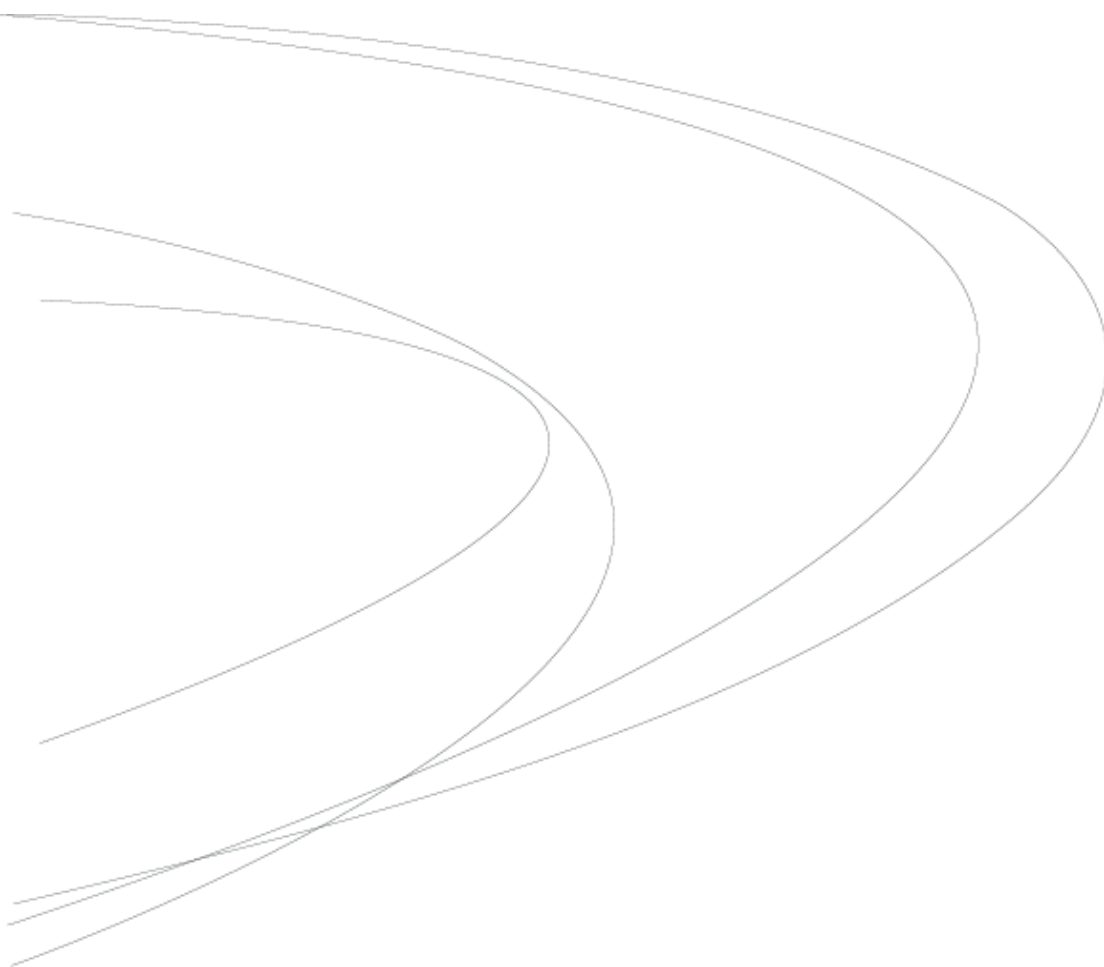
Appendix 1 - Agencies not reported elsewhere in this Volume

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

Entity Name	Website	Period/Year Ended
Belgenny Farm Agricultural Heritage Centre Trust	www.belgennyfarm.com.au	30 June 2009
Office of the WorkCover Authority	www.workcover.nsw.gov.au	30 June 2009
Residual Business Management Corporation	*	30 June 2009
- Pacific Power (Subsidiary No 1) Pty Ltd	*	30 June 2009
- Pacific Solar Pty Limited	www.pacificsolar.com.au	30 June 2009

* This entity does not have a website.

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AUDITOR-GENERAL'S REPORT

FINANCIAL AUDITS

Volume Two 2010

focusing on Universities



The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

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

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

Peter Achterstraat
Auditor-General

Sydney
June 2010

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 three sections.

Section One incorporates:

- a special review titled 'Fraud Control Arrangements in Large Government Agencies and Universities (Ten Elements of Fraud Control)'
- Reporting of the State's Performance
- Governance Arrangements for the General Government and Total State Sector Accounts
- Agency Amalgamations, and
- Quality of Financial Reporting.

Section Two is the University Overview.

Section Three provides comments on financial audits of government agencies. It 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 statements in accordance with Australian Accounting Standards (and other mandatory requirements). It also means we believe the financial statements have 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 part of the comment 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** represent the more important findings. By targeting these, 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 parts of the comment 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 parts 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 statements. 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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Significant Items

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Large New South Wales Government agencies and universities are better at investigating fraud rather than detecting and preventing it. Improvements are needed in fraud risk assessments, employee awareness programs, consumer and community awareness programs, and detection systems.	3
Agency Amalgamations	
Newly formed departments may not meet statutory reporting deadlines.	11
Universities Overview	
New South Wales universities recorded a combined operating surplus of \$494 million compared to a combined deficit of \$76.9 million last year, reflecting the improvement in global financial markets. Investment losses of \$405 million were recognised in 2008 compared to net gains of \$38.0 million in 2009.	16
The value of universities' investments increased by 6.3 per cent, from \$1.6 billion to \$1.7 billion as at 31 December 2009. This contrasts with a \$500 million decline in value in 2008.	16
Recent issues in Europe highlight the fragile nature of the recovery in global financial markets. Consequently, financial risks remain for universities, especially for those with overseas operations and those needing to fund capital works programs, estimated at \$2.0 billion for 2010 and 2011.	16
Universities are exposed to significant financial and reputational risks from the 216 business arrangements they have entered into, locally and overseas.	21
One quarter of academic staff employed in NSW universities are aged 55 years or over. Forty one per cent are 50 years or older. Universities face a potential loss of skills as academic staff retire.	24
The Australian Government has agreed to fund universities' superannuation liabilities of \$2.5 billion, but formal funding agreements are not in place.	27
Managing excessive annual leave balances remains a challenge for most universities. At 31 December 2009, 2,506 employees had accrued more than 40 days annual leave.	28
Only two universities met the four Australian benchmarks for university financial performance compared to six in 2008.	31
Universities have become increasingly reliant on revenue from overseas fee-paying students. Revenue from this source has increased to \$1.1 billion or 18.4 per cent of total revenue.	34
Southern Cross University had the highest increase in overseas student numbers.	35
Charles Sturt University	
The financial statements submitted for audit did not comply with many requirements of the Australian Accounting Standards.	49

Macquarie University

The University has 34 controlled entities and is currently reviewing its corporate structure to simplify it. The majority of these entities are associated with the University's development of a private hospital. The expected final cost of the hospital building is \$160 million plus \$48.0 million for equipment. At this time, the University is employing appropriately skilled staff to operate the hospital. 58

University of New England

The University's Council has undertaken a comprehensive review of governance and is taking action to address the shortcomings identified by the review. 83

University of New South Wales

The University is responsible for funding three defined benefits superannuation funds. At 31 December 2009, the combined liability for these three funds was \$29.8 million, 48.9 per cent lower than the liability at 31 December 2008. 93

The long service leave liability of the University has increased by 20.2 per cent over the past four years to \$98.9 million, presenting a further funding challenge for the University. 96

University of Newcastle

The University is planning to build a new campus in Newcastle city centre for an estimated cost of \$562 million. It has not sourced the funding or performed a cost benefit analysis of constructing the new campus versus upgrading its present Callaghan campus. 105

University of Wollongong

Last year, an employee of the University of Wollongong in Dubai, inappropriately used a bank account to transfer private funds. This year, the same employee used a corporate credit card for personal use in contravention of policy and received an inappropriate salary advance. 130

Recommendations

Fraud Control Arrangements in Large Government Agencies and Universities (Ten Elements of Fraud Control) Page

- I recommend that government agencies and universities focus on improving their fraud prevention and detection systems. Specifically, they need to improve their fraud risk assessments, employee and consumer awareness programs and detection systems. Useful detection systems include data mining and early warning systems to receive information from staff, contractors, suppliers and the public about potential frauds. 3

Reporting of the State's Performance

I recommend:

- the annual planning process for the NSW State Plan Annual Report allow for a November tabling date. 8
- the Government ensure that the systems generating the data used in the State Plan Annual Report can be relied on. 9
- the Government formally respond to the Public Accounts Committee's recommendations. 9

Quality of Financial Reporting

- I recommend The Treasury mandate that agencies perform hard close procedures at 31 December and 31 March each year. This should improve the quality, reliability and timeliness of financial reporting across the Public Sector and enhance the annual budget process. 12

Universities Overview

I recommend:

- the University of Newcastle and Charles Sturt University implement total asset management plans to ensure their assets are managed efficiently and effectively 19
- each university include asset management performance reporting in their annual reports 19
- each university review governance arrangements for controlled entities to ensure risk exposures are understood, monitored and managed 20
- each university eliminate unnecessary controlled entities to reduce governance risks and compliance and assurance costs. 20
- each university review funding arrangements with controlled entities to determine the need for 'letters of comfort', if any 22
- each university confirm existing 'letters of comfort' represent better practice 23
- each university review foreign currency exposures and ensure they have appropriate policies to mitigate the risks associated with such exposures 23
- each university develop and implement effective policies to address and manage the ageing academic workforce 24
- the Vice Chancellor of each university collaborate and approach the Australian Government to negotiate an agreement to fund staff superannuation obligations 26

▪ each university review the effectiveness of their policies for managing excessive annual leave balances	28
▪ each university create and maintain a single register of all contract employees	30
▪ each university periodically review the roles and responsibilities of all contract employees to ensure:	30
□ reliance on contractors is not excessive	
□ use of contract employees instead of permanent employees is appropriate	
□ contractors do not become de facto employees by virtue of being with the university for an extended period of time	
□ use of contract employees continues to represent value for money.	
▪ DEEWR review its financial performance indicators to confirm their continuing relevance and appropriateness.	31

Charles Sturt University

I recommend the University:

▪ implement robust financial reporting processes and improve the quality control procedures over the preparation of its financial statements and supporting documentation	49
▪ improve its recording and accounting procedures for non-current assets. Its property, plant and equipment register should be updated continuously throughout the year to ensure the accuracy and completeness of its asset records	49
▪ continue to review and strengthen corporate governance, accounting and internal control procedures for its overseas campus	50
▪ review the effectiveness of its policies in managing its ageing academic workforce	50
▪ establish individual staff plans to reduce excessive annual leave balances within an acceptable timeframe	52
▪ create and maintain a record of all contractors engaged by the University	52
▪ should also periodically review the roles and responsibilities of all its contractors to ensure:	52
□ its reliance on contractors is not excessive	
□ using a contractor instead of a permanent employee is appropriate	
□ contractors do not become de facto employees by virtue of being with the University for an extended period of time	
□ using a contractor continues to represent value for money.	

Macquarie University

I recommend the University:

▪ review its corporate strategy to help ensure its corporate structure aligns with that strategy.	58
▪ review its processes for the selection of business partners and the identification of project risks. This will help reduce risks in future projects.	58
▪ review the effectiveness of its policies in managing its ageing workforce.	59
▪ review the effectiveness of its existing policies for managing excessive annual leave balances.	61

Southern Cross University

I recommend the University:

- review the effectiveness of its policies in managing its ageing workforce. 68
- continues to monitor and manage excessive annual leave balances. Strategies adopted to reduce the number of employees with excessive leave balances should continue during 2010. 70

The University of Sydney

I recommend the University:

- review the effectiveness of its policies in managing its ageing workforce 75
- create and maintain a single record of all contractors engaged by it 77
- periodically review the roles and responsibilities of all its contractors to ensure: 77
 - its reliance on contractors is not excessive
 - use of a contractor instead of a permanent employee is appropriate
 - contractors do not become de facto employees by virtue of being with the University for an extended period of time
 - use of a contractor continues to represent good value for money
- establish individual staff plans to reduce excessive leave balances within an acceptable timeframe 78
- review the financial arrangements it has with its controlled entities to satisfy itself that an appropriate financial structure is in place to support their ongoing operations. 81

University of New England

I recommend the University:

- review the effectiveness of its policies in managing its ageing workforce 84
- establish individual leave plans with employees to reduce leave balances within an acceptable timeframe. 86

University of New South Wales

I recommend:

- the University finalise a framework to identify and manage foreign exchange and interest rate exposures to minimise losses 91
- the University finalise its longer term cash flow forecast model to minimise the risk of not meeting operating and capital expenditure commitments and other liability obligations 92
- the University establish individual plans with employees to reduce excessive leave balances within an acceptable timeframe 94
- the University review the effectiveness of its policies in managing its ageing workforce 94

▪ the University maintains a central register for contractors not paid through the human resources systems to reduce the risk of non-compliance with taxation laws and regulations	96
▪ the University complete the liquidation of AGSM Limited and UNSW Asia School Limited during 2010	97
▪ UNSW Global Pty Limited establishes policies and procedures to review the group's overseas operations, including representative offices, to ensure compliance with local laws and regulations.	97

University of Newcastle

I recommend the University:

▪ conduct a comparative cost benefit analysis to the University of building a new city campus and relocating some of its operations versus upgrading its Callaghan campus	105
▪ review its ability to fund the proposed capital programs	105
▪ implement total asset management plans to ensure assets are planned and managed efficiently and effectively	105
▪ review the effectiveness of its policies in managing its ageing workforce	106
▪ create and maintain a single record of all contractors engaged by it	108
▪ periodically review the roles and responsibilities of all its contractors to ensure:	108
□ its reliance on contractors is not excessive	
□ use of a contractor instead of a permanent employee is appropriate	
□ contractors do not become de facto employees by virtue of being with the University for an extended period of time	
□ use of contractors continues to represent value for money	
▪ review its use of corporate credit cards and the internal control structure it uses to control and monitor spending on credit cards	108
▪ records any personal expenditure on credit cards as a debt owing to the University. This will ensure that the money is collected from the employee involved.	108
▪ raise a debt against the relevant employee for any spending not accounted for within two months of the credit card statement date. This will ensure all money is accounted for correctly or recovered from the relevant employee.	108

University of Technology, Sydney

I recommend the University:

▪ create and maintain a single record of all contractors engaged by it	117
▪ periodically review the roles and responsibilities of all its contractors to ensure:	117
□ its reliance on contractors is not excessive	
□ use of a contractor instead of a permanent employee is appropriate	
□ contractors do not become de facto employees by virtue of being with the University for an extended period of time	
□ use of a contractor continues to represent good value for money.	

University of Wollongong

I recommend:

- the University ensure that its subsidiary ITC Ltd improves oversight arrangements to ensure compliance with policies and procedures for its University of Wollongong in Dubai operations. 130
- the University review the effectiveness of its policies in managing excess annual leave. 132
- ITC Ltd implement a timetable to ensure financial statements are prepared and submitted, for each controlled entity, by the statutory deadline. Failure to submit financial statements within the specified timeframe is a breach of legislative requirements. 138

Section One

Special Review

Fraud Control Arrangements in Large Government Agencies and Universities (Ten Elements of Fraud Control)

Updates

Reporting of the State's Performance

Governance Arrangements for the General Government and Total State Sector Accounts

Agency Amalgamations

Quality of Financial Reporting

Fraud Control Arrangements in Large Government Agencies and Universities

(Ten Elements of Fraud Control)

My 2009 governance report highlighted fraud control as a key area of improvement for large government agencies and universities. Given this result, and the heightened fraud risks due to the recent global downturn and the newly created 13 super departments, I conducted a fraud control survey of large government agencies and universities in 2009.

The survey was sent to 54 large New South Wales Government agencies and all ten New South Wales universities. The survey is based on our 2006 Fraud Control Improvement Kit and the fraud standard AS 8001-2008. The survey measured the effectiveness of ten key fraud control measures.

I received 47 responses from agencies and responses from all ten universities. The findings in this report are based on those responses.

RECOMMENDATION

I recommend government agencies and universities focus on improving their fraud prevention and detection systems. Specifically, they need to improve their fraud risk assessments, employee and consumer awareness programs and detection systems. Useful detection systems include data mining and early warning systems to receive information from staff, contractors, suppliers and the public about potential frauds.

CONCLUSION

Fraud control measures in large New South Wales Government agencies and universities have improved since our 2004 review.

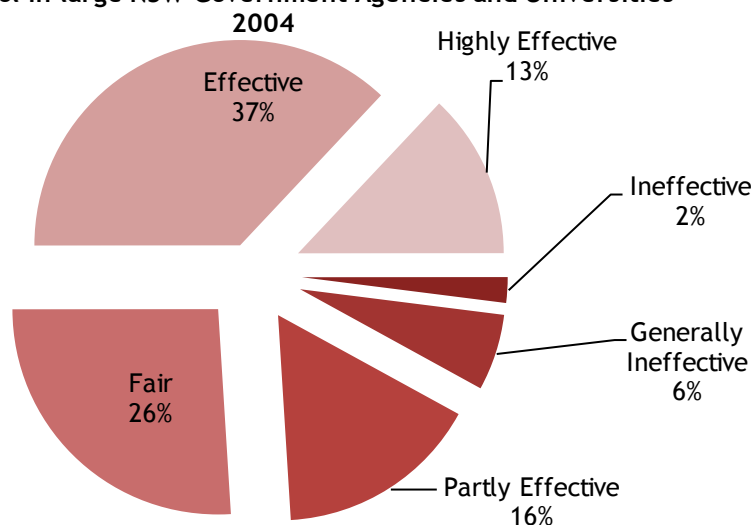
Large New South Wales Government agencies and universities are better at investigating fraud rather than detecting and preventing it. Improvements are needed in fraud risk assessments, employee awareness programs, consumer and community awareness programs, and detection systems.

Fraud controls in large agencies are generally better than universities.

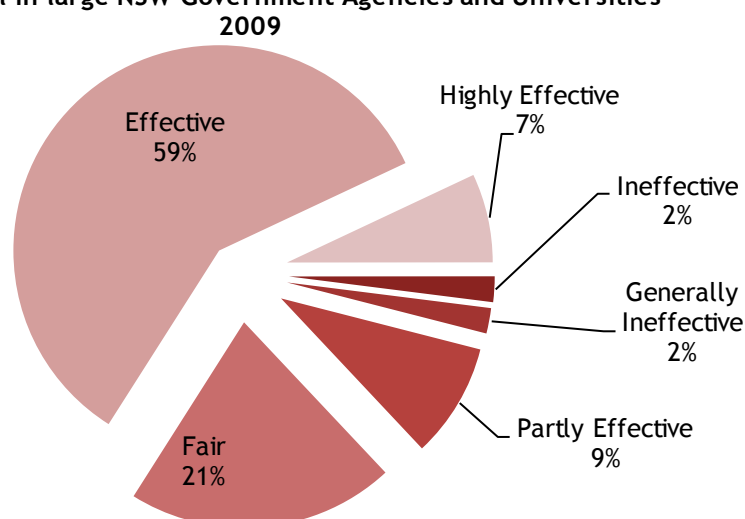
State-owned corporations were more likely to have effective fraud controls measures than general government agencies and universities.

KEY FINDINGS

Fraud Control in large NSW Government Agencies and Universities



Fraud Control in large NSW Government Agencies and Universities



Of the 57 large New South Wales Government agencies and universities who completed the survey:

- the majority had a fraud control policy, responsibility structures to effectively control fraud, and internal and external notification systems
- areas needing improvement:
 - 22 rated their fraud risk assessment processes and employee awareness programs as less than effective
 - 39 rated their consumer and community awareness programs as less than effective
 - 23 rated their detection systems as less than effective.

The most common types of frauds reported were:-

- theft, including cash, consumerables and intangible assets
- procurement fraud, such as false invoicing and credit card misuse
- payroll fraud
- fraudulent expenditure claims.

A detailed summary of the results follows in Detailed Findings.

FRAUD CONTROL RISKS IN THE NEW SOUTH WALES PUBLIC SECTOR

It is incumbent on the management of New South Wales public sector organisations to ensure they have adequate fraud controls in place.

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and with management.

It is important that management, with the oversight of those charged with governance, places a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place.

Auditing Standard ASA 240

Fraud control measures are particularly important during economic downturns as there is:

- greater incentive or pressure to commit fraud
- often more opportunity to commit fraud, particularly if controls in organisations are absent or have been weakened through rationalisation and consolidations
- greater propensity to rationalise fraudulent behaviour.

Fraud risks in the New South Wales public sector have been further heightened by the rationalisation of 'back office' activities. If not planned well, gaps in vital internal controls can occur. Key controls such as segregation of duties need to be maintained particularly in finance areas. The 'back office' is where many of the fraud controls need to be.

The recent amalgamation of agencies into super departments has further increased fraud risks due to the merging of organisations with different systems and cultures.

THE WAY AHEAD

In 2010, I intend to look more closely at internal audit and risk management in New South Wales Government agencies and universities. I will examine compliance with The Treasury Policy & Guidelines Paper 09-05, 'Internal Audit and Risk Management Policy' for the NSW Public Sector.

AREAS SURVEYED

The key elements I surveyed were:

1. Fraud Control Policy
2. Responsibility Structures
3. Fraud Risk Assessment
4. Employee Awareness
5. Consumer and Community Awareness
6. Notification Systems
7. Detection System
8. External Notification
9. Investigation Standards
10. Conduct and Disciplinary Standards.

The survey is based on the Audit Office of New South Wales Fraud Control Improvement Kit. The kit is a practical, flexible and assessable tool to assist agencies and universities develop effective processes to review and monitor their fraud control strategies.

Each element's effectiveness is rated on a scale from 1 to 6.

Rating	Description
1	Ineffective
2	Generally Ineffective
3	Partly Effective
4	Fair
5	Effective
6	Highly Effective

The fraud survey can be obtained from the Audit Office's website at http://www.audit.nsw.gov.au/info/in_progress/fraud_control.htm

The fraud improvement kit can also be obtained from the Office's website at http://www.audit.nsw.gov.au/publications/better_practice/2006/fraud_control_improvement_kit.pdf

DETAILED FINDINGS

Compliance with the Ten Elements of Fraud Control

Fraud Control Element	Universities (10 respondents)						Large Agencies - (47 respondents)					
	1	2	3	4	5	6	1	2	3	4	5	6
PREVENTION												
1 Fraud Control Policy	--	--	--	3	7	--	1	--	1	7	36	2
2 Responsibility Structures	--	--	1	1	8	--	--	--	2	6	35	4
3 Fraud Risk Assessment	1	1	--	5	3	--	1	--	2	12	30	2
4 Employee Awareness	--	1	3	3	3	--	--	2	4	9	32	--
5 Consumer & Community Awareness	--	1	4	4	1	--	3	4	6	17	17	--
DETECTION												
6 Notification Systems	--	--	--	2	8	--	--	--	2	5	37	3
7 Detection Systems	--	--	3	4	3	--	2	2	4	8	31	--
8 External Notification	--	--	1	1	7	1	--	--	2	3	36	6
INVESTIGATION												
9 Investigation Standards	--	--	--	2	7	1	--	--	1	7	33	6
10 Conduct & Disciplinary Standards	--	--	1	1	8	--	--	--	2	9	31	5

FRAUD AND CORPORATE GOVERNANCE

Fraud control must be a key component of an organisation's corporate governance. It should not be viewed in isolation, but in concert with other key governance components such as strategic planning, risk management, compliance with laws, ethical standards and government directions and codes of conduct. Governance should be enduring, not just something done from time to time.

Fraud control is very closely linked with the key governance principle of 'doing the right thing'. People must act with honesty, impartiality, integrity, trustworthiness, respect for the law and due process. A commitment to ethical values is fundamental.

These principles underpin the Audit Office's public sector governance model which is based on the ASX 'Corporate Governance Principles and Recommendations', the Audit Office of New South Wales 'On Board' and the Australian National Audit Office 'Public Sector Governance - Better Practice Guide'.

The Audit Office of New South Wales 17 components of public sector governance

For more information on my 2008 Governance Review see Volume Two 2009 report.

http://www.audit.nsw.gov.au/publications/reports/financial/2009/vol2/pdf/06_special_review_corporate_governance_arrangements_in_large_government_agencies.pdf

Foundations for management and oversight - (accountability and leadership)

1. Strategic and business plans exist and are provided to key stakeholders.
2. Regular reporting against plans to CEO, Board and Minister.
3. Executive performance evaluation based on achievement of these plans.

Structure the Board - only agencies with Boards - (accountability)

4. Chairperson and majority of members are independent of management.
5. Appropriate range of Board experience and competence.

Ethical and responsible decision-making - (integrity and stewardship)

6. Code of Conduct exists.
7. Fraud and corruption control program exists.
8. Compliance management (procedures are in place to ensure that the agency complies with all relevant laws and government directions).

Integrity in financial reporting - (stewardship)

9. Audit and Risk Committee exists.
10. Internal and external audit exists.
11. CEO and CFO sign-off of financial report.

Disclosure - (integrity and transparency/openness)

12. Annual Report published on time.
13. A continuous disclosure policy exists and is publicly available on the agency's website.

Key stakeholder management - (transparency/openness)

14. Key stakeholder communication plan exists.

Risk management - (accountability)

15. Risk management program in place.
16. CEO and management sign-off on adequacy of internal controls.

Remuneration - only agencies with Boards - (accountability)

17. Board remuneration committee exists.

Reporting of the State's Performance

THE STATE PLAN ANNUAL REPORT (Repeat Issue)

Last year, my Office was engaged by the Premier to verify the performance information relating to the Supporting Business and Jobs Chapter of the Annual Performance Report of the NSW State Plan. This was a significant reduction in the scope of work I performed in the previous year. The Government appointed other experts to review the performance information for the remaining chapters of the Report. They were: NSW Chief Scientist; Director of Bureau of Crime Statistics and Research; Chief Executive of the Bureau of Health Information; Chief Executive of the Natural Resources Commission; Director of the Institute for Sustainable futures; Assistant Director for NSW Office of the Australian Bureau of Statistics; Director Transport Data Centre.

My work was limited to agreeing:

- the infrastructure investment data for the years 2005-06 to 2012-13 to the equivalent details in the Treasury Budget Papers for 2009-10
- the private business investment data for the years 1998-09 to 2008-09 to the equivalent details in the Australian Bureau of Statistics, Australian National Accounts: National Income, Expenditure and Product (cat. no. 5206.0)
- the tourist visitor nights and expenditure data for the years 2003-04 to 2008-09 to the equivalent details in the National Visitor Survey and International Visitor Survey by Tourism Research Australia
- the total employed persons data and the unemployment rate data for the months July 2008 to June 2009 to the equivalent details in the Australian Bureau of Statistics, Labour Force Survey (cat. no. 6202.0.0)
- the dollar value of red tape reduction and reforms data for the year 2008-09 to the equivalent details in the Better Regulation Office Report
- the State's AAA credit rating data for 2008-09 with the credit rating agencies: Standard and Poor's; and Moody's
- the electricity reliability data for the years 2005-06 to 2008-09 to the equivalent details in the Country Energy, Energy Australia and Integral Energy Network Performance Reports.

My procedures did not include:

- evaluating the appropriateness of the performance measures used
- verifying the completeness or reliability of the data
- verifying the accuracy of charts, graphical representations, narrative information, or comparative information other than that highlighted as having been verified by me in the State Plan Annual Report.

I reported the results of my work in the 'Report of Factual Findings', which I issued to the Premier on 25 March 2010.

I recommend the annual planning process for the NSW State Plan Annual Report allow for a November tabling date.

In previous reports I recommended the State Plan Annual Report be finalised, approved by Cabinet and tabled in Parliament by the end of November each year.

In Volume Four 2009, I reported the NSW State Plan - Revision and Annual Report for 2009, had not been released by the Government. I also stated that as my Office had not yet been engaged to review the performance information included in the State Plan Annual Report, I may not be in a position to conduct and complete the review by the end of November, 2009.

In November 2009 I was advised that the Government had reviewed the NSW State Plan in consultation with the community, other stakeholders and independent experts. As a result of those consultations the priorities and targets were updated and released to the independent experts in October 2009.

The 2009 Annual Report was released on 26 March 2010, nine months after the financial year end. I understand the Report will be tabled in this session of Parliament.

Independent Verification of Performance Information in the Annual Performance Report of the NSW State Plan

I recommend the Government ensure that the systems generating the data used in the State Plan Annual Report can be relied on.

The Government should ensure, where necessary, that the scope of the work performed by my Office and the independent experts it appoints is widened to confirm the systems generating the data used in the Report, have been appropriately designed and implemented, and have operated effectively throughout the period.

PARLIAMENTARY ACCOUNTS COMMITTEE REVIEW (Repeat issue)

I recommend the Government formally respond to the Public Accounts Committee's recommendations.

In Volume Four 2009, I reported that in November 2008, the Public Accounts Committee tabled a report on the State Plan listing 15 recommendations. The Government advised me that a response to the Public Accounts Committee would be submitted by the end of May 2009.

At the date of this Report, the Government has yet to respond. I have been advised that a response to the recommendations is being finalised following the recent release of the 2010 State Plan and the 2010 Annual Performance Report.

For more information on the Plan, refer to www.nsw.gov.au/stateplan.

Governance Arrangements for the General Government and Total State Sector Accounts

Last year, I reported that the charter of the Office of Financial Management (OFM) Audit and Risk Committee was revised to remove the Committee's responsibilities relating to the Total State Sector Accounts. I also reported that The Treasury Executive had determined that these responsibilities should be assumed by management.

As a result, I recommended that the Treasurer establish an Audit and Risk Committee for the New South Wales General Government and Total State Sector as a matter of urgency.

Since my report, The Treasury Executive has reversed its decision and in April 2010, restored these governance responsibilities to the OFM Audit and Risk Committee. Next year, I intend to review whether the Committee is effectively fulfilling its responsibilities in relation to the General Government and Total State Sector and is complying with the requirements of The Treasury Policy & Guidelines Paper 09-05, 'Internal Audit and Risk Management Policy' for the NSW Public Sector.

Agency Amalgamations

Last year, I reported that there was some uncertainty across parts of the public sector about the practical impact of the reforms to the sector announced by the then Premier in June 2009. The reforms originally grouped 160 government agencies and offices under 13 strategically aligned clusters.

Since my report, guidance has been issued on the departmental restructures, schedules 2 and 3 of the *Public Finance and Audit Act 1983* have changed confirming the new departments, a further Administrative Order has been issued, and some agencies have been surveyed by The Treasury to determine what procedures they intend adopting to ensure more accurate and timely financial reporting at 30 June 2010.

It is still not clear to me that sufficient progress has been made by the newly formed departments and the central agencies to ensure the financial statements for all will be prepared and audited within the timeframes prescribed by the *Public Finance and Audit Act, 1983*.

I am concerned that:

- governance arrangements are not yet fully operational
- financial reporting requirements and related processes have not been finalised by some newly formed departments
- uncertainty exists as to whether further legislative changes will occur that will impact financial reporting at 30 June 2010.

Quality of Financial Reporting

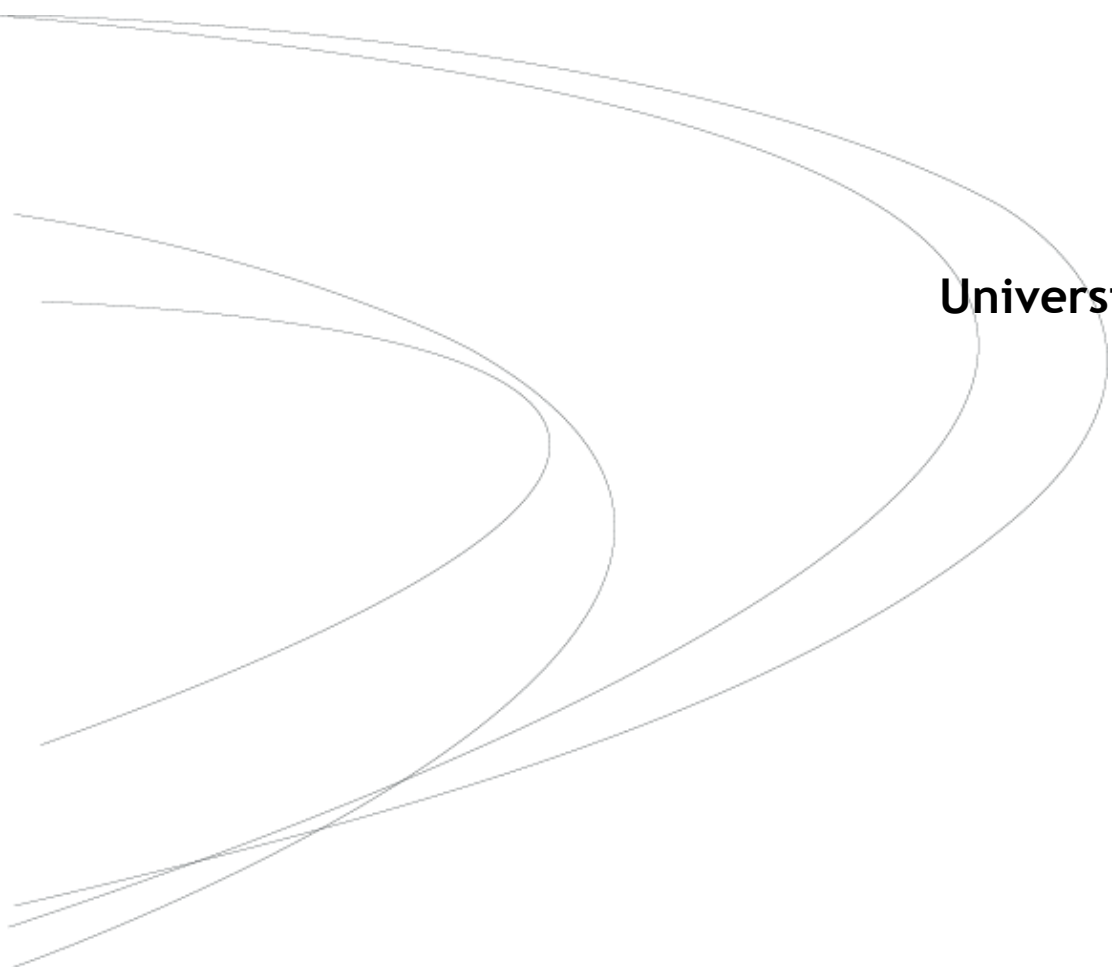
I recommend The Treasury mandate that agencies perform hard close procedures at 31 December and 31 March each year. This should improve the quality, reliability and timeliness of financial reporting across the Public Sector and enhance the annual budget process.

Last year I reported that 12 of the 24 largest agencies' financial statements submitted for audit contained significant errors. This delayed and increased the costs of preparing and auditing these financial statements. It also means that agencies are not using accurate financial data to make decisions. I recommended that financial statements should be prepared periodically throughout the year (i.e. at 31 December and 31 March) using full accrual accounting.

In response to this recommendation, The Treasury requested that 15 agencies pilot hard close procedures for the 2009-10 financial year with a view to expanding hard close arrangements in 2010-11 following an evaluation of the 2009-10 pilots.

The Treasury also ensured its year end financial reporting requirements were released by 31 March 2010, much earlier than in previous years.

Section Two



Universities Overview

Universities Overview

Ten universities, established under State legislation, provide higher education in New South Wales:

▪ Charles Sturt University (CSU)	▪ University of New South Wales (UNSW)
▪ Macquarie University (MU)	▪ University of Newcastle (UN)
▪ Southern Cross University (SCU)	▪ University of Technology, Sydney (UTS)
▪ The University of Sydney (TUS)	▪ University of Western Sydney (UWS)
▪ University of New England (UNE)	▪ University of Wollongong (UW).

AUDIT OPINION

The audits of all the universities' 2009 financial statements resulted in unqualified Independent Auditor's Reports, the same as in 2008.

KEY ISSUES

Universities face various financial and reputational challenges including:

- reducing reliance on Australian Government funding to about 50 per cent of annual revenues
- funding significant capital works and back log maintenance programs exceeding \$2.0 billion
- funding significant employee entitlement obligations including superannuation (\$2.8 billion), long service leave (\$436 million) and annual leave (\$220 million)
- increasing financial and other risks associated with an ageing workforce
- governance risks arising from the diversity and complexity of business operations and arrangements.

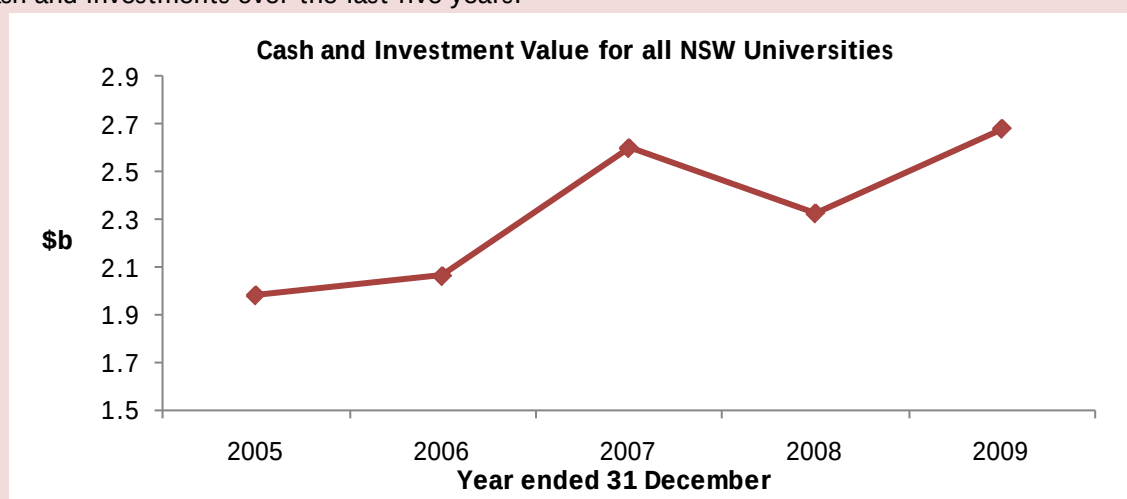
Against this backdrop, universities also have to contend with the impact of the global financial crisis.

This report focuses on these issues and records observations arising from my audits of universities' financial statements.

Global Financial Crisis

Movements in Cash and Investments

The following graph demonstrates the movement in the value of all New South Wales universities' cash and investments over the last five years.

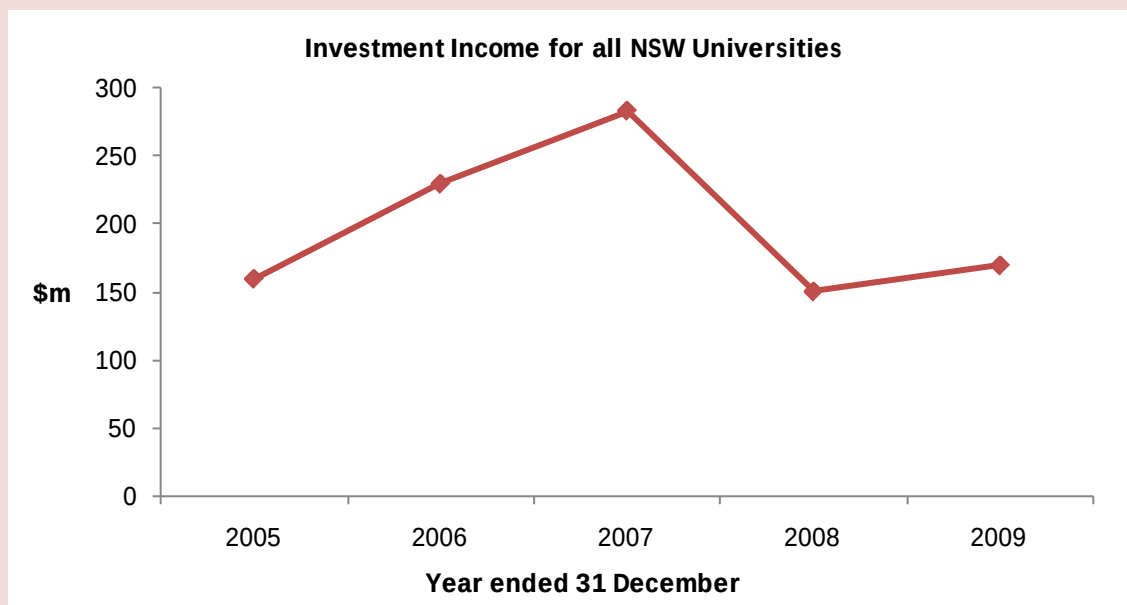


Source: University financial statements (Audited)

Total cash and investment values reported for all universities in 2009 were \$2.7 billion (\$2.3 billion in 2008). The University of Sydney and University of New South Wales account for more than half of this balance with a combined share of 56.3 per cent (54.4 per cent).

Investment Income

Investment income for the universities amounted to \$167 million in 2009, an increase of \$19.0 million. Despite the recent recovery in financial markets, investment earnings are yet to reach levels reported prior to the global financial crisis.



Source: University financial statements (audited)

Recent issues in Europe have highlighted the fragile nature of the recovery in global markets. Consequently, financial risks remain for universities, especially for those with overseas operations and those needing to fund backlog maintenance and capital works programs.

During the year, the value of universities' investments increased by 6.3 per cent, from \$1.6 billion to \$1.7 billion as at 31 December 2009. This contrasts with a significant decline of \$500 million in value in 2008.

The universities recorded a combined operating surplus of \$494 million in 2009 compared to a combined deficit of \$76.9 million in 2008. The improvement was largely a result of:

- net gains of \$38.0 million in 2009 compared to net realised losses and impairment of investments of \$405 million in 2008
- a 12.8 per cent increase in investment income to \$167 million (\$148 million).

Universities are limiting realised losses by holding investments until they mature.

Details for each university for 2009 and 2008 were:

Year ended 31 December 2009	CSU \$m	MU \$m	SCU \$m	TUS \$m	UNE \$m	UNSW \$m	UN \$m	UTS \$m	UWS \$m	UW \$m	TOTAL \$m
Unrealised gains/ (losses and impairment) of investments	--	(1)	--	(8)	--	39	--	--	(4)	(1)	25
Realised gains on sale of investments	--	--	--	--	1	--	1	4	--	7	13
Investment income	8	12	4	81	4	25	9	11	3	10	167
Surplus for the year	28	60	2	69	10	93	45	68	61	58	494
Value of cash and investments at year end	118	214	46	961	62	548	190	245	89	207	2,680
Year ended 31 December 2008	CSU \$m	MU \$m	SCU \$m	TUS \$m	UNE \$m	UNSW \$m	UN \$m	UTS \$m	UWS \$m	UW \$m	TOTAL \$m
Impairment losses of investments	(26)	(17)	--	(211)	(2)	(92)	(29)	--	(7)	(24)	(408)
Realised gains/(losses) on sale of investments	(1)	3	--	--	(2)	--	--	1	2	--	3
Investment income	12	21	5	32	4	43	10	13	3	5	148
Surplus/(deficit) for the year	34	24	13	(168)	7	(88)	--	58	37	6	(77)
Value of cash and investments at year end	138	231	67	884	49	381	131	176	89	180	2,326

Source: University financial statements (audited)

Capital Programs and Asset Management

To fund their capital works programs, universities use cash flows from operations, investments, grants and borrowings. Under current economic conditions, universities capital works programs may be at risk.

Capital Works

New South Wales universities continue to deliver significant capital works programs. Capital works spending in 2009 across all New South Wales universities totalled \$874 million (\$794 million). The table below shows the capital spend by each university for the last three years and the budgeted spend for 2010 and 2011.

University Year ended 31 December	Budget			Actual	
	2011 \$m	2010 \$m	2009 \$m	2008 \$m	2007 \$m
Charles Sturt	29.7	57.2	106.7	88.3	34.4
Macquarie	96.0	325.0	164.6	145.1	40.6
Southern Cross	41.1	35.1	33.4	11.9	3.7
Sydney	106.0	168.8	151.4	221.0	163.9
New England	26.0	26.0	12.7	20.4	17.7
New South Wales	199.6	131.9	138.8	87.4	105.7
Newcastle	^	89.9	35.0	31.3	36.2
Technology, Sydney	^	171.5	54.1	44.7	37.3
Western Sydney	72.5	119.3	108.6	74.8	75.4
Wollongong	72.8	172.4	68.5	69.4	57.3
Total	643.7	1,297.1	873.8	794.3	572.2

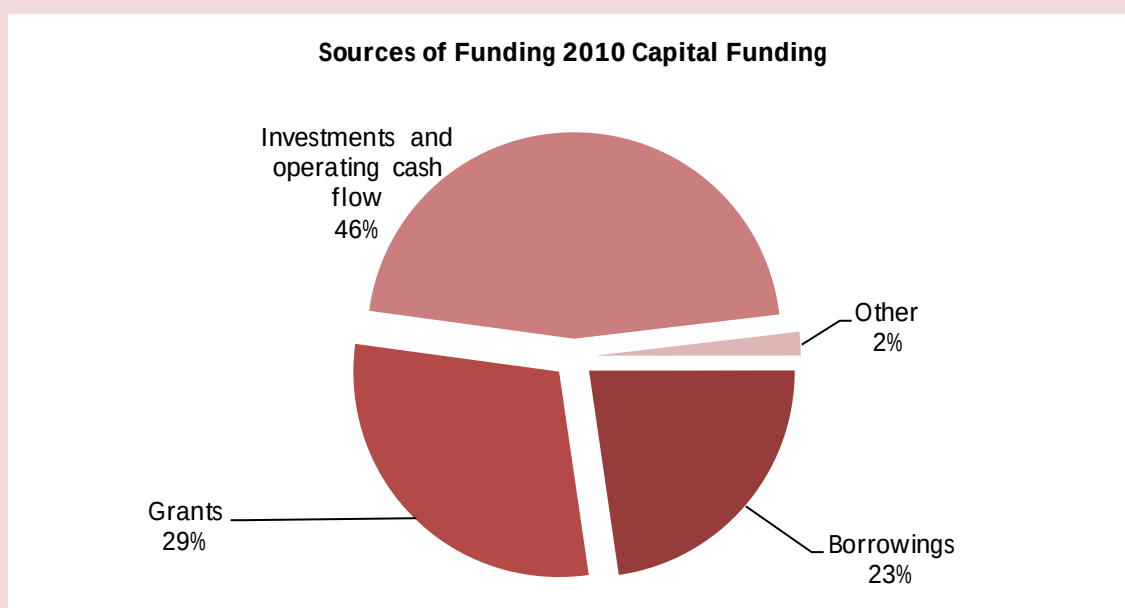
Source: Data provided by respective universities (audited). Budget figures (unaudited)

^ = data not available

The majority of universities have significant capital programs planned over the next two years, primarily designed to:

- improve infrastructure and address backlog maintenance
- provide suitable accommodation for students and staff
- replace outdated facilities with modern teaching and research facilities.

The source of funding for the 2010 combined capital program is shown in the chart below.



Source: Data provided by respective Universities (unaudited)

Asset maintenance

Last year, I reported that all universities confirmed they have computerised systems in place to manage their asset maintenance programs, including backlog maintenance. Despite this, the extent of backlog maintenance remains significant and is illustrated below.

Year ended 31 December	2009	2008	2007
Backlog maintenance (\$m)	832	894	^
Actual maintenance expenditure (\$m)	154	150	141
Total Property, Plant and Equipment values at 31 December (\$b)	8.6	8.6	8.1
Actual maintenance expenditure/PPE values (%)	1.8	1.7	1.7
Depreciation expense (\$m)	337	289	346

Source: All data except for backlog maintenance sourced from universities' financial statements (audited). Backlog maintenance was supplied by universities (unaudited).

^ = Data not available.

The backlog maintenance for all universities at 31 December 2009 was \$832 million, ranging from nil (nil) at Southern Cross University to an estimated \$411 million (\$500 million) at The University of Sydney.

The University of Sydney recorded the largest decrease of \$89.0 million in estimated backlog maintenance in 2009, while The University of Western Sydney recorded the largest increase of \$7.7 million, from \$10.8 million to \$18.5 million.

Total Asset Management Planning (Repeat Issue)

I recommend the University of Newcastle and Charles Sturt University implement total asset management plans to ensure their assets are managed efficiently and effectively.

In response to a survey we conducted on total asset management planning, eight universities indicated they have asset management plans in place. Charles Sturt University and the University of Newcastle are still developing asset management plans.

Total asset management planning helps ensure existing assets are managed in a way that supports service delivery objectives and results in effective and efficient use of the \$8.6 billion of infrastructure assets controlled by New South Wales universities. Planning also helps ensure future asset needs are properly identified, planned, funded, delivered and managed. The absence of effective planning may adversely impact operational and financial performance.

Reporting on Asset Management (Repeat Issue)

I recommend each university include asset management performance reporting in their annual reports.

I reviewed a sample of annual reports and found universities only disclose limited information on outcomes achieved from their asset management practices. I believe universities should report how effectively they are managing the \$8.6 billion worth of infrastructure assets they control.

Reporting should include how universities have performed against their capital investment, asset maintenance, asset disposal and office accommodation strategies. Most, if not all, universities participate in benchmarking exercises and therefore should report how they compare with industry benchmarks in the areas of: asset maintenance; backlog maintenance; operating costs; cleaning and waste management; recycling; and water and energy use.

University Governance

Governance Considerations (Repeat Issue)

I recommend each university review governance arrangements for controlled entities to ensure risk exposures are understood, monitored and managed.

Governance arrangements of universities over controlled entities vary significantly. For example, some universities have very little direct representation on the boards of controlled entities. The tabling and consideration of internal and external audit reports of controlled entities at university audit committees is similarly diverse in practice.

Universities have ultimate responsibility for their controlled entities and are therefore exposed to and responsible for the risks associated with the operations of those entities. These exposures may result in financial losses and reputational damage to universities. For example, universities may:

- become responsible for a controlled entity's liabilities should that entity experience financial difficulties
- suffer reputational damage if a controlled entity, operating overseas in the name of a university, is prosecuted for not complying with local taxation laws.

Risk exposures increase with the:

- complexity of universities' business arrangements
- location of business arrangements
- extent of transactions in foreign currency
- need for universities to guarantee debts of controlled entities
- quality of operational staff.

To effectively manage and mitigate these risk exposures, it is essential for universities to have effective corporate governance frameworks in place to oversight controlled entities. Universities need to be actively involved in monitoring their controlled entities by:

- having appropriate university Senate/Council representation on the governing boards of controlled entities
- requiring controlled entities to regularly report to the university on their operating results; financial performance; risk and fraud management; strategies and outcomes; and compliance with legislation. Copies of internal and external audit reports should be reviewed by the University's audit committee.

Complexity of Universities' Business Arrangements

I recommend each university eliminate unnecessary controlled entities to reduce governance risks and compliance and assurance costs.

The New South Wales university sector is very complex. At 31 December 2009, New South Wales universities conducted businesses in Australia and overseas through a total of 121 controlled entities, 24 joint ventures and 71 cooperative research centres (CRCs).

The resulting governance risks and compliance costs are significant and I have previously recommended that universities rationalise and, where possible, reduce the number of controlled entities. However, numbers have remained fairly constant.

The number of business arrangements entered into by each university at 31 December follow:

University	Total Number of Business Arrangements	Number of Controlled Entities	Number of Joint Ventures	Number of Cooperative Research Centres*
Charles Sturt	5	5	--	--
Macquarie	44	34	2	8
Southern Cross	26	3	13	10
Sydney	22	8	2	12
New England	15	8	1	6
New South Wales	39	25	2	12
Newcastle	14	7	--	7
Technology, Sydney	17	6	4	7
Western Sydney	14	13	--	1
Wollongong	20	12	--	8
Total	216	121	24	71

Source: Data obtained from respective Universities (unaudited)

Key: * includes CRCs where a university has core or supporting participant role

The *Public Finance & Audit Act, 1983* requires each controlled entity to prepare financial statements every year and have them audited, regardless of the size and nature of their operations. As a result, each entity is also required to implement and maintain an effective compliance framework to help ensure it complies with all legislative requirements that apply to its operations. The number of entities controlled by each university at 31 December were:

University	Incorporated in Australia					Incorporated Overseas				
At 31 December	Trend	2009	2008	2007	2006	Trend	2009	2008	2007	2006
Charles Sturt	↓	5	6	8	7	~	--	--	--	--
Macquarie	↑	34	30	29	7	~	--	--	--	--
Southern Cross	~	3	3	3	3	~	--	--	--	--
Sydney	↓	8	10	8	12	~	--	--	--	--
New England	↑	8	6	7	5	~	--	--	--	--
New South Wales	↓	15	21	21	17	↓	10	10	11	11
Newcastle	↓	6	8	8	5	~	1	1	1	1
Technology, Sydney	↓	3	3	4	4	↓	3	3	4	4
Western Sydney	~	13	14	12	12	~	--	--	--	--
Wollongong	↑	9	9	8	7	~	3	3	3	2
Total	~	104	110	108	79	↓	17	17	19	18

Source: Data obtained from respective Universities (unaudited)

Key: ↑ Trend upwards, ↓ Trend downwards, ~ No trend

Over the last three years, Macquarie University has created 27 new entities to facilitate the construction and operation of a private hospital and clinic and other activities. Conversely, the University of New South Wales has rationalised its corporate structure by liquidating six local companies and one overseas company.

New South Wales universities have incorporated controlled entities operating in Singapore, India, Thailand, the USA, Hong Kong and Malaysia.

Audit Opinions

I issued nine qualified Independent Auditor's Reports in 2009, the same number as I qualified in 2008. At the time of this report audits were incomplete for 10 entities' 2009 financial statements and five entities' 2008 financial statements. Details are:

University	Number of Controlled Entities		Number of Qualified Opinions		Number of Incomplete Audits	
	2009	2008	2009	2008	2009	2008
Charles Sturt	5	6	1	1	--	--
Macquarie	34	30	--	--	3	2
Southern Cross	3	3	--	--	--	--
Sydney	8	10	--	--	2	1
New England	8	6	1	1	--	--
New South Wales	25	31	3	3	1	--
Newcastle	7	9	1	1	--	--
Technology, Sydney	6	6	--	--	1	1
Western Sydney	13	14	2	2	--	--
Wollongong	12	12	1	1	3	1
Total	121	127	9	9	10	5

Letters of Comfort

I recommend each university:

- review funding arrangements with controlled entities to determine the need for 'letters of comfort'
- confirm existing 'letters of comfort' represent better practice.

Some controlled entities are not in a strong financial position and this is often due to the nature of their operations. For example, companies created to commercialise research outcomes often require the support of the university through the start-up phase of those operations and until any intellectual property has been successfully commercialised. Universities often achieve this by way of a 'letter of comfort' that guarantees the company will continue as a going concern for at least the next 12 months.

'Letters of comfort' are important because they give assurance to parties transacting with controlled entities that, in the event of default, the university will settle the controlled entity's debts. Therefore, it is important that 'letters of comfort' are legally enforceable and that the terms are understood and agreed.

In 2009, New South Wales universities had issued a total of 31 'letters of comfort' to approximately 25 per cent of their controlled entities.

We reviewed 'letters of comfort' and related processes against better practice criteria and found:

University At 31 December 2009	Controlled Entities		General Comments on Letters of Comfort		
	Number	Number of letters of comfort	Reviewed by Legal	Senate/ Council aware of Letters	Controlled Entities reviewed draft Letters
Charles Sturt	5	3	Yes	Yes	Yes
Macquarie	34	6	No	Yes	Yes
Southern Cross	3	3	No	Yes	Yes
Sydney	8	5	Yes	Yes	Yes
New England	8	0	--	--	--
New South Wales	25	10	Yes	Yes	Yes
Newcastle	7	--	na	na	na
Technology, Sydney	6	1*	No	No	No
Western Sydney	13	2	Yes	Yes	Yes
Wollongong	12	1	No	Yes	Yes
Total	121	31			

* The only payable is to the University.

All 'letters of comfort' should:

- be drafted or reviewed by a legal professional, who should confirm that the arrangements are clearly intended to be legally enforceable
- provide financial support for a period of at least 12 months beyond the date of signing of the financial statements
- clearly articulate any financial limits and performance obligations
- be signed under appropriate delegation from the Senate/Council and the signatories are still engaged by the university.

A better practice checklist for 'letters of comfort' is available on the Audit Office of New South Wales' website at www.audit.nsw.gov.au.

Foreign Currency transactions

I recommend each university review foreign currency exposures and ensure they have appropriate policies to mitigate the risks associated with such exposures.

All New South Wales universities had foreign currency transactions in 2009. At 31 December 2009, the approximate net foreign currency position at each university, in Australian dollars, ranged from a \$3.0 million net liability to a \$7.5 million net asset. Only two universities hedged the financial risks through the use of natural trading hedges and buying financial instruments. Neither university adopted hedge accounting.

Ageing of Academic Staff

I recommend each university develop and implement effective policies to address and manage the ageing academic workforce.

To ensure an adequate supply of academic staff in the future, universities should actively monitor their workforce age profile and ensure strategies are in place to develop, attract and retain staff whose skills are aligned with the strategic direction of the universities.

One quarter of academics employed in New South Wales universities at 31 December 2009 were aged 55 years or older. Forty one per cent of academic staff are 50 years or older. This represents a significant proportion of total academic staff who are likely to retire within the next 15 years, potentially resulting in a significant loss of academic skills.

In 2008, Professor Graeme Hugo released a paper *'The Demographic Outlook for Australian Universities Academic Staff'*. The issues raised in this paper were discussed at the 8th Annual Higher Education Summit held in April 2010, where university representatives agreed that the ageing academic workforce was an issue. To address the issue, the paper suggests universities concentrate their efforts on strategies to retain and recruit high quality academics, and promote the return of former skilled academic staff.

The summit highlighted that the internationalisation of the academic labour market together with increased demand has created challenges for attracting and retaining skilled academics. Funding also restricts universities' ability to offer competitive salaries, working conditions and research resources.

The age profile of academic staff for all New South Wales universities is shown below:

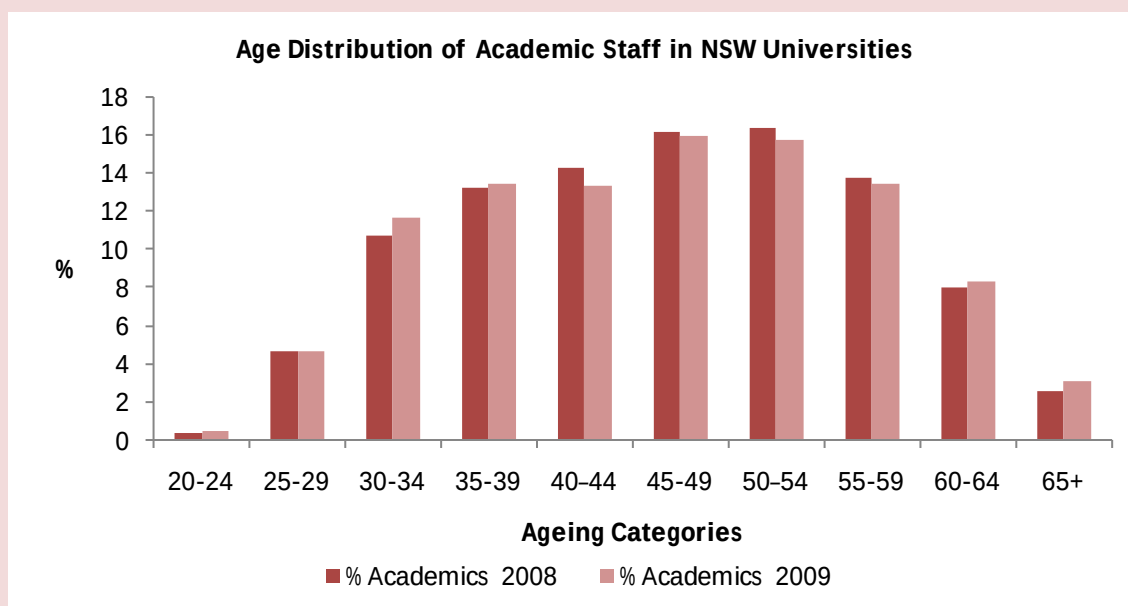
31 December Age Group	2009		2008	
	No. of Academics	%	No. of Academics	%
20 - 24	49	0.4	44	0.4
25 - 29	525	4.6	502	4.7
30 - 34	1,316	11.6	1,147	10.7
35 - 39	1,525	13.4	1,414	13.2
40 - 44	1,511	13.3	1,526	14.2
45 - 49	1,805	15.9	1,737	16.2
50 - 54	1,789	15.8	1,750	16.3
55 - 59	1,528	13.5	1,479	13.8
60 - 64	943	8.3	856	8.0
65+	352	3.1	280	2.6
Total	11,343	100	10,735	100

Source: Information provided by the respective NSW universities (unaudited)

The age profile of academic staff for each New South Wales university is shown below:

31 December 2009 Age Group	CSU %	MU %	SCU %	TUS %	UNE %	UNSW %	UN %	UTS %	UWS %	UW %
20 - 24	--	--	--	1	--	--	--	--	--	2
25 - 29	2	4	3	5	2	6	5	4	1	6
30 - 34	8	11	4	14	5	15	11	9	5	12
35 - 39	15	12	9	16	9	15	13	12	7	13
40 - 44	12	13	11	14	10	14	15	13	12	12
45 - 49	18	17	18	15	21	15	15	16	21	15
50 - 54	16	16	25	13	17	14	15	17	25	16
55 - 59	17	13	18	10	17	12	16	15	19	13
60 - 64	9	9	9	8	14	7	8	11	8	8
65+	3	5	3	4	5	2	2	3	2	3
Total	100	100	100	100	100	100	100	100	100	100

Source: Information provided by the respective NSW universities (unaudited)



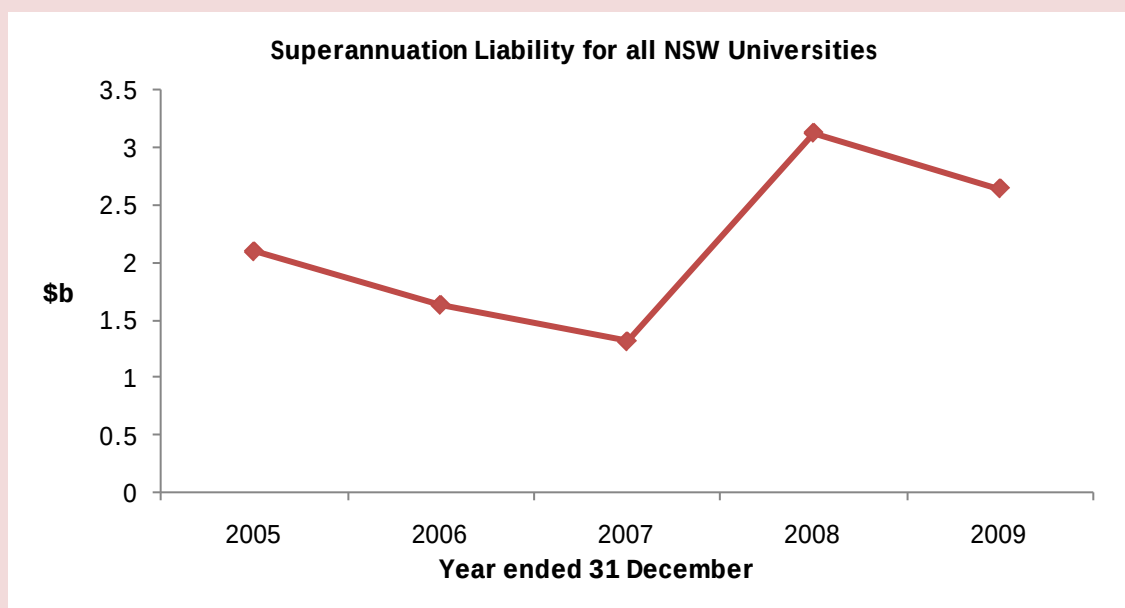
Source: Information provided by the respective NSW universities, including lecturers and tutors (unaudited)

Funding of Employee Entitlements

Superannuation Liabilities Funded by the Australian Government

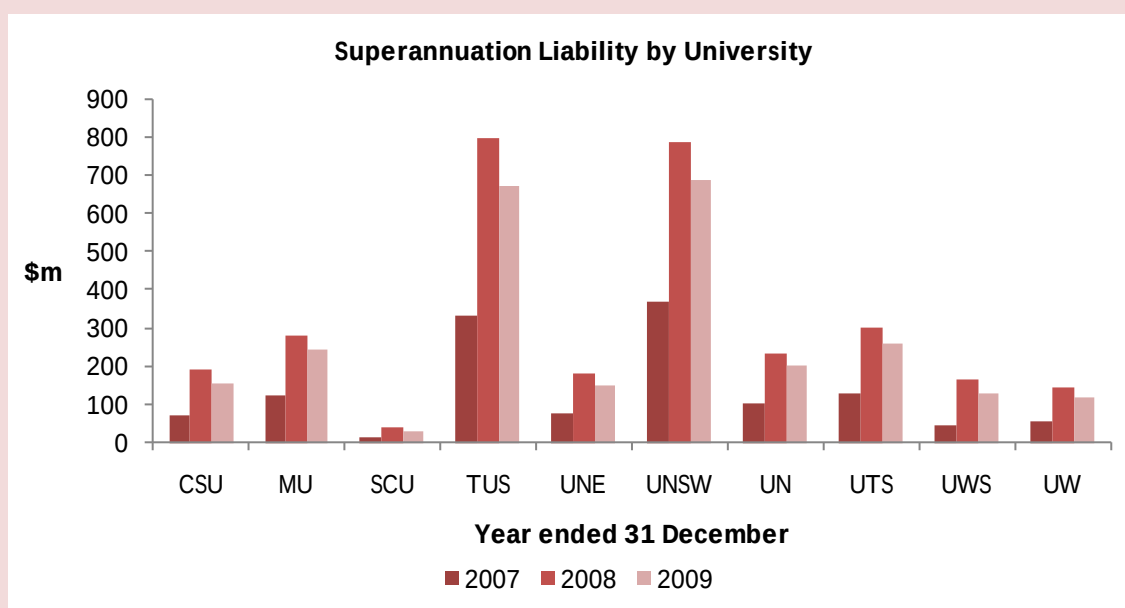
I recommend the Vice Chancellor of each university collaborate and approach the Australian Government to negotiate an agreement to fund staff superannuation obligations.

Last year the global financial crisis significantly impacted superannuation investment earnings and benefit valuations. As economic conditions improved in 2009, liabilities for defined benefit superannuation schemes across all universities decreased from \$3.1 billion to \$2.6 billion at 31 December 2009, a decrease of \$500 million (\$1.8 billion increase).



Source: University financial statements (Audited)

At 31 December 2009, 51.4 per cent (50.8 per cent) of superannuation liabilities was attributable to the University of New South Wales and The University of Sydney:



Source: University financial statements (audited)

Although there are no formal funding agreements in place, the Australian Government will fund the majority of these liabilities, which minimises the impact on universities' operating results. The ageing work force will require increasing superannuation retirement payments by the superannuation schemes. Consequently, universities require higher levels of funding from the Australian Government to meet their obligations to these schemes.

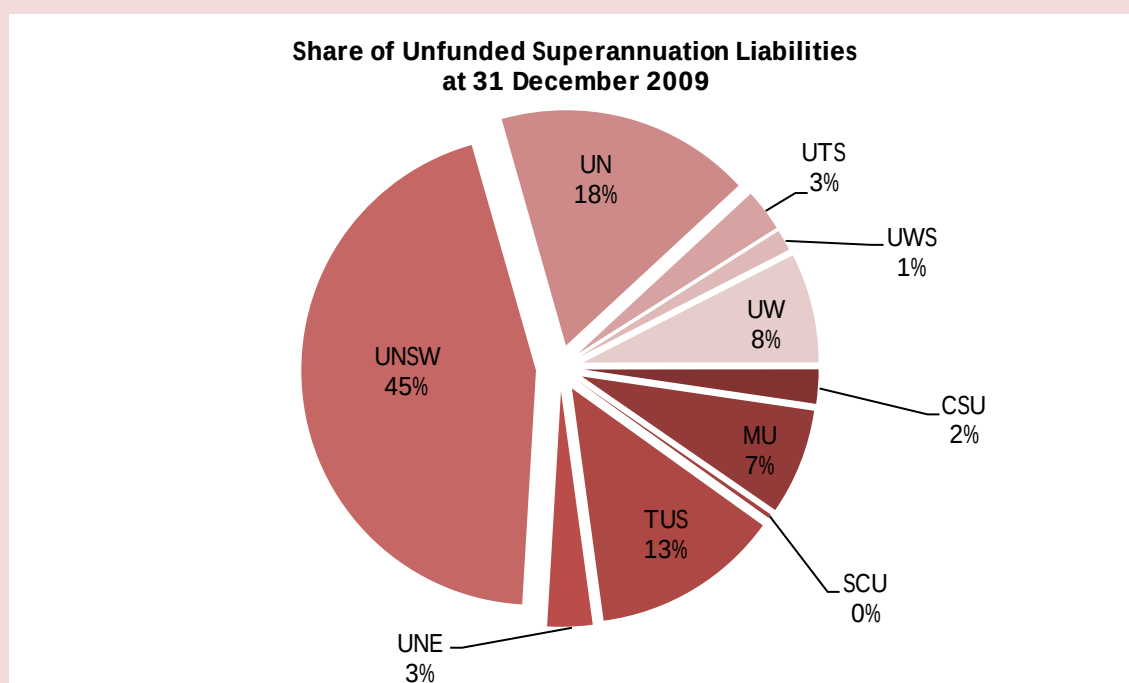
The Australian Government owes \$2.5 billion (\$2.9 billion) to New South Wales universities at 31 December 2009. The debt is equivalent to the total value of all grants the Government paid to these universities in 2009.

Due to the significance of the amount involved and the future impact for universities' cash flows, universities should negotiate funding agreements with the Australian Government. The agreements should ensure estimated cash flow requirements and timings are adequately considered so universities can build these into their future operating budgets.

Superannuation Liabilities Not Funded by the Australian Government

The total superannuation liability not funded by the Australian Government for all universities, at 31 December 2009, was \$155 million (\$198 million). All universities, particularly those with the greatest unfunded liabilities, will need to ensure they have the ability to generate sufficient future cash flows to meet these obligations as they fall due.

As shown below, 44.7 per cent (45.2 per cent) of these liabilities is attributable to the University of New South Wales and 17.5 per cent (13.7 per cent) is attributable to the University of Newcastle.



Source: University financial statements (audited)

Excessive Annual Leave (Repeat Issue)

I recommend each university review the effectiveness of their policies for managing excessive annual leave balances.

Managing excessive annual leave balances remains a challenge for most universities. At 31 December 2009, 2,506 employees (2,601) or 8.7 per cent (9.1 per cent) of all staff had accrued more than 40 days annual leave. Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave. The table below shows the number of staff with more than 40 days accrued annual leave at 31 December.

Number of staff with more than 40 days annual leave:

University Year	Academic				General			
	Trend	2009	2008	2007	Trend	2009	2008	2007
Charles Sturt	↑	86	77	37	↑	85	106	46
Macquarie	↑	177	186	149	↑	45	35 ^L	27 ^L
Southern Cross	↑	46	37	31	↓	44	64	61
Sydney	~	420	401	423 ^H	↓	265^H	275	358
New England	↑	62	48	12	↑	71	67	61
New South Wales	↑	507^H	414 ^H	281	↓	254	317 ^H	374 ^H
Newcastle	↓	22	31	44	↓	39^L	60	55
Technology, Sydney	~	105	118	105	↓	53	87	107
Western Sydney	↑	47	62	35	↓	61	88	108
Wollongong	↑	10^L	10 ^L	-- ^L	~	107	118	110
Total	↑	1,482	1,384	1,117	↓	1,024	1,217	1,307

Source: Information provided by respective universities (unaudited).

Key: ↑ Trend upwards, ↓ Trend downwards, ~ No trend

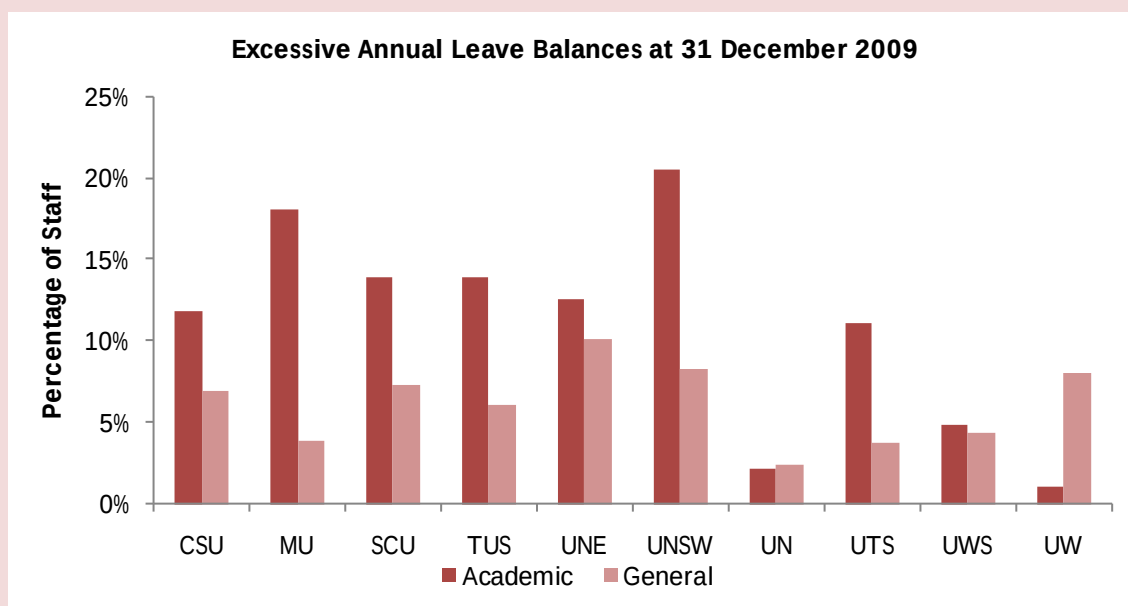
L Lowest balance in comparison to all NSW universities

H Highest balance in comparison to all NSW universities

Excessive annual leave balances for general staff in all universities are trending downwards, whilst those for academic staff are trending upwards. The number of total academic staff with excessive leave balances has increased from 1,384 to 1,482 staff at 31 December 2009. This represents 12.4 per cent (12.0 per cent) of all academic staff employed at that date.

At the University of New England, general staff accrue 25 days of annual leave per year and may not be directed to take leave unless they have accrued more than 50 days. If 50 days is used as the threshold, 33 (25) general staff at the University would have accrued excessive leave balances at 31 December 2009.

The graph below illustrates the percentage of academic and general staff with annual leave balances exceeding 40 days at each university.

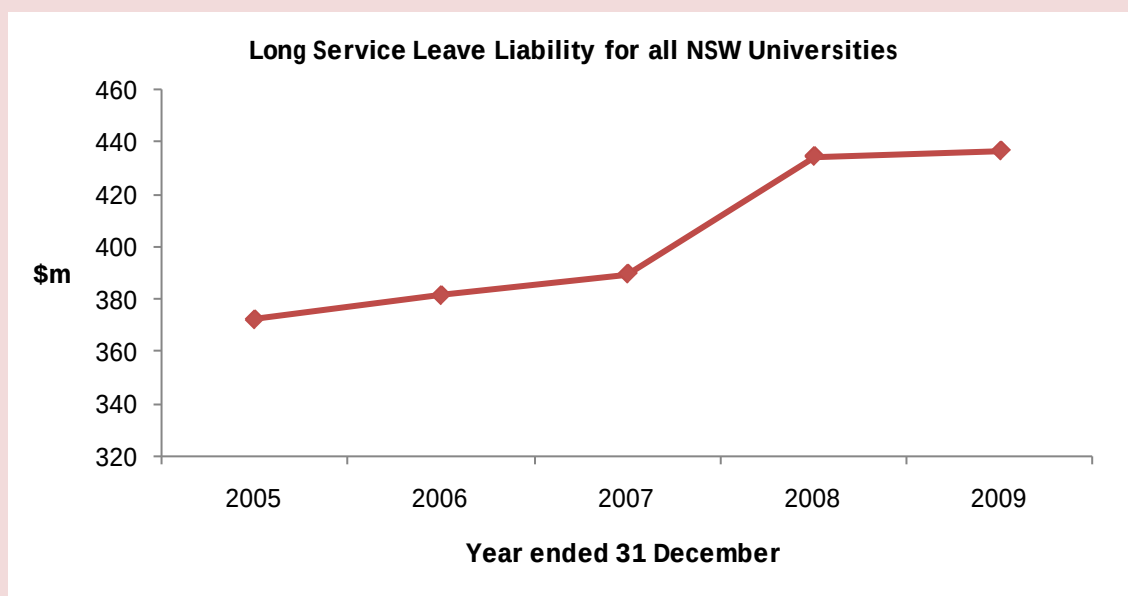


Source: Data provided by the respective universities (unaudited)

Long Service Leave Liability

Significant long service leave liabilities create further funding challenges for universities. The long service leave liability for New South Wales universities has increased by 17.3 per cent over the past five years to \$436 million in 2009. Although the universities have strong cash flows, they will need to ensure they have plans to fund these liabilities, which generally increase over time with increases in employee remuneration levels. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

The graph below depicts the trend in the total long service liability held by New South Wales universities over the past five years.



Source: University financial statements (audited)

The liability increased between 2007 and 2008 because entitlements grew and the Government bond rate used to discount the liability fell due to the global financial crisis.

The table below provides details of the long service leave liability of each New South Wales university over the past five years.

University	Trend	2009 \$m	2008 \$m	2007 \$m	2006 \$m	2005 \$m
Charles Sturt	↑	22.7	22.5	21.0	19.9	17.7
Macquarie	↑	35.8	36.3	32.3	34.3	31.4
Southern Cross	↑	12.3	11.5	9.4	9.0	9.6
Sydney	↑	92.4	89.3	82.2	86.3	85.5
New England	~	20.6	21.6	19.4	19.5	20.3
New South Wales	↑	98.9	104.6	90.7	83.7	82.3
Newcastle	↑	39.1	39.9	35.2	32.6	32.9
Technology, Sydney	↑	39.9	39.0	37.1	36.7	35.4
Western Sydney	↑	39.4	37.2	33.7	32.6	32.4
Wollongong	↑	35.3	32.6	28.6	26.8	24.7
Total	↑	436.4	434.5	389.6	381.4	372.2

Source: Universities financial statements (audited).

Key: ↑ Trend upwards, ↓ Trend downwards, ~ No trend

The University of Wollongong recorded an 8.3 per cent increase in long service leave liability, the greatest increase, while the University of New South Wales reported the largest liability of \$98.9 million (\$104.6 million). Over the past five years, long service liabilities have increased each year for the University of Wollongong, Charles Sturt University, the University of Technology, Sydney and the University of Western Sydney.

Employment of Contract Employees

I recommend each university:

- create and maintain a single register of all contract employees
- periodically review the roles and responsibilities of all contract employees to ensure:
 - reliance on contractors is not excessive
 - use of contract employees instead of permanent employees is appropriate
 - contractors do not become de facto employees by virtue of being with the university for an extended period of time
 - use of contract employees continues to represent value for money.

In response to a survey I conducted, all universities confirmed they engaged contract employees to provide services. However, only three universities maintain a single centralised record of all contract employees.

I understand that three other universities use a decentralised approach for managing contract employees. They do not maintain a central register.

Failure to maintain a central register for all contract employees increases the risk of universities not being able to determine, monitor and analyse:

- the total cost of contract employees
- the total number of contract employees
- the period of service for all contract employees.

Universities should review practices relating to contract employees to ensure they achieve the desired outcomes and comply with all applicable laws and regulations.

PERFORMANCE INFORMATION

Financial Performance

I recommend DEEWR review its financial performance indicators to confirm their continuing relevance and appropriateness.

The Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) has identified benchmark indicators for the financial performance of universities. A February 2000 publication '*Benchmarking: A Manual for Australian Universities*' details the benchmarks. These measures include liquidity, diversity of revenue, employee benefits and on-costs, and operating result. As the measures are now ten years old, a review of their current relevance and appropriateness would be beneficial.

Only two universities met the four Australian benchmarks for university financial performance compared to six in 2008.

The liquidity of five universities has fallen below the benchmark range compared to two in 2008. One (two) university relied on Australian Government funding for more than 50 per cent of its operating revenue. Nine universities achieved the benchmark for employee benefits and on-costs and all ten (seven) recorded operating surpluses in 2009.

The following table shows each university's performance against the benchmarks at 31 December 2009.

University	DEEWR Benchmark Achieved			
	Liquidity - current ratio between 1.5 and 3.0	Australian Government grants not more than 50% of total operating revenue	Employee benefits & on-costs between 50% - 70% of total operating revenue	Positive operating result as percentage of total operating revenue
Charles Sturt	No	Yes	Yes	Yes
Macquarie	No	Yes	Yes	Yes
Southern Cross	Yes	Yes	Yes	Yes
Sydney	No	Yes	Yes	Yes
New England	Yes	No	Yes	Yes
New South Wales	No	Yes	Yes	Yes
Newcastle	Yes	Yes	Yes	Yes
Technology, Sydney	No	Yes	Yes	Yes
Western Sydney	No	Yes	Yes	Yes
Wollongong	Yes	Yes	No	Yes

The benchmark criteria and calculations are presented in the aggregated tables on pages 41 to 43.

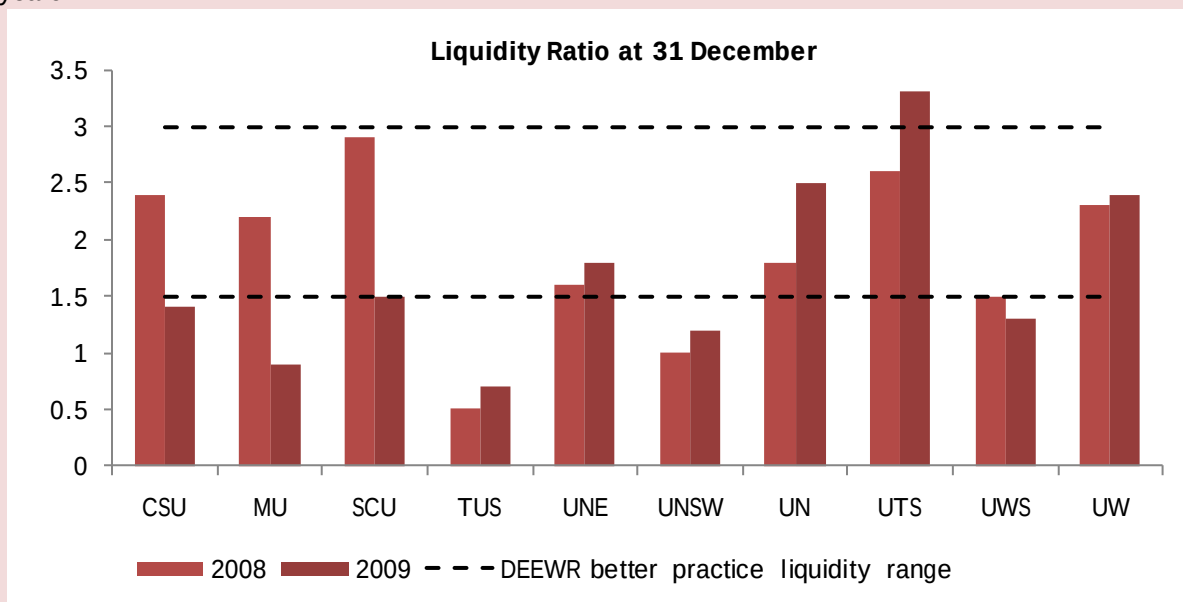
Liquidity

For 2009, six universities did not meet the DEEWR liquidity benchmark. DEEWR considers a liquidity ratio of less than 1.5 to be below its general better practice guideline. Although improved from the prior year, The University of Sydney continued to have the lowest current ratio of 0.7 in 2009. However, the University has non-current available for sale investments, a significant amount of which could be realised at short notice to fund obligations.

The University of Technology Sydney had the highest current ratio of 3.3, this exceeded DEEWR's upper benchmark limit of 3.0. The high ratio is due to the University investing in cash assets, such as fixed term deposits and deposits at call, as at 31 December 2009.

DEEWR's benchmark current ratio is based on the traditional formula of current assets divided by current liabilities. The definition of current liabilities has changed significantly under Australian Accounting Standards since DEEWR's publication in 2000. Certain liabilities are reported as current liabilities irrespective of when they are expected to be settled. As a result we have excluded long service leave liabilities expected to be settled after 12 months of the reporting date from current liabilities. The resulting ratio is more consistent with DEEWR's benchmark liquidity measure.

The graph below depicts all New South Wales universities' adjusted liquidity ratios for the last two years.



Source: University financial statements, as adjusted (audited)

Another DEEWR guideline, the Annual Institutional Assessment Framework, suggests a current ratio of more than one indicates a low risk of not being able to fund current obligations, between 0.75 and one indicates a medium risk, and less than or equal to 0.75 indicates a high risk. Using this benchmark, The University of Sydney's liquidity position would be considered high risk. However, as mentioned earlier, this University has significant non-current investments which can be realised at short notice to fund short term cashflow requirements.

Diversity of Revenue

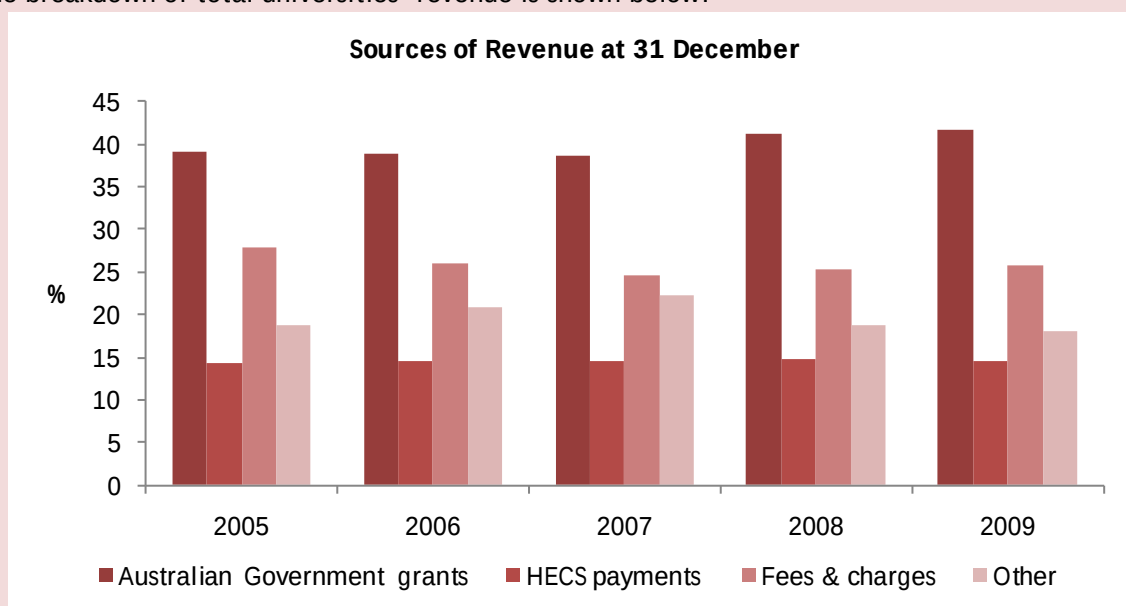
One way universities reduce financial risks is by diversifying revenue sources. Each university's capacity to generate revenue depends on factors such as location, size, perceived standing and student profiles.

Year	2009 \$m	2008 \$m	2007 \$m	2006 \$m	2005 \$m
Australian Government grants	2,518	2,303	1,957	1,823	1,669
Higher Education Contribution Scheme	875	829	738	679	615
Fees and charges					
- Student fees - Domestic	172	199	187	177	172
- Student fees - Overseas	1,112	928	794	728	715
- Consultancy and contracts	281	282	267	260	230
Total fees and charges	1,565	1,409	1,248	1,165	1,117
Other income					
- Investment income*	174	150	283	230	159
- Other*	918	894	856	805	728
Total other income	1,092	1,044	1,139	1,035	887
Total operating revenue	6,050	5,585	5,082	4,702	4,288

Source: University financial statements (audited)

* Gain/(loss) on sale of investments is included in 'Other'.

The breakdown of total universities' revenue is shown below:



Source: University financial statements (audited)

Australian Government grants continued to be the main source of revenue for all universities accounting for 41.6 per cent (41.2 per cent) of total operating revenue in 2009. Government grants have continued to grow at a steady rate over the past five years.

The University of New England continues to be the most reliant on Australian Government grants at 50.9 per cent (51.5 per cent) of its total operating revenue whilst Macquarie University remains the least reliant at 25.5 per cent (26.4 per cent).

The ratio of HECS receipts to total operating revenue has remained fairly constant over the last five years at 14.5 per cent (14.8 per cent). The University of Sydney and the University of New South Wales continue to have the lowest ratios at 10.1 per cent (10.9 per cent). The highest ratio of 25.4 per cent (26.7 per cent) was again achieved by the University of Western Sydney.

Fees and charges are the second most significant source of revenue for universities. Fees and charges have increased by 40.1 per cent over the last five years. Macquarie University's largest source of revenue is again from fees and charges at 44.9 per cent (45.3 per cent) of its total operating revenue. This is the highest percentage of all universities and is due to an increase in revenue from overseas students. The University of Western Sydney has the lowest percentage of revenue from fees and charges at 14.5 per cent (12.2 per cent by Charles Sturt University).

Revenue from fee-paying overseas students for all universities has increased by 55.5 per cent over the last five years. Overseas students provide significantly higher financial returns to universities than domestic students. Revenue from overseas students represents 18.4 per cent of total operating revenue (16.6 per cent). For individual universities, revenue from fee-paying overseas students as a percentage of total operating revenue ranged from 4.8 per cent for the University of New England to 29.6 per cent for Macquarie University.

Total operating revenue has increased by 41.1 per cent over the last five years. This is primarily due to the growth in Australian Government grants, which has increased by 50.9 per cent since 2005. DEEWR expects Australian Government grants to be not much more than 50 per cent of operating revenue. All universities, except for the University of New England, continued to achieve this expectation.

Since 2005, there has been a 22.1 per cent increase in consultancy and contracts revenue. In the same period, other income increased by 26.0 per cent and investment income increased by 9.4 per cent.

Student numbers

During 2008, full time equivalent (FTE) students in New South Wales universities increased by 6,686 (or 3.2 per cent) to 212,876. FTE overseas students increased by 3,409 (or 7.5 per cent) to 48,781 in 2008. At 31 December 2008 overseas students now represented 22.9 per cent (22.0 per cent) of all enrolled students.

The dissection of students by university is shown in the table below.

University	Overseas Students				Domestic Students			
	Trend	2008 FTE	2007 FTE	2006 FTE	Trend	2008 FTE	2007 FTE	2006 FTE
Charles Sturt	↓	2,585	2,724	3,376	↓	15,169	15,673	15,783
Macquarie	↑	8,422	7,828	7,455	↑	14,058	13,579	13,333
Southern Cross	↑	2,521	2,103	2,404	↑	6,872	6,902	6,466
Sydney	↑	8,579	7,733	7,329	↑	28,586	28,399	28,253
New England	↓	587	635	810	↓	8,298	8,305	8,364
New South Wales	↑	7,955	7,042	6,522	↑	24,374	23,362	20,767
Newcastle	↑	3,441	3,059	2,880	↑	16,616	15,720	14,924
Technology, Sydney	↓	5,484	5,953	6,634	↑	17,404	16,848	16,456
Western Sydney	~	2,753	2,520	2,884	↑	21,764	21,454	21,064
Wollongong	↑	6,454	5,775	5,688	↑	10,954	10,576	10,171
Total	~	48,781	45,372	45,982	↑	164,095	160,818	155,581

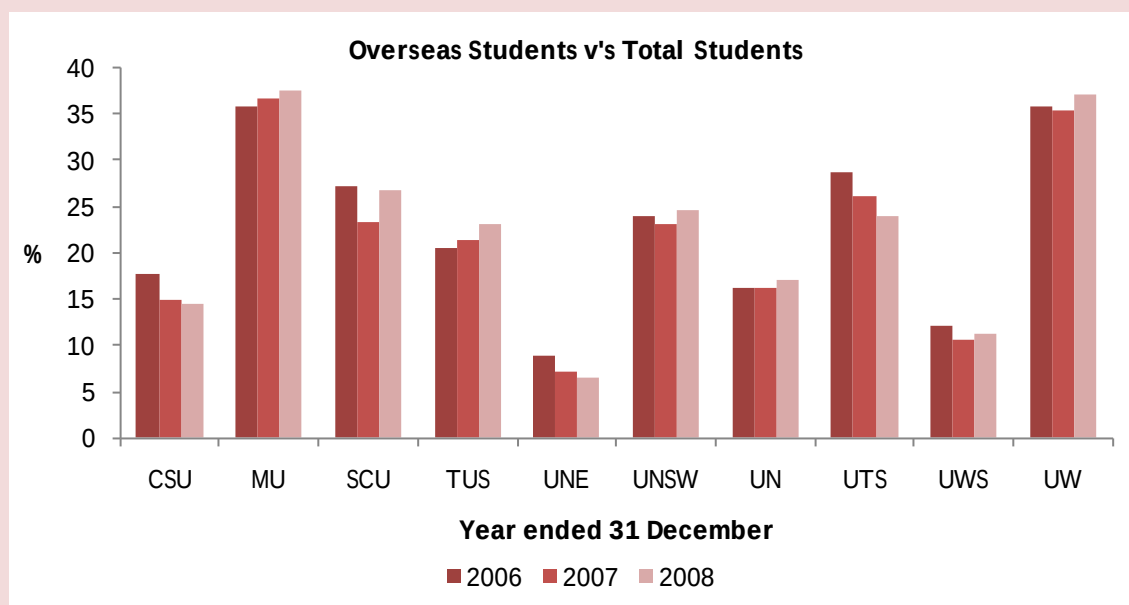
Source: 2009 Australian Government Department of Education, Employment and Workplace Relations published statistics for 2006-2008.

Key: ↑ Trending upwards, ↓ Trending downwards, ~ No trend

Southern Cross University recorded the highest growth in overseas student enrolments in 2008, increasing by 19.9 per cent.

The University of Technology, Sydney recorded the largest decline in overseas students between 2007 and 2008, falling by 8 per cent or 469 students. The university advised that the overseas student numbers increased to 5,929 in 2009.

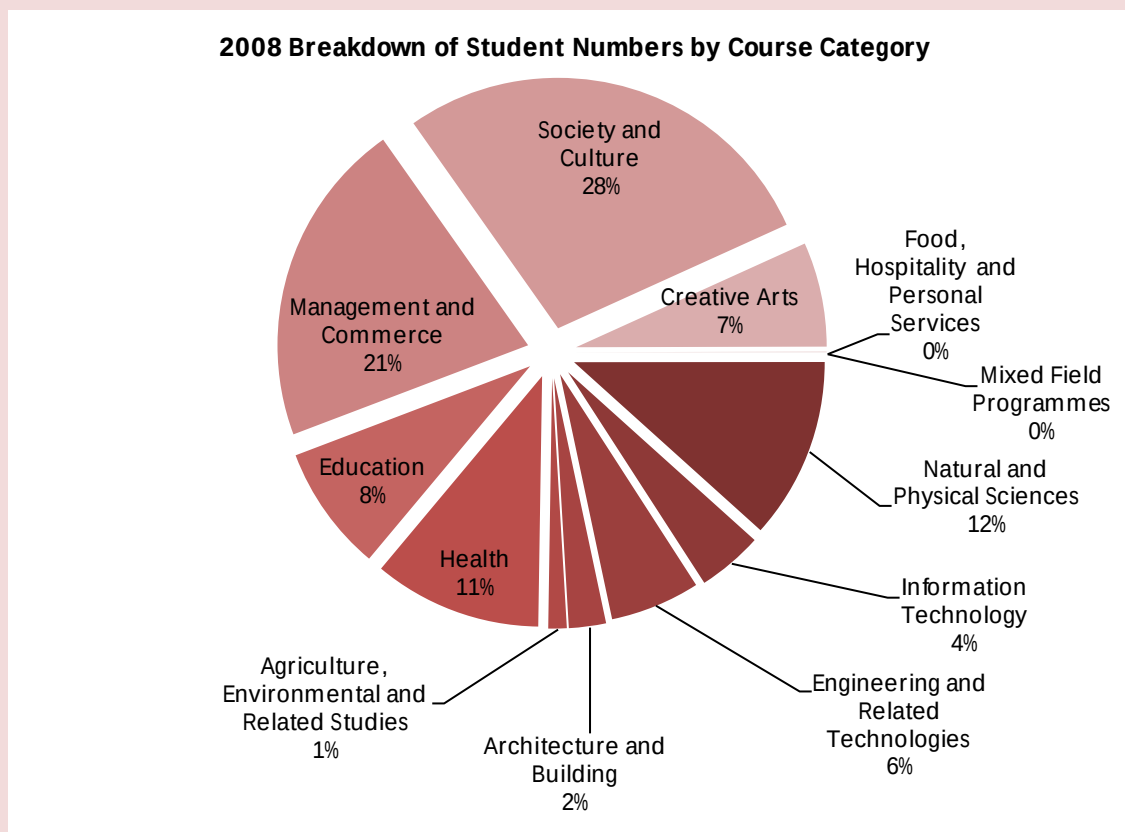
The percentage of overseas students in universities over the last three years is shown in the graph below.



Source: Department of Education, Employment and Workplace Relations: Publications – Higher Education Statistics Collection

Over the past three years Macquarie University has had the highest percentage of overseas students. In 2008, 37.5 per cent of its total students were from overseas (36.6 per cent). The University of New England continued to have the lowest percentage at 6.6 per cent (7.1 per cent).

The chart below shows the breakdown of the total number of students enrolled in New South Wales universities split by course category for 2008.



Source: Department of Education, Employment and Workplace Relations: Publications – Higher Education Statistics Collection

Society and Culture (28 per cent), Management and Commerce (21.0 per cent) and Natural and Physical Sciences (11.7 per cent) account for the highest proportion of all enrolled students. Over the past three years total students enrolled in New South Wales universities has increased, however, the percentage of students enrolled for each course category has remained steady.

Employee Benefits and On-Costs

DEEWR monitors the ability of universities to meet employee expenses by measuring employee benefits and on-costs as a percentage of total revenue. All universities, except the University of Wollongong, had employee benefits and on-costs within DEEWR's good practice benchmark of 50 per cent to 70 per cent. Universities ranged between 49.4 per cent for the University of Wollongong and 59.3 per cent for Charles Sturt University.

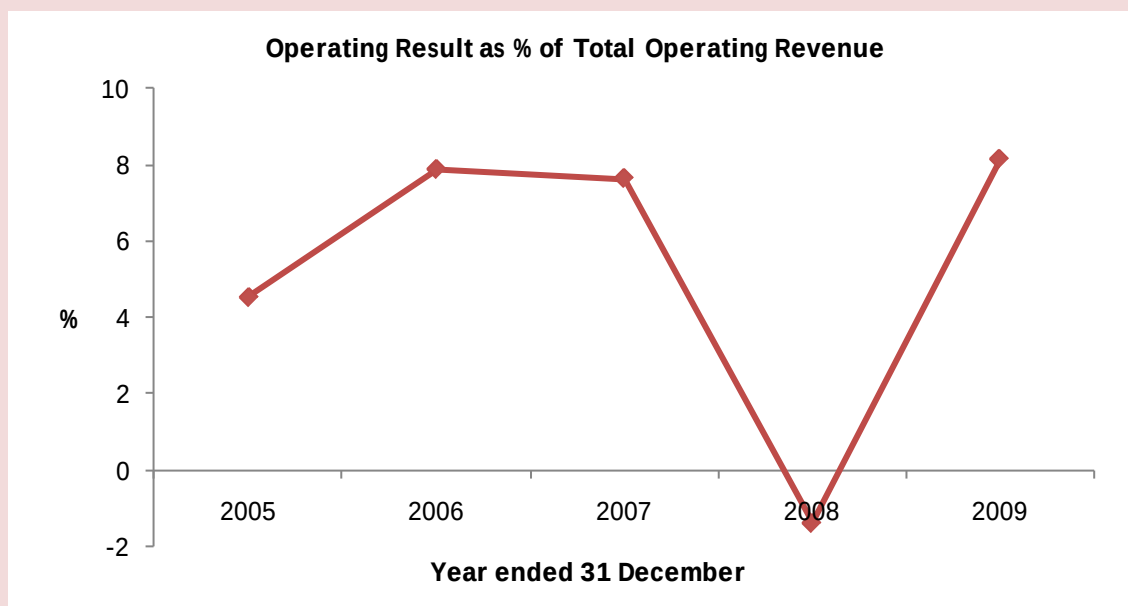
Operating Result

Although universities are not-for-profit organisations, DEEWR considers the operating result a useful measure of financial performance. Apart from exceptional years, DEEWR believes universities should achieve an operating surplus, which provides a reasonable safety margin. 2008 could be considered an exceptional year due to the global financial crisis.

In 2009, New South Wales universities recorded a combined surplus of \$494 million, compared to a combined deficit of \$76.9 million in 2008. The University of New South Wales recorded the highest operating surplus of \$93.0 million in 2009. In 2008, the University of Technology, Sydney had the highest operating surplus of \$57.6 million. Southern Cross University recorded the lowest operating result in 2009, a surplus of \$2.4 million. The University of Sydney had the highest deficit of \$167 million in 2008.

All ten (seven) universities reported operating surpluses in 2009. All universities, except Southern Cross University and Charles Sturt University, reported a better result than last year. The University of Sydney reported the biggest improvement of \$237 million. This was primarily due to a significant decline in the impairment of its investments from \$211 million to \$8.4 million.

The graph below illustrates the trend in the combined operating result for all universities as a percentage of total operating revenues over the past five years.



Source: University financial statements (audited).

Operating result as a percentage of total revenue for individual universities ranged from 1.4 per cent positive for Southern Cross University (negative 13.0 per cent for The University of Sydney) to 12.0 per cent positive for the University of Technology, Sydney and the University of Wollongong (11.1 per cent positive for the University of Technology, Sydney).

Student to Academic Ratio

At the date of preparing this Report, DEEWR statistics for 2009 were not available. The latest available statistics are for 2008 and show that the New South Wales universities' student to academic ratio of 27.0 in 2008 was the third highest of any jurisdiction in Australia (26.1 and fourth highest in 2007). Individual university ratios ranged from 20.4 for the University of New South Wales to 38.0 for Southern Cross University. Some universities are concerned that this ratio is misleading as it includes students enrolled with partner organisations, but excludes the teaching staff of those organisations. The information in this report should be considered in this context.

The ratio of students to academics (excluding staff not involved in teaching) is one indicator of education quality. From a student perspective, the lower the ratio the better. However, from a financial viewpoint, a lower ratio generally translates into higher total salaries and related costs and adversely impacts financial performance benchmarks.

Statistics for 2008 show the ratio increased from 2007 for five of the eight jurisdictions.

Jurisdiction	Number of Universities	EFT Students	FTE Academics	Trend	Student : Academic Ratio		
		2008	2008		2008	2007	2006
Australian Capital Territory	2	19,615	943	↑	20.8	20.5	20.3
New South Wales	10	212,876	7,874	~	27.0	26.1	26.7
Northern Territory	1	3,587	238	↓	15.1	22.4	17.8
Queensland	7	126,998	4,725	~	26.9	26.5	27.6
South Australia	3	52,877	2,104	~	25.1	25.1	24.7
Tasmania	1	14,462	744	↓	19.4	24.5	24.7
Victoria	8	200,180	6,897	↑	29.0	28.3	26.8
Western Australia	4	72,121	2,618	↑	27.5	26.8	26.0

Source: Australian Government Department of Education, Employment and Workplace Relations.

Key: ↑ Trending upwards, ↓ Trending downwards, ~ No trend

Aggregated Results of Operations, Financial Positions and Performance Indicators

The aggregated tables on pages 41 to 43 give the consolidated results of operations, financial positions and performance indicators for the universities.

As in previous years we have eliminated deferred income and deferred expenses for superannuation from the tables.

A new line item called 'Other Comprehensive Income' ('OCI') has been included in the Abridged Statement of Comprehensive Income for all universities. This is a new disclosure requirement of Australian Accounting Standard *AASB 101 Presentation of Financial Statements*. Other comprehensive income reported by universities includes revaluation movements for property and intangible assets, gains or losses on the re-measurement of available for sale financial assets and gains or losses arising from translating the financial statements of foreign controlled entities.

As mentioned previously, Australian Accounting Standards require entities to report certain liabilities as current liabilities irrespective of when they are expected to be settled. As a result we have excluded long service leave liabilities expected to be settled after 12 months of the reporting date for the purposes of calculating current ratios.

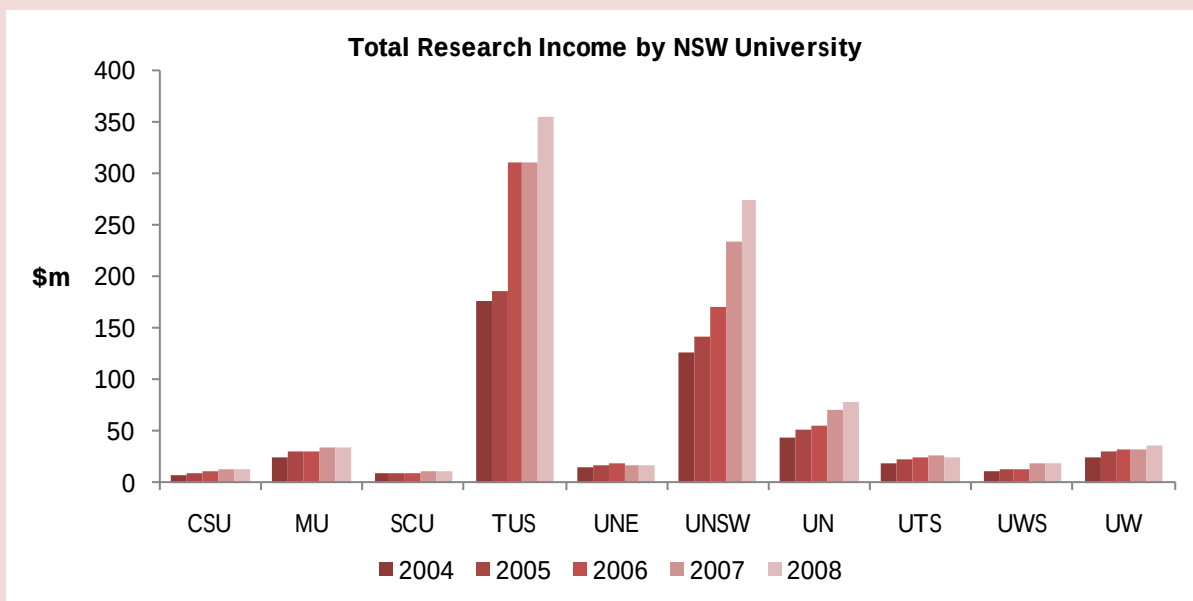
OTHER INFORMATION

Our audits highlighted opportunities for universities to improve internal controls. These opportunities have either been or will shortly be communicated to university management. The more significant items are included in individual university comments appearing later.

Research Income

Each year New South Wales universities provide the Department of Innovation, Industry, Science and Research with research income data. The data is used in assessing university research performance. Research performance drives the allocation of Australian Government Research Block Grants. These grants reward the success of universities in obtaining non-government grants and support further research.

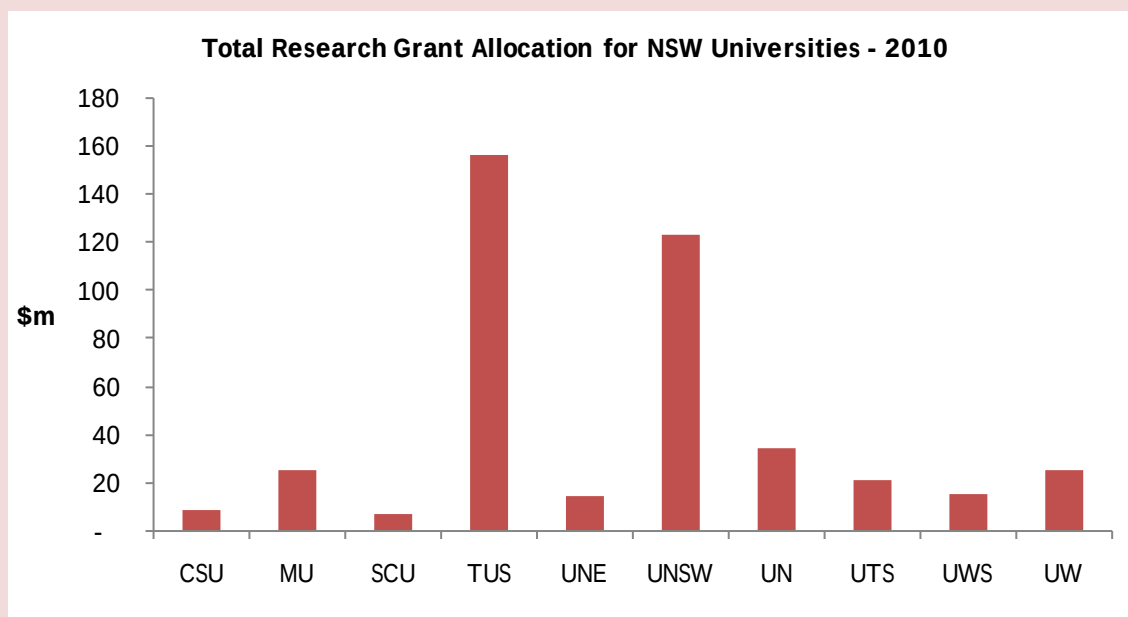
The graph below illustrates the total research income received by New South Wales universities over the past five years. Research income data for 2009 is unavailable.



Source: Department of Innovation, Industry, Science & Research publications

Research income received by New South Wales universities has increased by 90.5 per cent over the past five years to \$854 million in 2008, an increase of \$91.4 million over the previous year. Despite the increase, the proportion of total research income allocated to New South Wales universities is consistent with previous years. The University of Sydney and the University of New South Wales continue to be the top two recipients, receiving 41.4 per cent and 32 per cent of total research grants respectively. Most of this income came from Australian competitive grants and industry and other funding for research.

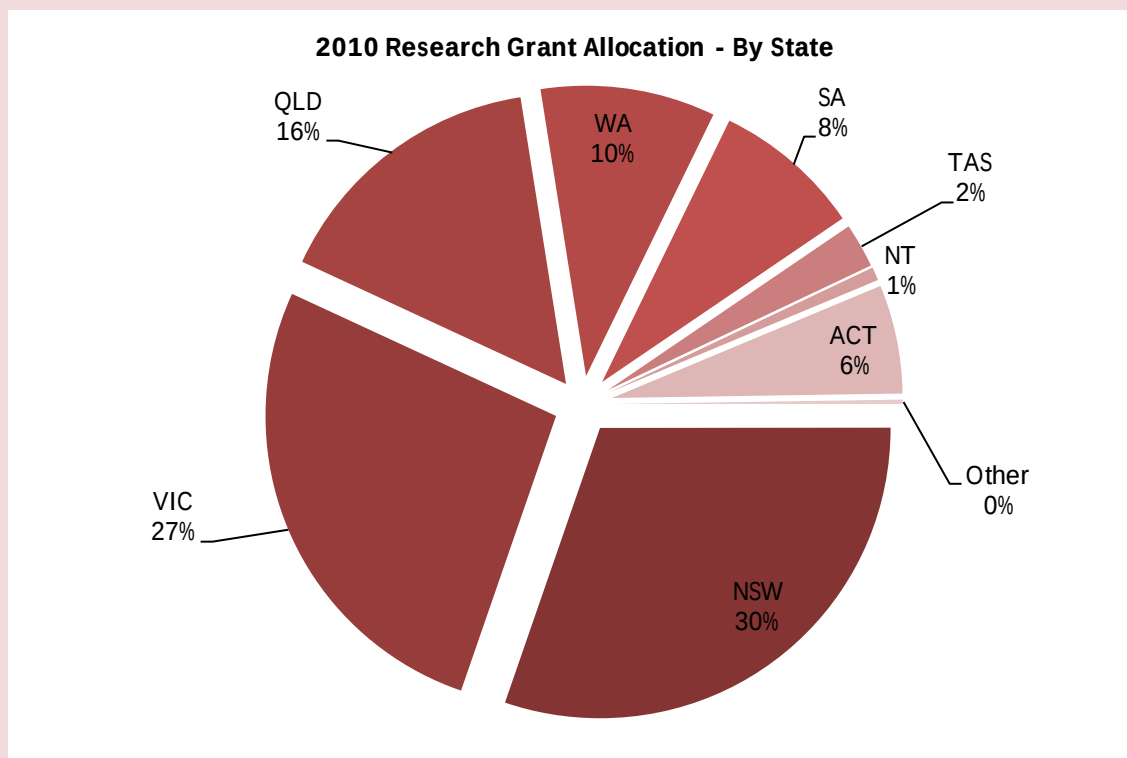
In 2010, \$1.4 billion will be provided to eligible Australian higher education providers in the form of block grants. The graph below illustrates the total research grant allocated to each New South Wales university.



Source: Department of Innovation, Industry, Science & Research publications

The University of Sydney and the University of New South Wales expect to receive \$156 million and \$123 million respectively in 2010.

The graph below illustrates total research grants allocated to the universities in each state within Australia. New South Wales receives the highest allocation of 30.3 per cent, while Victoria receives the second highest allocation of 26.6 per cent.



Source: Department of Innovation, Industry, Science & Research publications.

UNIVERSITY INFORMATION

University	Charles Sturt		Macquarie		Southern Cross		Sydney	
Year	2009 \$m	2008 \$m	2009 \$m	2008 \$m	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Abridged Statement of Comprehensive Income (year ended 31 December)								
Total revenue	333.0	364.9	583.2	532.2	164.1	155.2	1,395.1	1,290.9
Total expenses	305.5	330.9	522.7	508.6	161.7	142.4	1,325.5	1,458.6
Outside equity interest/other	--	--	--	--	--	--	(0.4)	0.3
Surplus/(deficit)	27.5	34.0	60.5	23.6	2.4	12.8	69.2	(167.4)
Other Comprehensive Income ***	44.5	14.7	48.1	(4.6)	--	--	62.3	52.2
Total Comprehensive Income	72.0	48.7	108.6	19.0	2.4	12.8	131.5	(115.2)

Abridged Statement of Financial Position (at 31 December)

Total assets	910.9	874.3	1,751.3	1,627.2	269.5	272.3	4,277.6	4,215.0
Total liabilities	246.8	282.2	511.0	485.5	71.3	76.4	1,047.8	1,116.6
Net assets	664.1	592.1	1,240.3	1,141.7	198.2	195.9	3,229.8	3,098.4

Performance Indicators (at 31 December)

Current ratio (a)	1.4*	2.4	0.9*	2.2	1.5	2.9	0.7^L*	0.5*
Australian Government grants as a % of total revenue (b)	46.7	50.1	25.5^L	26.4 ^L	44.5	45.4	43.7	43.7
HECS as a % of total revenue (b)	19.3	18.6	13.7	12.0	22.4	20.2	10.1^L	10.9 ^L
Fees and charges as a % of total revenue (b)	15.3	12.2 ^L	44.9^H	45.3 ^H	15.6	15.7	23.1	22.6
Employee Benefits and on-costs as a % of total revenue (c)	59.3^H	51.1 ^L	50.0	53.9	55.9	54.8	57.2	59.0 ^H
Operating result as a % of total revenue (d)	8.3	9.3	10.4	4.4	1.4^L	8.3	5.0	(13.0) ^L
Student numbers FTE **	na	17,754	na	22,480	na	9,393	na	37,165
Students per academic**	na	29.8	na	31.8	na	38.0	na	22.5

Key: All data except 'Student numbers' and 'Students per academic' are based on financial statements (audited).

Performance indicators as per DEEWR's manual for Australian Universities' are:

(a) Current Ratio – an indicator of liquidity. Good practice is a ratio of more than 1.5 to less than three.

(b) Diversity of Revenue – Universities should have three or four major income sources with none below five per cent and preferably all above 15 per cent. Reliance on Australian Government funding should be decreasing, preferably to not much more than 50 per cent.

(c) Employee Benefits and on-costs as a percentage of Total Revenue – Good practice is between 50 and 70 per cent.

(d) Operating Result as a percentage of Total Operating Revenue – Should be positive with a safety margin.

L Lowest performance by a NSW university.

H Highest performance by a NSW university.

* Represents performance outside benchmark.

** DEEWR publications Higher Education Statistics Collection. Academics are 'Teaching' and 'Teaching and Research'.

***Other Comprehensive Income excludes deferred superannuation actuarial gains/losses. For consistency in reporting of University results, actuarial gains/losses have been reflected on a net basis in employee related expenses. This rolls up into the Total Expenses line item. Revenue and Expenses excludes the impact of Deferred Government Superannuation.

na Not available.

University	New England		New South Wales		Newcastle		Technology, Sydney	
Year	2009 \$m	2008 \$m	2009 \$m	2008 \$m	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Abridged Statement of Comprehensive Income (year ended 31 December)								
Total revenue	218.5	214.2	1,251.9	1,154.6	522.6	474.2	563.9	515.1
Total expenses	208.7	206.9	1,158.8	1,241.8	477.2	474.5	496.9	453.5
Outside equity interest/other	--	--	(0.1)	(0.1)	(0.1)	--	--	--
Surplus/(deficit)	9.8	7.3	93.0	(87.3)	45.3	(0.3)	67.0	61.6
Other Comprehensive Income ***	(1.0)	(5.9)	70.4	20.1	78.6	2.0	30.1	(25.3)
Total Comprehensive Income	8.8	1.4	163.4	(67.2)	123.9	1.7	97.1	36.3

Abridged Statement of Financial Position (at 31 December)

Total assets	453.4	472.6	2,618.3	2,537.3	1,189.8	1,101.6	1,514.4	1,451.7
Total liabilities	206.8	238.4	1,122.2	1,204.6	313.8	348.6	423.8	458.3
Net assets	246.6	234.2	1,496.1	1,332.7	876.0	753.0	1,090.6	993.4

Performance Indicators (at 31 December)

Current ratio (a)	1.8	1.6	1.2*	1.0*	2.5	1.8	3.3*	2.6
Australian Government grants as a % of total revenue (b)	50.9^H	51.5 ^H	44.0	40.8	44.9	44.7	35.0	33.6
HECS as a % of total revenue (b)	19.3	19.0	10.1^L	10.9 ^L	17.0	17.1	17.0	17.4
Fees and charges as a % of total revenue (b)	15.6	19.1	32.0	30.1	18.4	17.3	33.0	31.7
Employee Benefits and on-costs as a % of total revenue (c)	57.8	58.1	50.4	56.6	52.0	53.8	52.7	53.6
Operating result as % of total revenue (d)	4.5	3.4	7.4	(7.6)	8.7	(0.1)	12.0^H	11.1 ^H
Student numbers FTE **	na	8,885	na	32,329	na	20,058	na	22,887
Students per academic**	na	23.6	na	20.4	na	29.7	na	31.2

Key: All data except 'Student numbers' and 'Students per academic' are based on financial statements (audited).

Performance indicators as per DEEWR's manual for Australian Universities' are:

(a) Current Ratio – an indicator of liquidity. Good practice is a ratio of more than 1.5 to less than three.

(b) Diversity of Revenue – Universities should have three or four major income sources with none below five per cent and preferably all above 15 per cent. Reliance on Australian Government funding should be decreasing, preferably to not much more than 50 per cent.

(c) Employee Benefits and on-costs as a percentage of Total Revenue – Good practice is between 50 and 70 per cent.

(d) Operating Result as a percentage of Total Operating Revenue – Should be positive with a safety margin.

L Lowest performance by a NSW university.

H Highest performance by a NSW university.

* Represents performance outside benchmark.

** DEEWR publications Higher Education Statistics Collection. Academics are 'Teaching' and 'Teaching and Research'.

***Other Comprehensive Income excludes deferred superannuation actuarial gains/losses. For consistency in reporting of University results, actuarial gains/losses have been reflected on a net basis in employee related expenses. This rolls up into the Total Expenses line item. Revenue and Expenses excludes the impact of Deferred Government Superannuation.

na Not available.

University	Western Sydney		Wollongong		Total	
Year	2009 \$m	2008 \$m	2009 \$m	2008 \$m	2009 \$m	2008 \$m

Abridged Statement of Comprehensive Income (year ended 31 December)

Total revenue	535.1	468.5	481.3	415.5	6,048.7	5,588.2
Total expenses	474.3	431.3	422.4	409.3	5,552.8	5,664.7
Outside equity interest/other	--	--	(1.1)	(0.6)	(1.7)	(0.4)
Surplus/(deficit)	60.8	37.2	57.8	5.6	494.2	(76.9)
Other Comprehensive Income***	5.6	(19.5)	7.1	(1.9)	344.9	35.9
Total Comprehensive Income	66.4	17.7	64.9	3.7	839.1	(41.0)

Abridged Statement of Financial Position (at 31 December)

Total assets	1,208.4	1,154.5	899.8	854.8	15,093.4	14,561.3
Total liabilities	257.4	269.9	301.1	321.0	4,502.0	4,801.5
Net assets	951.0	884.6	598.7	533.8	10,591.4	9,759.8

Performance Indicators (at 31 December)

Current ratio (a)	1.3*	1.5	2.4	2.3	1.4*	1.5
Australian Government grants as a % of total revenue (b)	47.5	46.2	37.9	38.5	41.6	41.2
HECS as a % of total revenue (b)	25.4^H	26.7 ^H	13.3	14.6	14.5	14.8
Fees and charges as a % of total revenue (b)	14.5^L	14.7	34.5	33.8	26.8	25.9
Employee Benefits and on-costs as a % of total revenue (c)	53.9	57.9	49.4^L	53.5	53.4	55.9
Operating result as a % of total revenue (d)	11.4	7.9	12.0^H	1.4	8.1	(1.4)
Student numbers FTE**	na	24,517	na	17,408	na	212,876
Students per academic**	na	36.6	na	27.4	na	27.0

Key: All data except 'Student numbers' and 'Students per academic' are based on financial statements (audited).

Performance indicators as per DEEWR's manual for Australian Universities' are:

(a) Current Ratio – an indicator of liquidity. Good practice is a ratio of more than 1.5 to less than three.

(b) Diversity of Revenue – Universities should have three or four major income sources with none below five per cent and preferably all above 15 per cent. Reliance on Australian Government funding should be decreasing, preferably to not much more than 50 per cent.

(c) Employee Benefits and on-costs as a percentage of Total Revenue – Good practice is between 50 and 70 per cent.

(d) Operating Result as a percentage of Total Operating Revenue – Should be positive with a safety margin.

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***Other Comprehensive Income excludes deferred superannuation actuarial gains/losses. For consistency in reporting of University results, actuarial gains/losses have been reflected on a net basis in employee related expenses. This rolls up into the Total Expenses line item. Revenue and Expenses excludes the impact of Deferred Government Superannuation.

na Not available.

Section Three



Commentary on Government Agencies

Minister Education and Training

Charles Sturt University

Macquarie University

Southern Cross University

The University of Sydney

University of New England

University of New South Wales

University of Newcastle

University of Technology, Sydney

University of Western Sydney

University of Wollongong

Refer to Appendix 1 for:

NSW Board of Vocational Education and Training

Technical Education Trust Funds

UNILINC Limited

Charles Sturt University

AUDIT OPINION

The audits of the University and its controlled entities' financial statements (other than Charles Sturt Foundation Trust) for the year ended 31 December 2009 resulted in unqualified Independent Auditor's Reports.

The audit of the Charles Sturt Foundation Trust resulted in a qualified Independent Auditor's Report as I was not able to express an opinion as to whether all donations received by the Trust were recorded in its financial records. As is common for entities that have donations and fundraising as sources of revenue, it is impracticable for the Trust to maintain an effective system of internal control over donated and fundraising revenues they receive until their initial entry in the financial records.

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

KEY ISSUES

Impact of the global financial crisis

There was significant improvement in the value of the University's investments and defined benefits superannuation plans as financial markets improved during 2009. This year, the University incurred a \$25,000 impairment loss on the value of its investments compared to a loss of \$26.2 million in 2008. During 2009, the University recognised a \$14.9 million increase in the fair value of investments in its Asset Revaluation Reserve.

Liabilities for superannuation decreased to \$156 million during 2009 (\$190 million at 31 December 2008). The Australian Government funds the majority of these liabilities, which has minimised the impact on the operating result.

Financial Statements

I recommend the University implement robust financial reporting processes and improve the quality control procedures over the preparation of its financial statements and supporting documentation.

The financial statements submitted for audit required significant adjustments to ensure they complied with the requirements of the Australian Accounting Standards. The University corrected the misstatements and disclosure deficiencies identified during the course of the audit. As a result, the audit was not completed within the statutory reporting timeframes.

Property, Plant and Equipment Register

I recommend the University improve its recording and accounting procedures for non-current assets. Its property, plant and equipment register should be updated continuously throughout the year to ensure the accuracy and completeness of its asset records.

The University initially records asset acquisitions as expenses in its general ledger. At year end, it analyses the general ledger expenses to identify non-current assets that should have been capitalised and recorded in the property, plant and equipment (PP&E) register. Once identified, the University corrects the general ledger and updates the PP&E register by way of journal entries. This process is time consuming, significantly increases the risk of errors and means these transactions are not being processed in an accurate and timely manner. As a result we identified a number of discrepancies with the PP&E register.

Overseas Operations

I recommend the University continue to review and strengthen corporate governance, accounting and internal control procedures for its overseas campus.

The Ontario campus, established in 2005, reported revenue of \$4.4 million for the year ended 31 December 2009 (\$1.8 million in 2008). With the growth in operations, the University implemented a self governing business unit with financial and reporting structures in September 2009. The corporate governance, accounting, tax and other compliance procedures are evolving.

Ageing of Academic Staff

I recommend that the University review the effectiveness of its policies in managing its ageing academic workforce.

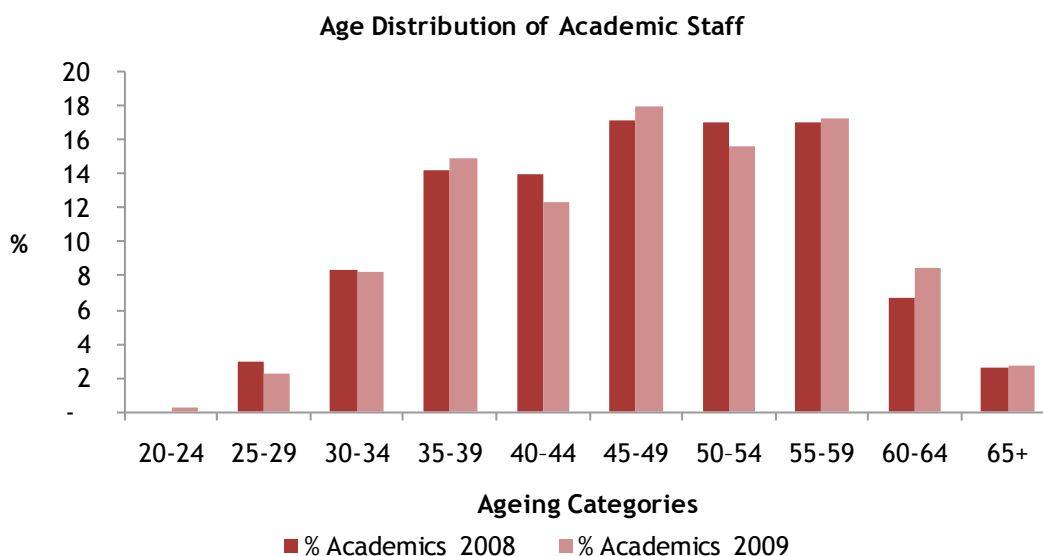
The University is facing challenges from the potential loss of a large number of retiring academic staff as supported by the following University statistics:

- 28.4 per cent are aged 55 years and over
- 44 per cent are aged 50 years and over

As at 31 December Age Group	2009		2008	
	No. of Academics (FTE)*	%	No. of Academics (FTE)*	%
20 - 49	384	56.0	390	56.7
50 - 54	107	15.6	118	17.1
55 - 59	118	17.2	117	17.0
60 - 64	58	8.4	46	6.7
65+	19	2.8	18	2.5
Total	686	100.0	689	100.0

* Full time Equivalent (FTE) includes lecturers and Tutors
Source: Charles Sturt University (unaudited)

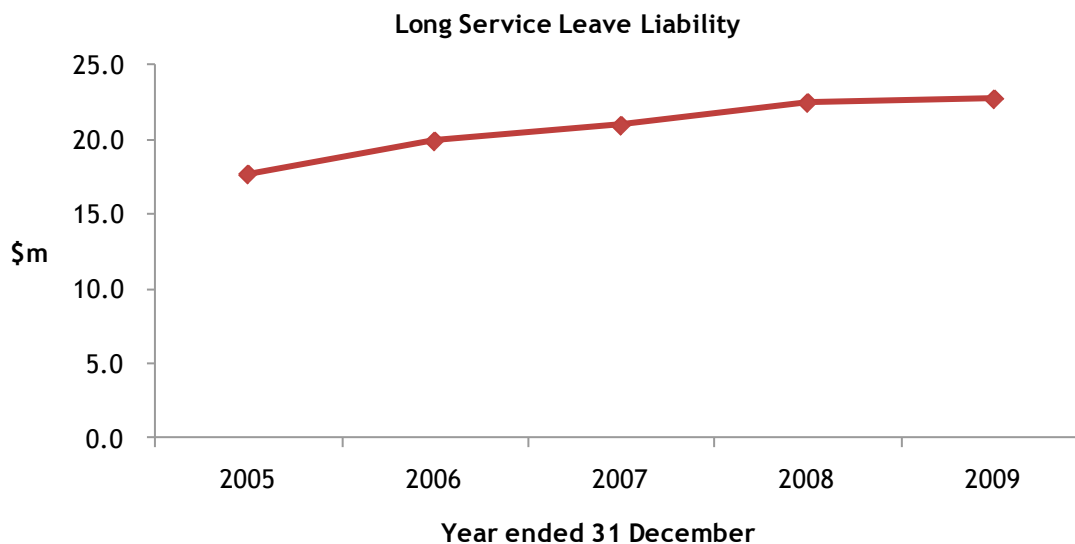
The graph below further demonstrates the age structure of academic staff.



To ensure sufficient availability of academic staff in the future, the University should actively monitor its workforce age profile and develop and implement appropriate strategies to attract and retain academic staff whose skills are aligned with the strategic direction of the University.

Long Service Leave Liability

Increasing long service leave liabilities create funding challenges for the University. Long service leave liabilities increased by 8.5 per cent over the past three years to \$22.7 million in 2009 (\$22.5 million).



The increase in the liability from 2007 to 2008 resulted from a growth in entitlements plus the impact of a reduced Government bond rate used to discount the liability to present value. The reduced Government bond rate resulted from the global financial crisis.

Although the University has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities as they fall due. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

Excessive Annual Leave Balances

I recommend the University establish individual staff plans to reduce excessive annual leave balances within an acceptable timeframe.

Out of its total workforce of 1,960 people, 171 people or 8.7 per cent had annual leave balances in excess of the maximum allowed thresholds under the University's leave policy. This breach of policy, results in additional expense as the liability generally increases as staff remuneration levels increase over time. It may also lead to workforce health declining as employees are not taking sufficient breaks from work.

While the total number of staff with annual leave balances exceeding 40 days decreased by 12 employees this year, academic staff with excess leave balances increased by nine to 86 employees.

The University should continue to apply the measures it has implemented to reduce leave balances focussing on staff at the high end of the excessive leave range (i.e. >60 days).

Employment of Contractors

I recommend the University create and maintain a record of all contractors engaged by the University.

The University should also periodically review the roles and responsibilities of all its contractors to ensure:

- its reliance on contractors is not excessive
- using a contractor instead of a permanent employee is appropriate
- contractors do not become de facto employees by virtue of being with the University for an extended period of time
- using a contractor continues to represent value for money.

Although the University was able to advise that it had 315 contract staff paid through the payroll system at 31 December 2009, it was unable to provide the number of contractors engaged through employment agencies.

The retention of contract employees for extended periods may result in additional costs to the University. The University needs to review its practices relating to contract employees to ensure the desired outcomes are achieved and it is complying with employment related legislation.

PERFORMANCE INFORMATION

(Comparative performance data on all universities appears in the 'Universities Overview' section earlier in this Volume. The information shown below is based on consolidated financial statements).

The University's current ratio (a measure of its financial liquidity) was 1.4 at 31 December 2009, down from the previous year's ratio of 2.4. At this level, it is equal to the State average of 1.4 (1.5) and below the Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) 'good practice' parameter of 1.5 to 3.0.

Australian Government grants, as a percentage of operating revenue, decreased from 50.1 per cent in 2008 to 46.7 per cent in 2009. This is still significantly higher than the State average of 41.6 per cent (41.2 per cent), but within DEEWR's 'good practice' parameter of no more than 50 per cent.

Employee benefits and on-costs, as a percentage of operating revenue, increased from 51.1 per cent in 2008 to 59.3 per cent in 2009. This is higher than the State average of 53.4 per cent (55.9 per cent) and within the DEEWR 'good practice' parameter of 50 per cent to 70 per cent. It also represents the highest percentage of all universities.

Fees and charges, as a percentage of operating revenue, increased from 12.2 per cent in 2008 to 15.3 per cent in 2009. This is significantly less than the State average of 26.8 per cent (25.9 per cent).

The University's operating surplus for the year was \$27.5 million or 8.3 per cent of total revenue (9.3 per cent). This return is above the State average of 8.1 per cent (negative 1.4 per cent).

OTHER INFORMATION

We identified opportunities for improvement to accounting and internal control procedures and will report them to management.

System Generated Balances

In previous years, I reported that the University's general ledger did not provide sufficient details for certain system generated control account balances. The accumulated balance of these accounts at 31 December 2008 was \$3.9 million.

During 2009, the University reset its finance system to clear these balances and adjusted the past transactions through a number of general ledger accounts. These adjustments did not always include clear audit trails and authorisation. This contributed to additional audit analysis and rework.

Capital Expenditure Program

The University is mid-way through a \$270 million, five-year capital development plan, funded through operating surpluses, borrowings and investments. Capital expenditure in 2009 totalled \$106 million with \$57.2 million planned for 2010.

During 2009, the University opened new school of dentistry buildings and student accommodation facilities (600 units) at various campuses at a cost of \$99.9 million.

Despite maintenance expenditure of \$4.3 million in 2009 (\$9.9 million), backlog maintenance at 31 December 2009 increased to \$1.7 million from \$339,000.

Proposed National University

As part of its response to the Bradley report on Higher Education in March 2009, the Australian Government funded a \$2.0 million feasibility study for the creation of a new national university. The proposal is that the new university will include Charles Sturt University and Southern Cross University as foundation partners with possible inclusion of a third interstate university.

The feasibility study was considered by the Councils of Charles Sturt University and Southern Cross University on 3 July 2009. Southern Cross University subsequently announced that they did not wish to participate in the proposed national university. The University plans to seek further guidance from the Australian Government on the proposal.

FINANCIAL INFORMATION

The consolidated financial information includes the financial statements of the University and its controlled entities.

Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Australian Government grants	155,502	182,957	155,502	182,957
Higher Education Contribution Scheme	64,210	67,961	64,210	67,961
Fees and charges	50,905	44,652	50,905	44,652
Other	62,429	69,367	59,563	66,848
Deferred income - superannuation	(33,579)	119,185	(33,579)	119,185
TOTAL REVENUE	299,467	484,122	296,601	481,603
Employee benefits and on-costs	194,618	186,481	193,762	185,597
Depreciation	23,370	21,272	23,370	21,272
Other	87,545	123,099	87,376	120,230
Deferred expense - superannuation	(33,579)	119,185	(33,579)	119,185
TOTAL EXPENSES	271,954	450,037	270,929	446,284
SURPLUS	27,513	34,085	25,672	35,319
OTHER COMPREHENSIVE INCOME				
Gain on revaluation of land and buildings	29,731	17,529	29,731	17,529
Fair value gains/(losses) on available for sale financial assets	14,867	(2,871)	13,563	(1,522)
Exchange losses on translation of foreign operations	(115)	--	(115)	--
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	44,483	14,658	43,179	16,007
TOTAL COMPREHENSIVE INCOME	71,996	48,743	68,851	51,326

The decrease in Australian Government grants is largely due to the receipt of \$36.0 million in 2008 for the establishment of the dental school facilities.

The increase in fees and charges reflects a \$5.0 million rise in fees from overseas fee paying students and \$4.3 million in student accommodation charges. This was due to increases in the number of overseas students and fee rates. The increase was offset by a \$3.0 million reduction in fee paying domestic students.

A one-off contribution of Student Association assets of \$7.3 million in 2008 increased the other revenue in that year.

Deferred income and deferred expense reflect movements in the actuarially assessed employee superannuation liability for employees who are members of the State Government's defined benefit superannuation plans.

Employee benefits and on costs increased due to an additional 30 non-academic employees and a general 3.5 per cent increase in the award rates of pay.

The decrease in other expenses of \$35.5 million was due to:

- lower investment losses of \$25,000 (\$26.2 million)
- reduction in maintenance expense of \$5.6 million
- a drop in administrative expense of \$3.7 million through cost savings

Abridged Statements of Financial Position

At 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	54,509	98,008	52,275	96,135
Non-current assets	856,352	776,308	850,016	772,273
TOTAL ASSETS	910,861	874,316	902,291	868,408
Current liabilities	56,424	59,382	56,960	59,377
Non-current liabilities	190,357	222,849	190,081	222,632
TOTAL LIABILITIES	246,781	282,231	247,041	282,009
NET ASSETS	664,080	592,085	655,250	586,399

The decrease in current assets is mainly due to cash used on the capital works programs.

As discussed earlier, the increase in non-current assets reflects additions to property, plant and equipment from the capital works programs and increases the in the fair value of assets.

Non-current liabilities decreased following an actuarial valuation of superannuation liabilities, which reflects improvements in financial markets.

UNIVERSITY ACTIVITIES

The University is constituted under the *Charles Sturt University Act 1989*. It mainly:

- provides educational and research facilities of university standard
- disseminates and increases knowledge and promotes scholarship
- provides distance education for students within New South Wales and elsewhere
- confers degrees of Bachelor, Master and Doctor and awards diplomas and other certificates
- develops governance, admission policies, financial arrangements and quality assurance processes that are significant to ensure the integrity of the University's academic programs
- exercises commercial functions for the University's benefit.

For further information on the University, refer to www.csu.edu.au.

CONTROLLED ENTITIES

Charles Sturt University Foundation Trust

The Foundation is the main fundraising arm of the University.

Year ended 31 December	2009 \$'000	2008 \$'000
Revenue	1,707	1,297
Expenses	1,066	2,434
Profit/(loss)	641	(1,137)
Net assets (at 31 December)	7,174	5,287

The operating result was impacted by:

- increases in investment income of \$230,000 and fundraising by \$164,000, and
- a decrease in the impairment losses on investments of \$1.3 million

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

Entity Name	Website
Charles Sturt Foundation Limited	www.csu.edu.au/special/foundation
Charles Sturt Services Limited	*
Charles Sturt Campus Services Limited	*
Rivservices Limited	*
Western Research Institute Limited	www.wri.org.au

* This entity does not have a website.

Macquarie University

AUDIT OPINION

The audits of the University and 31 of its controlled entities' financial statements for the year ended 31 December 2009 resulted in unqualified Independent Auditor's Reports.

The audits of three controlled entities are incomplete. Further details on the University's controlled entities appear later in this comment.

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

KEY ISSUES

Controlled entities (Repeat Issue)

I recommend the University review its corporate strategy to help ensure its corporate structure aligns with that strategy

The University had 34 controlled entities at 31 December 2009 (30 at 31 December 2008). The University is currently reviewing its structure, which may result in fewer controlled entities, lower compliance costs and reduced governance risks. Even though some of these entities are dormant, the *Public Finance and Audit Act 1983* requires them to prepare audited financial statements. Each entity must also implement and maintain an effective compliance framework to help ensure it complies with legislative requirements applicable to its operations.

Capital Funding

The University estimates it will require approximately \$350 million over the next two years to fund the cost of its capital works program.

In March 2010, the University received an Aa2 credit rating from Moody's Investors Service (Moody's). Moody's believe this reflects the University's sound performance, positive liquidity level and strong market position. Moody's analysis also incorporated a large but manageable increase in the University's debt to re-finance existing borrowings and partially fund its capital works program.

Private Hospital and Clinic

I recommend the University review its processes for the selection of business partners and the identification of project risks. This will help reduce risks in future projects.

Over the past two years, Macquarie University has been developing a private hospital and clinic on its Ryde campus. The development initially included Dalcross Holdings Pty Limited as an equity partner. During the year, the University acquired Dalcross Holdings' 38 per cent interest in the project. The University will manage the hospital activities directly and admit its first patient in mid 2010. The University's core business activities relate to the delivery of education services and not the delivery of hospital services. The University is currently employing appropriately skilled staff to conduct the hospital business.

The estimated final building cost is \$160 million. The original budget was \$112 million. The original budget excluded the planned Dalcross Holdings' contribution, the construction of an additional level to the hospital and other scope changes. The University estimates it will cost a further \$48.0 million for equipment purchases. At 31 December 2009, borrowings for the hospital project were approximately \$118 million. Because final construction costs are higher than planned interest costs on the borrowings will also increase above original budgeted amounts. The University is looking at funding sources to reduce interest rate risks. Higher than planned interest rates may adversely impact the profitability of the project.

The capacity of the hospital is 208 beds (including day only beds and intensive care beds) with a separate clinic building. The hospital's objectives are to deliver training, medical research and quality patient care in select specialty areas. It will also accommodate the Australian School of Advanced Medicine. The medical school will deliver postgraduate programs in specialty and sub-specialty fields and work in partnership with the Royal Australasian College of Surgeons.

Impact of the global financial crisis

There was significant improvement in the valuation of the University's investments and defined benefits superannuation plans as financial markets improved. This year, the University incurred a \$299,000 impairment loss on the value of its investments compared with a loss of \$16.9 million in 2008. During 2009, the University recognised an unrealised gain of \$27.2 million in the value of its investments in the Asset Revaluation Reserve.

Liabilities for superannuation decreased to \$240 million during 2009 (\$282 million at 30 June 2008). The Australian Government funds the majority of these liabilities, which has minimised the impact on the operating result.

Ageing of Academic Staff

I recommend the University review the effectiveness of its policies in managing its ageing workforce.

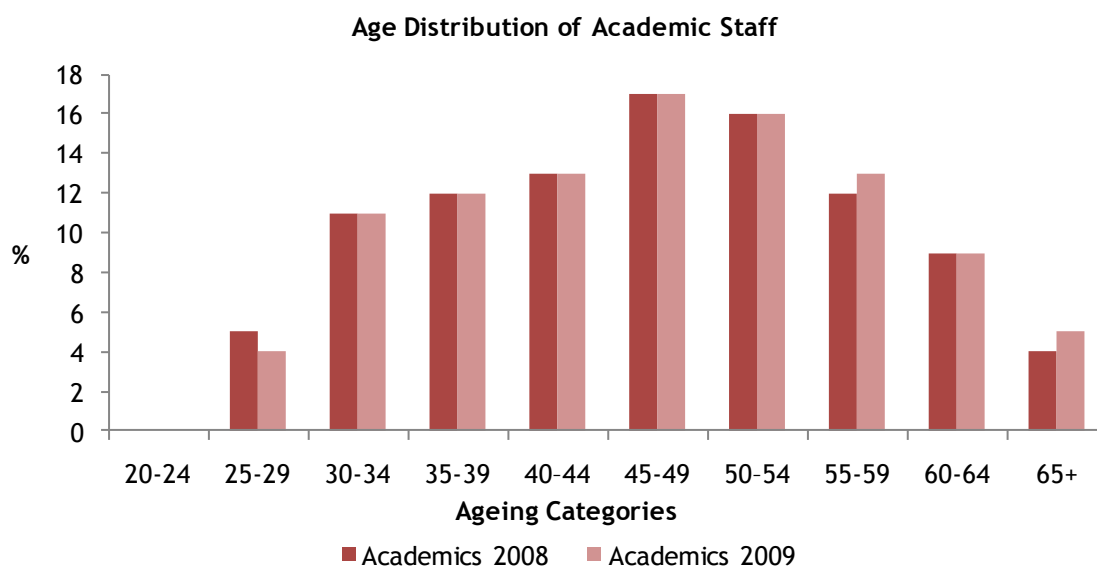
The University faces challenges from the potential loss of a large number of retiring academic staff as supported by the following University statistics:

- 25.7 per cent are aged 55 years and over
- 42.1 per cent are aged 50 years and over.

At 31 December Age Group	2009		2008	
	No. of Academics	%	No. of Academics	%
20 - 49	570	57.9	571	59.5
50 - 54	161	16.4	157	16.3
55 - 59	124	12.6	111	11.6
60 - 64	84	8.5	86	9.0
65+	45	4.6	35	3.6
Total	984	100.0	960	100.0

Source: Macquarie University (unaudited).

The graph below further demonstrates the age structure of academics:

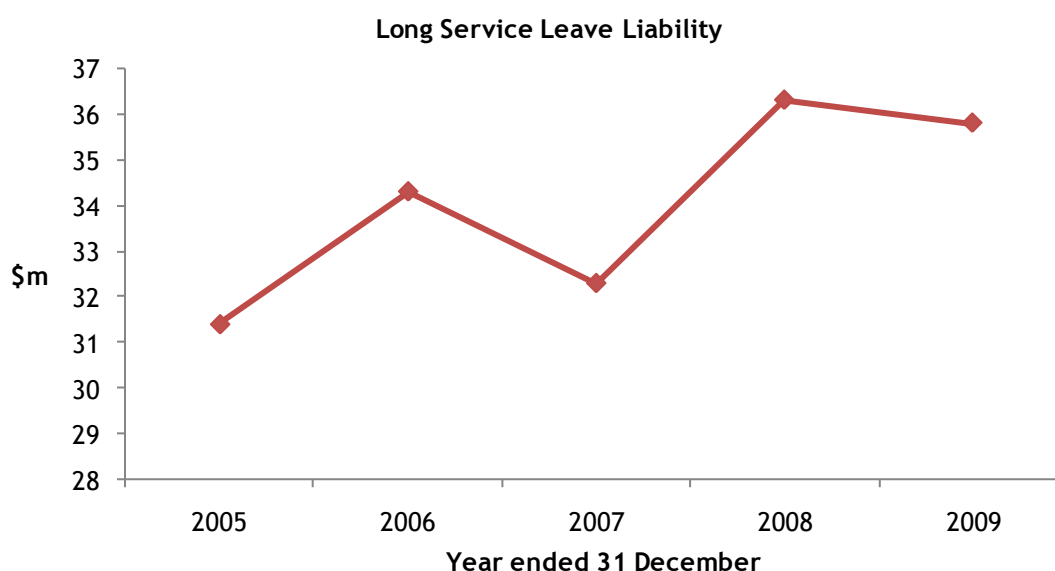


Source: Macquarie University (unaudited).

To help ensure an adequate supply of academic staff in the future, the University should actively monitor its workforce age profile and have strategies in place to develop, attract and retain staff whose skills are aligned with the strategic direction of the University.

Long Service Leave

Increasing long service leave liabilities create funding challenges for the University. Long service leave liabilities have increased by 14 per cent over the past five years to \$35.8 million in 2009 (\$31.4 million in 2005).



Source: Macquarie University (unaudited).

The increase in the liability from 2007 to 2008 resulted from a growth in entitlements plus the impact of a reduced Government bond rate used as the discount factor in calculating the present value of the liability. The reduced Government bond rate resulted from the global financial crisis.

Although the University has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

Excessive Annual Leave balances (Repeat issue)

I recommend the University review the effectiveness of its existing policies for managing excessive annual leave balances

At 31 December 2009, 222 University employees had accrued more than 40 days of annual leave entitlements (186 employees at 31 December 2008). This represents 11 per cent of all employees (ten per cent). The accumulation of excessive annual leave entitlements results in increased financial costs to the University because these entitlements will be paid out at higher salary rates in the future and may have occupational health and safety implications.

PERFORMANCE INFORMATION

(Comparative performance data on universities appears in the 'Universities Overview' section earlier in this Volume. The information shown below is based on consolidated financial statements.)

The University's current ratio (a measure of its financial liquidity) was 0.9 at 31 December 2009, a decrease on the previous year's ratio of 2.2. At this level it is below the State average of 1.4 (1.5 at 31 December 2008) and below the Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) 'good practice' parameter 1.5 to 3.0. The University's low current ratio is due to loans of \$118 million maturing in October 2010, which will be refinanced during 2010.

Australian Government grants as a percentage of operating revenue remained steady at 25.5 per cent in 2009. This is lower than the State average of 41.6 per cent (41.2 per cent in 2008), and better than the DEEWR 'good practice' parameter of no more than 50 per cent.

Employee Benefits and on-costs as a percentage of operating revenue decreased from 53.9 per cent in 2008 to 50.0 per cent in 2009. This is below the State average of 53.4 per cent (55.9 per cent), but within the DEEWR 'good practice' parameter of 50 to 70 per cent.

Higher Education Contributions, as a percentage of total revenue, increased from 12 per cent in 2008 to 13.7 per cent in 2009. This is below the State average of 14.5 per cent (14.8 per cent).

The University's operating surplus for the year was \$60.5 million, or 10.4 per cent of total revenue (4.4 per cent). This is higher the State average of 8.1 per cent (negative 1.4 per cent).

OTHER INFORMATION

We identified opportunities for improvement to accounting and internal control procedures and will report them to management.

Other Major Projects

The University is building a new Learning and Research Centre which will represent a new generation of library design, creating a centre full of dynamic, collaborative and open spaces of learning. The estimated project cost is \$90.8 million. The value of remaining work at year-end is \$58.9 million, which is expected to be completed by the end of 2010.

Cochlear Limited, a global leader in implantable hearing solutions, will move its headquarters and principal manufacturing facilities into accommodation on the University campus during 2010. Construction risks reside with Cochlear. Under the agreement between the University and Cochlear, the University will purchase the building on completion for an estimated cost of \$129 million and lease it to Cochlear.

Backlog maintenance

The University estimates its backlog maintenance program will cost \$21.1 million at 31 December 2009. The University's backlog maintenance has decreased slightly over the past three years, as demonstrated in the table below. The University advised that it has continued to review its program to reduce the backlog.

Year ended 31 December	Estimate		
	2009 \$'000	2008 \$'000	2007 \$'000
Backlog maintenance	21,117	22,031	24,480

Source: Macquarie University (unaudited).

FINANCIAL INFORMATION

The consolidated financial information includes the financial statements of the University and its controlled entities.

Abridged Statement of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Australian Government grants	148,997	140,581	148,944	140,523
Higher Education Contribution Scheme	79,913	63,966	79,913	63,966
Fees and charges	261,933	241,126	233,199	210,110
Other	92,332	86,565	71,821	60,994
Deferred income - superannuation	(35,825)	145,841	(35,825)	145,841
TOTAL REVENUE	547,350	678,079	498,052	621,434
Employee benefits and on-costs	291,660	287,015	254,578	245,206
Depreciation	30,080	29,184	28,162	27,492
Other	200,912	192,433	191,804	186,494
Deferred expense - superannuation	(35,825)	145,841	(35,825)	145,841
TOTAL EXPENSES	486,827	654,473	438,719	605,033
SURPLUS	60,523	23,606	59,333	16,401
OTHER COMPREHENSIVE INCOME				
Revaluation of available for sale financial assets	27,151	(37,980)	27,151	(37,980)
Gain on revaluation of property, plant and equipment	21,171	33,413	21,171	33,413
Other losses	(250)	(41)	(250)	--
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	48,072	(4,608)	48,072	(4,567)
TOTAL COMPREHENSIVE INCOME	108,595	18,998	107,405	11,834

Higher Education Contribution Scheme income increased due to a higher student load in Commonwealth Supporting Places and enrolments for domestic fee-paying students. The increase in fees and charges of \$20.8 million was mainly due to higher enrolments of fee paying overseas students.

Higher salary increments awarded to staff and the appointment of additional staff resulted in an increase in employee benefits and on-costs.

Deferred income and deferred expense reflect movements in the actuarially assessed liability for employees who are members of the State Government's defined benefit superannuation plans. Because the Australian Government funds these movements, they do not impact the operating result.

Abridged Statements of Financial Position

At 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	195,718	228,753	168,205	191,735
Non-current assets	1,555,547	1,398,444	1,424,555	1,328,697
TOTAL ASSETS	1,751,265	1,627,197	1,592,760	1,520,432
Current liabilities	247,602	125,331	109,640	104,083
Non-current liabilities	263,384	360,182	274,196	314,830
TOTAL LIABILITIES	510,986	485,513	383,836	418,913
NET ASSETS	1,240,279	1,141,684	1,208,924	1,101,519

Construction of the private hospital and clinic and the new Learning and Research Centre increased non-current assets but decreased current assets.

A loan for construction of the private hospital and clinic of \$118 million is repayable in October 2010 and is included in current liabilities at year end.

The significant decline in the valuation of defined benefit superannuation scheme liabilities, mentioned earlier, contributed to the decrease in non-current liabilities.

UNIVERSITY ACTIVITIES

The University is constituted under the *Macquarie University Act 1989*. It mainly:

- provides educational facilities at university standard
- establishes facilities to provide courses of study, gives instruction to and examines external students and provides courses of study or instruction at such levels of attainment as the University's Council considers appropriate to meet the special requirements of industry, commerce, or any other section of the community
- disseminates knowledge and promotes scholarship
- confers degrees of Bachelor, Master and Doctor and awards diplomas and other certificates.

For further information on the University, refer to www.mq.edu.au.

CONTROLLED ENTITIES

Controlled Entities Late Submission of Financial Statements

Four of Macquarie University's controlled entities did not submit financial statements within the statutory requirement of six weeks after year-end. This is required by the *Public Finance and Audit Act 1983*.

Entity	Date Due	Date submitted
Macquarie University Medical Research Trust	11 February 2010	9 April 2010
Macquarie University Medical Research Foundation Limited	11 February 2010	9 April 2010
MUH Operations Pty Limited	11 February 2010	8 March 2010
MUH Operations No.2 Limited	11 February 2010	8 March 2010

Macquarie Graduate School of Management Pty Limited

Year ended 31 December	2009 \$'000	2008 \$'000
Revenue	26,537	29,490
Expenses	23,395	24,614
Profit	3,142	4,876
Net assets (at 31 December)	12,157	9,014

The decrease in revenue and profit was largely due to a fall in executive education programmes and income from hotel/facilities. Although the School added to revenue in 2009 by increasing its course fees, it was more than offset by declining revenues attributable to the global financial crisis. MGSM provides business education to middle to senior executives, either through the MBA course and other postgraduate programs or corporate executive education programs. For further information on the company refer www.mgsm.edu.au.

U@MQ Limited

Year ended 31 December	2009 \$'000	2008 \$'000
Revenue	26,402	23,858
Expenses	26,640	23,833
(Loss)/Profit	(238)	25
Net assets (at 31 December)	14,539	14,777

The increase in revenue was largely due to higher sales of retail goods and services (\$832,000), food and beverages (\$886,000) and membership fees (\$973,000). The company contributed approximately \$800,000 to the construction of a new irrigation system controlled by the University. This contribution was treated as an expense in the current financial year and is the main reason why the company incurred a loss. For further information on the company, refer to www.campuslife.mq.edu.au.

Macquarie University Property Investment Trust

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Revenue	2,902	2,555	1,698	1,338
Expenses	2,384	1,933	910	710
Profit	518	622	788	638
Net assets (at 31 December)	26,174	26,444	16,500	16,500

Revenue increased largely due to the Trust contracting for the construction of works of approximately \$1.0 million (\$988,000) on behalf of other parties and management fees of \$1.6 million (\$1.2 million) associated with the construction of the private hospital and clinic and an increase in property rentals. Expenses increased due to construction costs of approximately \$998,000 and management costs associated with the construction of the private hospital and clinic.

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

Entity Name	Website
Access Macquarie Limited	www.accessmq.com.au
Australian Proteome Analysis Facility Limited	www.proteome.org.au
CMBF Limited	*
COH Property Trust	*
LAMS Foundation Limited	*
LAMS International Pty Limited	www.lamsinternational.com
Macquarie University Medical Research Foundation Limited	*
Macquarie University Medical Research Trust	*
Macquarie University Private Hospital Trust	*
Macquarie University Property Investment Company No. 2 Pty Limited	*
Macquarie University Property Investment Company No. 3 Pty Limited	*
Macquarie University Property Investment Company Pty Limited	*
MU Hospital Pty Limited	*
MUH Operations Pty Limited	*
MUH Operations No.2 Limited	*
MUPIT Sub-Trust No. 1	*
MUPIT Sub-Trust No. 2	*
MUPIT Sub-Trust No. 3	*
MUPIT Sub-Trust No. 4	*
MUPH Clinic Pty Limited	*
MUPH Clinic Sub-Trust	*
MUPH Hospital Pty Limited	*
MUPH Hospital Sub-Trust	*
MUPI Holding Trust No. 1	*
MUPI Holding Trust No. 2	*

Entity Name	Website
MUPI Holding Trust No. 3	*
MUPI Holding Trust No. 4	*
MUPI Holding Trust No. 5	*
MUPI Holding Trust No. 6	*
Risk Frontiers Flood (Australia) Pty Limited	www.riskfrontiers.com
Risk Frontiers Group Pty Limited	www.riskfrontiers.com

* This entity does not have a website.

OTHER BODIES ASSOCIATED WITH THE UNIVERSITY

The following bodies associated with the University have not been reported on separately as they are not considered material by their size or the nature of their operations.

Entity Name
Macquarie University Professorial Superannuation Scheme
Sydney Educational Broadcasting Limited

Southern Cross University

AUDIT OPINION

The audits of the University and its controlled entities' financial statements for the year ended 31 December 2009 resulted in unqualified Independent Auditor's Reports.

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

KEY ISSUES

Impact of the global financial crisis

The impact of the global financial crisis on the University's investments was minimal as all investments were in term deposits.

Liabilities for superannuation decreased to \$30.7 million (\$40.2 million at 31 December 2008). The Australian Government funds the majority of these liabilities, which has minimised the impact on the operating result.

Aging of academic staff

I recommend that the University review the effectiveness of its policies in managing its aging workforce.

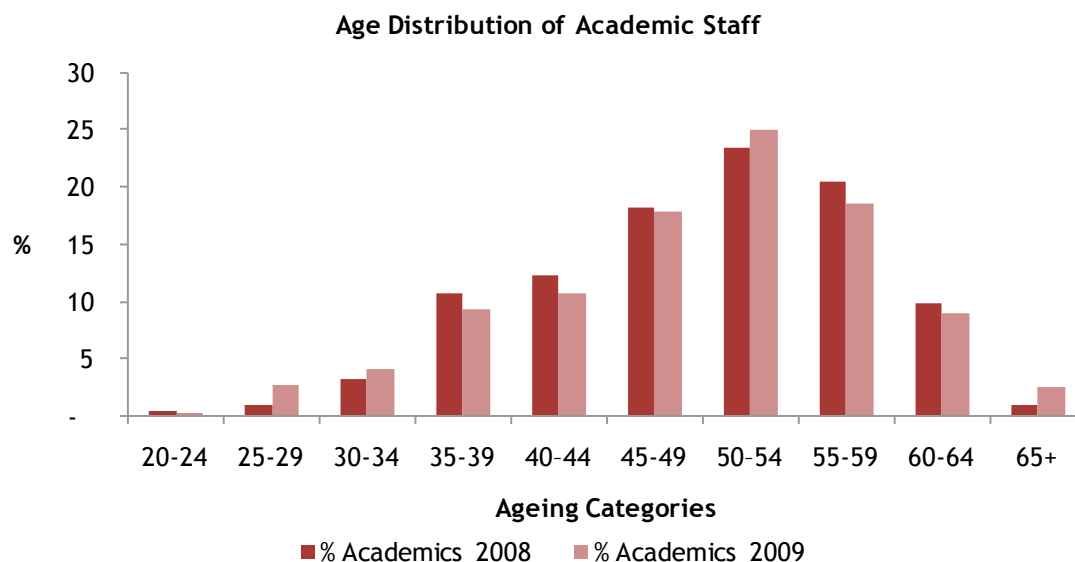
The University is facing challenges from the potential loss of a large number of retiring academic staff as supported by the following University statistics:

- 30 per cent are over aged 55 years and over
- 55 per cent are over aged 50 years and over.

Ageing profile

As at 31 December Age Group	2009		2008	
	Academics FTE	%	Academics FTE	%
Up to 49	142.6	45	351.9	69
50-54	79.4	25	80.1	16
55-59	58.5	18	62.4	12
60-64	28.2	9	12.9	2
65+	8.3	3	4.0	1
Total	317.0	100	511.3	100

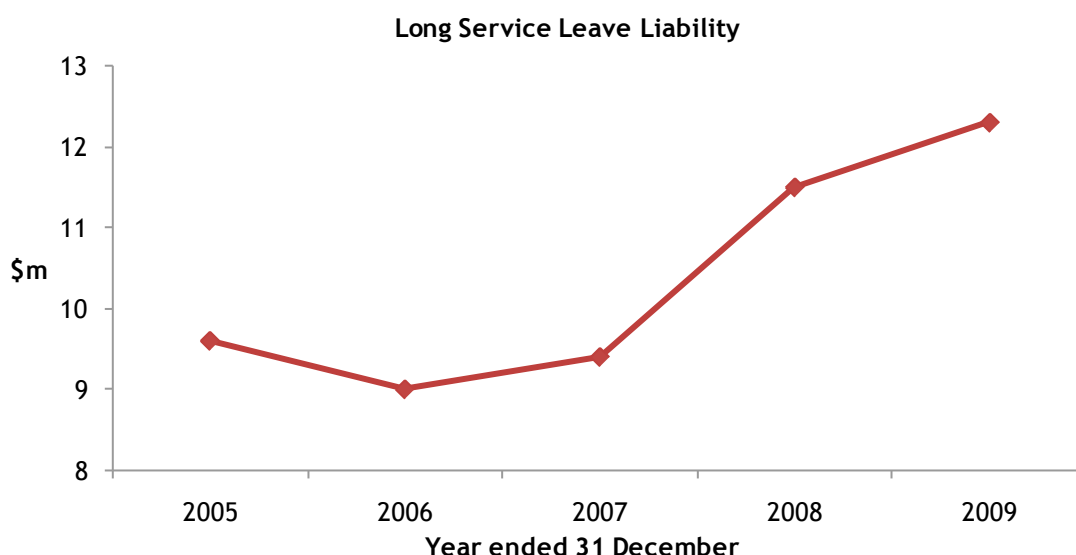
Source: Southern Cross University (unaudited)
FTE: Full time equivalents



To ensure there is an adequate supply of academic staff in the future the University advised that it actively monitors its workforce, including the age of its staff, and has implemented various strategic workforce planning initiatives, which it believes will address the ageing workforce risks.

Long Service Leave Liability

Increasing long service leave liabilities raises funding challenges for the University. Long service leave liabilities have increased by 30.9 per cent over the past three years to \$12.3 million in 2009 (\$11.5 million in 2008).



The increase in the liability from 2007 to 2008 resulted from a growth in entitlements plus the impact of a reduced Government bond rate used as the discount factor in calculating the present value of the liability. The reduced Government bond rate resulted from the global financial crisis.

Although the University has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities as they fall due. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the aging workforce. The University has advised that it holds adequate cash reserves to fully cover long service leave liabilities. In addition it also has a new 'direction to take leave' provision in the proposed Enterprise Bargaining Agreement, which will facilitate more effective management of long service leave.

Excessive annual leave balances

I recommend that the University continues to monitor and manage excessive annual leave balances. Strategies adopted to reduce the number of employees with excessive leave balances should continue during 2010.

Employees with annual leave balances in excess of 40 days remains high with 87 employees at 31 December 2009 compared to 101 employees at 31 December 2008.

The accumulation of excessive annual leave entitlements results in increased financial cost to the University because these entitlements are paid out at higher salary rates in the future and may have occupational health and safety implications. The University has advised that it is developing a new system generated report, supplemented by quarterly advice, to staff and supervisors highlighting the excess annual leave balances. It also has a new 'direction to take leave' provision in the proposed Enterprise Bargaining Agreement, which the University considers will facilitate more effective management of annual leave balances.

PERFORMANCE INFORMATION

(Comparative performance data on all universities appears in the 'Universities Overview' section earlier in this Volume. The information shown below is based on consolidated financial statements.)

The University's current ratio (a measure of its financial liquidity) was 1.5 at 31 December 2009, down from the previous year's ratio of 2.9. At this level, it is higher than the State average of 1.4 (1.5 at 31 December 2008). It is also within the Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) 'good practice' parameter of 1.5 to 3.0.

Australian Government grants, as a percentage of operating revenue decreased from 45.4 per cent in 2008 to 44.5 per cent in 2009. This is still higher than the State average of 41.6 per cent (41.2 per cent in 2008), but still below the DEEWR 'good practice' parameter of no more than 50 per cent.

Employee benefits and on-costs, as a percentage of operating revenue, increased from 54.8 per cent in 2008 to 55.9 per cent in 2009. This is higher than the State average of 53.4 per cent (55.9 per cent) and within the DEEWR 'good practice' parameter of 50 per cent to 70 per cent.

The University's operating result for the year was 1.4 per cent of total revenue (8.3 per cent). This was the lowest return on total revenue of all universities and well below the State average of 8.1 per cent (negative 1.4 per cent).

OTHER INFORMATION

Capital works

Construction of the new Gold Coast campus commenced in 2008. The foundation building, costing \$19.7 million, was opened in February 2010 and represents the first phase of the campus master plan. The construction costs were supported by a \$7.7 million contribution from the Australian Government. The major development plan for a second building on the site (for the provision of additional teaching spaces and student facilities) was approved in November 2009. At 31 December 2009, \$2.4 million had been spent on initial planning for this second building.

Proposed National University

As part of its response to the Bradley report on Higher Education in March 2009, the Australian Government funded a \$2.0 million feasibility study for the creation of a new national university. The proposal is that the new university will include Southern Cross University and Charles Sturt University as foundation partners with a possible inclusion of a third interstate university.

The draft Needs Analysis under this study was considered by the Councils of Charles Sturt University and Southern Cross University on 3 July 2009. Southern Cross University subsequently announced that they did not wish to participate in the proposed national university. The University further advised that, of the \$2.0 million allocated, approximately \$579,000 was spent on the feasibility study with the remainder having been returned to the Government.

Improvement Opportunities

We identified potential opportunities for the University to improve existing procedures. We will discuss these with University staff and where appropriate report them to management. The more significant areas related to the classification of leases, quality control over preparation of the financial statements, legislative compliance, accuracy of long service leave records, accumulation of annual leave, and some aspects impacting the University's general computer control environment.

FINANCIAL INFORMATION

The consolidated financial information includes the financial statements of the University and its controlled entities.

Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Australian government grants	72,962	70,445	72,962	70,445
Higher Education Contribution Scheme	36,764	31,302	36,764	31,302
Fees and charges	25,622	24,351	25,419	24,168
Other	28,716	29,120	28,441	28,353
TOTAL REVENUE	164,064	155,218	163,586	154,268
Employee benefits and on-costs	91,938	83,866	91,198	83,180
Depreciation and amortisation	6,090	5,687	6,083	5,676
Other	63,972	51,591	63,315	51,078
TOTAL EXPENSES	162,000	141,144	160,596	139,934
SURPLUS	2,064	14,074	2,990	14,334
OTHER COMPREHENSIVE INCOME				
Net actuarial gains/(losses) recognised in respect of defined benefit superannuation plans	260	(1,252)	260	(1,252)
TOTAL COMPREHENSIVE INCOME	2,324	12,822	3,250	13,082

Funding received from the Australian Government, Higher Education Contribution Scheme and Fees and Charges rose due to an increased number of students in 2009. The equivalent full-time student load increased from 5,781 for 2008 to 6,541 for 2009.

Employee benefits and on-costs rose because of increases in staff numbers, award rates and employee leave entitlements.

The increase in student and staff numbers primarily resulted from the expected opening of the Gold Coast campus. Enrolments for the campus were taken in 2009. Students were initially admitted to the Tweed Heads campus with the intention of transferring them to the new Gold Coast campus on completion of the foundation building.

Enhancements to student facilities across the campuses resulted in increases in other expenses, such as non-capital equipment purchases, operating lease rental expenses, property facility costs and repairs and maintenance.

Abridged Statement of Financial Position

At 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	58,225	75,925	57,946	75,295
Non-current assets	211,314	196,423	204,928	189,522
TOTAL ASSETS	269,539	272,348	262,874	264,817
Current liabilities	38,484	34,100	38,295	33,958
Non-current liabilities	32,798	42,315	32,785	42,315
TOTAL LIABILITIES	71,282	76,415	71,080	76,273
NET ASSETS	198,257	195,933	191,794	188,544

The construction of the new Gold Coast campus reduced current asset cash reserves, increased current liabilities for capital accruals and resulted in an increase in non-current assets.

Non-current liabilities decreased following an actuarial valuation of superannuation liabilities.

UNIVERSITY ACTIVITIES

The University is constituted under the *Southern Cross University Act 1993*. It mainly:

- provides educational facilities of university standard having particular regard to the needs of the north coast region of the State
- preserves, extends and disseminates knowledge through scholarship, research, creative works consultancy and internal and external teaching.

For further information on the University, refer to www.scu.edu.au.

CONTROLLED ENTITIES

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

Entity Name	Website
Australian Plant DNA Bank Limited	www.dnabank.com.au
Biobank Pty Limited	www.biobank.com
Norsearch Limited	www.norsearch.scu.edu.au

The University of Sydney

AUDIT OPINION

The completed audits of the University and its continuing controlled entities' financial statements, for the year ended 31 December 2009 resulted in unqualified Independent Auditor's Reports.

The audits of two controlled entities are incomplete. Further details on the University's controlled entities appear later in this comment.

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

KEY ISSUES

Impact of the global financial crisis

Last year, the global financial crisis and volatility in financial markets significantly impacted the University's investment values. This year, the financial markets improved and the value of investments increased by six per cent (\$50.0 million), from \$877 million to \$927 million at 31 December 2009.

The University recorded an operating surplus of \$69.1 million in 2009, compared to an operating loss of \$167 million in 2008. The major contributor to the loss was an impairment expense of \$211 million, representing the decline in the value of equity investments. This year, the impairment expense is \$8.5 million, which is primarily due to the value of some equity investments remaining below cost for a prolonged period.

Last year the global financial crisis also significantly impacted superannuation investment earnings and benefit valuations. As the economic conditions improved in 2009, superannuation liabilities decreased from \$797 million in 2008 to \$680 million in 2009.

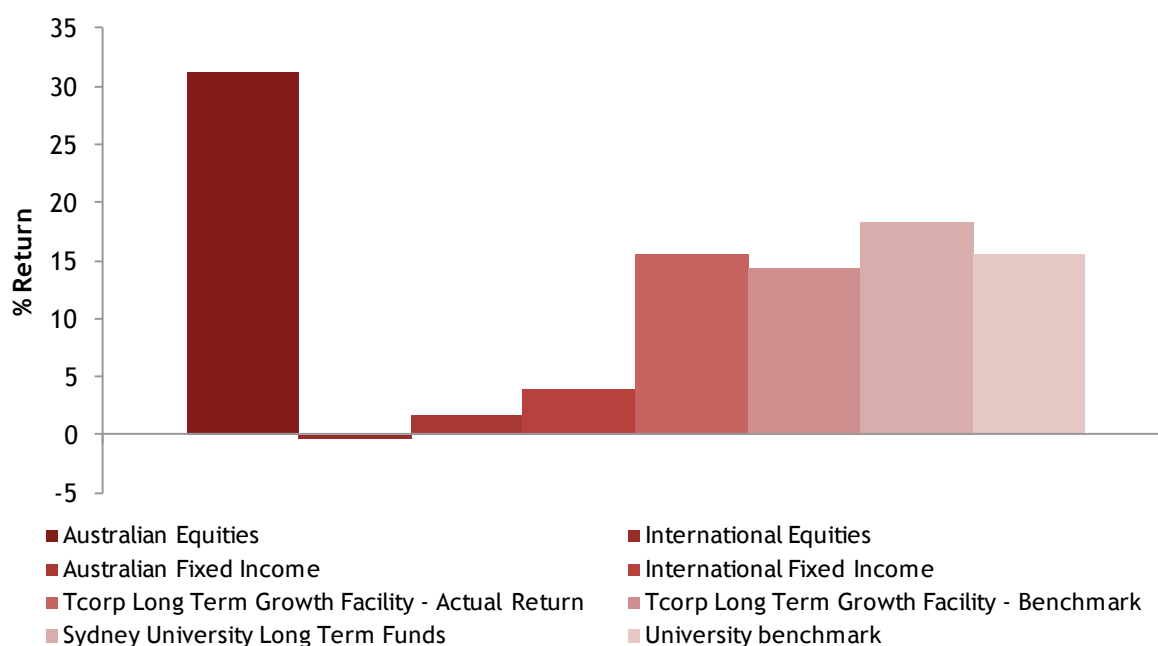
Investment Performance

The University's long term investment portfolio performed 2.7 per cent better than its performance benchmark. Equity returns improved significantly, while fixed income investments provided smaller returns than last year. Better portfolio returns were achieved in 2009 by tilting the portfolio asset allocation towards traditional growth assets (equity) and away from defensive assets (fixed income).

The University's investment funds are divided into short term and long term portfolios. As at 31 December 2009, \$830 million of a total \$927 million in financial assets (excluding receivables) were in long term funds. The long term funds have an investment time horizon of more than seven years and comprise mainly bequest and endowment funds. Short term funds mainly comprise operational working capital and capital development funds and have a time horizon of less than one year.

The graph below contrasts the University's long term investment portfolio performance against key asset sector movements and the University's performance benchmark.

Asset Sector and Portfolio Performance - 2009



Capital Expenditure Program

Capital expenditure in 2009 totalled \$151 million. During the year, the University completed its major capital project, Campus 2010, at a total cost of \$270 million. Significant works for the future include the development of the Centre of Obesity, Diabetes and Cardiovascular Disease (\$385 million), the Centre for Sustainable Land Futures at Camden and the Clinical Education Centre at Concord Clinical School.

The University's capital works program for 2010 totals \$169 million and is designed to:

- improve its infrastructure and address backlog maintenance
- provide suitable accommodation for students and staff
- replace outdated facilities with modern teaching and research facilities
- develop a proactive asset development program.

The University is seeking to fund this program through government grants, operating surpluses and borrowings.

Maintenance expenditure in 2009 was \$53.6 million (\$50.4 million in 2008), an increase of 6.3 per cent. This has contributed to a decline in backlog maintenance from \$500 million in 2008 to \$411 million in the current year.

Ageing of Academic Staff

I recommend the University review the effectiveness of its policies in managing its ageing workforce.

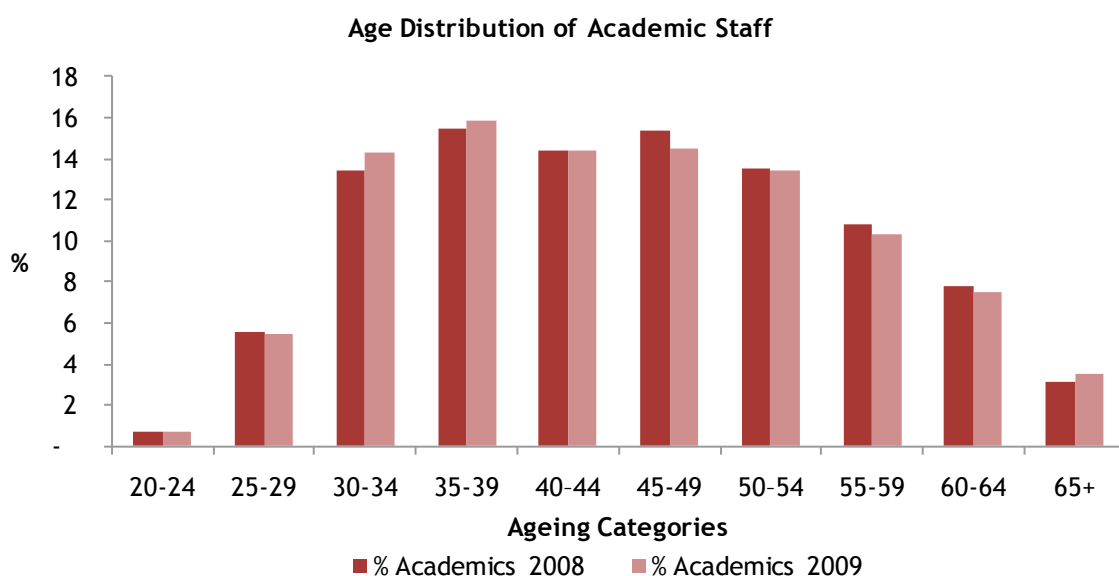
The University faces challenges from the potential loss of a large number of retiring academic staff as supported by the following University statistics:

- 22 per cent are aged 55 years and over
- 35 per cent are aged 50 years and over.

As at 31 December Age Group	2009		2008	
	No. of Academics	%	No. of Academics	%
20 - 49	1,965	65	1,857	65
50 - 54	406	13	386	13
55 - 59	311	10	310	11
60 - 64	227	8	222	8
65+	107	4	89	3
Total	3,016	100	2,864	100

Source: Information provided by Sydney University (Unaudited)

The graph below further demonstrates the age structure of academics.

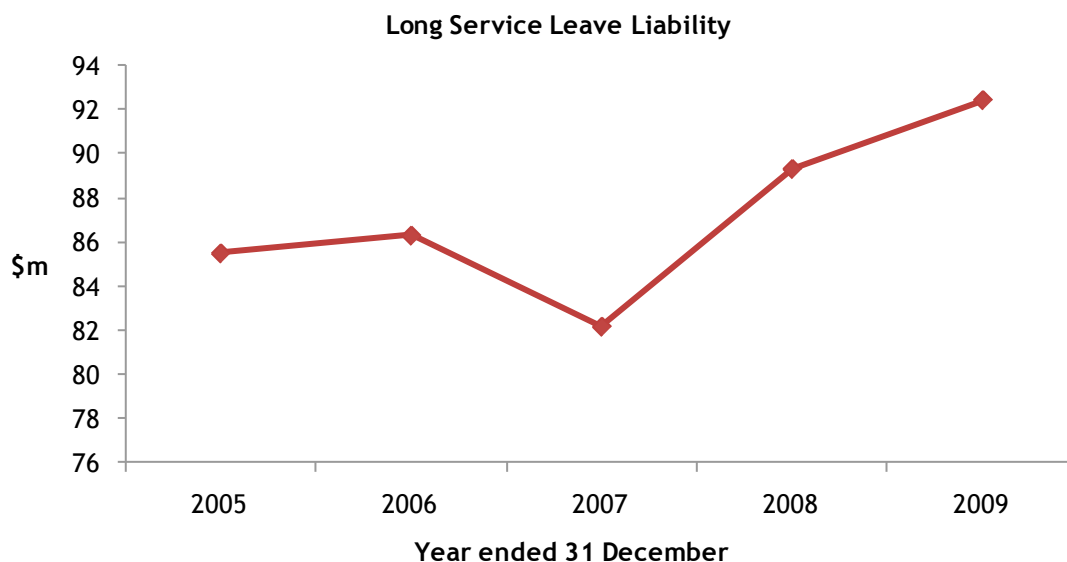


Source: Information provided by Sydney University (Unaudited)

To ensure an adequate supply of academic staff in the future, the University should actively monitor its workforce age profile and have strategies in place to develop, attract and retain staff whose skills are aligned with the strategic direction of the University.

Long Service Leave Liability

Increasing long service leave liabilities create funding challenges for the University. Long service leave liabilities have increased by 8.1 per cent over the past five years to \$92.4 million in 2009 (\$85.5 million in 2005).



Source: University of Sydney Audited Financial Statements

The increase in the liability from 2007 to 2008 resulted from a growth in entitlements plus the impact of a reduced Government bond rate used as the discount factor in calculating the present value of the liability. The reduced Government bond rate resulted from the global financial crisis.

Although the University has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities. This will be compounded as other liabilities arise from the pending retirement of a significant portion of its ageing workforce.

Employment of Contractors

I recommend the University create and maintain a single record of all contractors engaged by it.

The University should also periodically review the roles and responsibilities of all its contractors to ensure:

- its reliance on contractors is not excessive
- use of a contractor instead of a permanent employee is appropriate
- contractors do not become de facto employees by virtue of being with the University for an extended period of time
- use of a contractor continues to represent good value for money.

The University does not maintain a single, complete and detailed listing of all contractors it has engaged during the year. It uses a decentralised approach to engage and record contractors.

The University was unable to provide the following information as at 31 December 2009:

- the cost of contractors engaged
- the number of contractors engaged
- the period of service of contractors engaged.

The retention of contract employees for extended periods may result in additional costs to the University. The University should review its practices relating to contract employees to ensure they are appropriate to achieve desired outcomes and comply with employment related legislation.

The University has advised that it centralised the recruitment of contractors in early 2010 and that other planned initiatives will further centralise contractor management.

Excessive Annual Leave Balances (Repeat Issue)

I recommend the University establish individual staff plans to reduce excessive leave balances within an acceptable timeframe.

Out of its total workforce of 7,077 people, 1,575 people (22 per cent) had annual leave balances in excess of the maximum thresholds allowed under the University's leave policy. This breach of policy results in additional costs as remuneration levels increase over time and can lead to workforce health declining because staff are not taking sufficient breaks from work.

While the overall number of staff with annual leave balances in excess of the maximum threshold reduced this year by 21, the number of academic staff with leave balances in excess of 60 days has increased by 20 to 199. The University's leave policy for academic staff allows a maximum balance of 20 days annual leave.

The current measures to reduce leave balances, particularly those at the high end of the excessive leave range (i.e. >60 days), need to continue. Leave plans that reduce balances to acceptable levels within policy limits and agreed timeframes should be implemented.

University Superannuation

In 2006, the University identified an underpayment of past employer superannuation contributions for some current and past employees. The University has determined the full financial impact of the underpayments and identified the individuals affected. The initial estimate of the underpayment to the UniSuper scheme of \$7.5 million has been provided for in previous financial statements.

The liability as at 31 December 2009 has reduced to \$3.6 million and the University has advised that the issue has been resolved in March 2010.

Valuation of Heritage Assets

Last year I recommended the University undertake a comprehensive valuation of its Macleay Museum collection assets, as the last comprehensive valuation was performed over ten years ago. Accounting standards require non-current assets to be valued as frequently as required to ensure the assets are disclosed at fair value. This matter has been resolved, with the University on schedule with its plan to comprehensively value the Macleay museum over two years.

PERFORMANCE INFORMATION

(Comparative performance data on universities appears in the 'Universities Overview' section earlier in this Volume. The information shown below is based on consolidated financial statements.)

The University's current ratio (a measure of its financial liquidity) was 0.7 at 31 December 2009, an increase on the previous year's ratio of 0.5. At this level, it is still below the State average of 1.4 (1.5 at 31 December 2008) and below the Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) 'good practice' parameter 1.5 to 3.0. However, the University has non-current available for sale investments, a significant amount of which could be realised at short notice.

Australian Government grants, as a percentage of operating revenue, remained steady at 43.7 per cent in 2009. It is now higher than the State average of 41.6 per cent (41.2 per cent in 2008) but still within the DEEWR 'good practice' parameter of no more than 50 per cent.

Employee Benefits and on-costs, as a percentage of operating revenue, decreased from 59.0 per cent in 2008 to 57.2 per cent in 2009. This is above the State average of 53.4 per cent (55.9 per cent) but within the DEEWR 'good practice' parameter of 50 per cent to 70 per cent.

Higher education contributions, as a percentage of total revenue, decreased from 10.9 per cent in 2008 to 10.1 per cent in 2009. This represents the equal lowest contributions of all universities and is significantly below the State average of 14.5 per cent (14.8 per cent).

The University's operating surplus for the year was \$69.1 million, or 5.0 per cent of total revenue (negative 13.0 per cent). This is well below the State average of 8.1 per cent (negative 1.4 per cent).

FINANCIAL INFORMATION

The consolidated financial information includes the financial statements of the University and its controlled entities.

Abridged Statement of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Australian Government grants	609,854	564,514	609,854	564,514
Higher Education Contribution Scheme	140,856	141,339	140,856	141,339
Fees and charges	321,901	291,480	321,861	291,480
Other	322,443	293,531	319,712	293,411
TOTAL REVENUE	1,395,054	1,290,864	1,392,283	1,290,744
Employee benefits and on-costs	797,378	761,926	793,908	760,609
Depreciation and amortisation	62,631	52,465	62,468	52,453
Other	457,448	433,346	456,577	432,615
Impairment of available-for-sale assets	8,448	210,520	8,448	210,520
TOTAL EXPENSES	1,325,905	1,458,257	1,321,401	1,456,197
SURPLUS/(DEFICIT)	69,149	(167,393)	70,882	(165,453)
OTHER COMPREHENSIVE INCOME:				
Change in fair value of available for sale financial assets	60,478	18,638	60,478	18,638
Gain on revaluation of land and buildings	8,618	26,357	8,618	26,357
Other gains/(losses)	(6,771)	7,189	(6,775)	7,070
TOTAL OTHER COMPREHENSIVE INCOME	62,325	52,184	62,321	52,065
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	131,474	(115,209)	133,203	(113,388)

Australian Government Grants increased by 8 per cent in line with the increase in student numbers. Fees and charges increased by \$30.4 million primarily due to an increase in fee paying overseas students.

Employee benefits and on-cost expenses increased by 5 per cent due to increased staff numbers, salary increases, and increased costs associated with University funded superannuation benefits.

The impairment expense of \$8.4 million is significantly lower than the prior year expense of \$211 million. This is primarily due to the recovery in the value of equity investments mentioned earlier.

Abridged Statement of Financial Position

At 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	211,692	131,189	216,375	133,192
Non-current assets	4,065,918	4,083,766	4,051,908	4,070,798
TOTAL ASSETS	4,277,610	4,214,955	4,268,283	4,203,990
Current liabilities	347,793	301,852	347,677	301,795
Non-current liabilities	699,988	814,749	699,952	814,745
TOTAL LIABILITIES	1,047,781	1,116,601	1,047,629	1,116,540
NET ASSETS	3,229,829	3,098,354	3,220,654	3,087,450

Current assets increased by \$80.5 million primarily due to increases in cash and investments.

The increase of \$45.9 million in current liabilities primarily relates to the University entering into a new financing arrangement. The liability for this short term loan as at 31 December 2009 was \$71.2 million (\$31.3 million).

Non-current liabilities decreased by \$115 million mainly due to a decrease in superannuation liabilities resulting from improved financial markets.

Prior to 2009 the University recognised a receivable from the Commonwealth for unfunded deferred liabilities relating to the SASS, SSS and SANCS superannuation schemes (\$773 million as at 31 December 2008). In February 2010, it was identified that the \$23.0 million liability for the SANCS scheme was not covered by the Superannuation Supplementation Scheme registered by the Commonwealth. As a result the related receivable of \$23.0 million has been reversed as at 1 January 2008.

UNIVERSITY ACTIVITIES

The University of Sydney is established by the *University of Sydney Act 1989*. The University creates, preserves, transmits and applies knowledge through teaching, research, creative work and other forms of scholarship.

For further information on the University, refer to sydney.edu.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
Bandwidth Foundry International Pty Ltd*
Institute for Magnetic Resonance Research
Sport Knowledge Australia Pty Limited^
Sydney Talent Pty Limited
SydneyLearning Pty Limited
The Bosch Institute
The Sydney Institutes of Health and Medical Research
The Warren Centre for Advanced Engineering Limited
Ucom Sixteen Pty Limited
Wayahead Pty Limited
Wentworth Annexe Limited

* Controlled entity was purchased during 2009.

^ The University acquired the remaining shares in Sport Knowledge Australia Pty Ltd on 11 June 2008. Previously this entity was an associate of the University. The previous audit of Sport Knowledge Australia Pty Limited for the year ended 30 June 2008, conducted by a private sector auditor, is incomplete. Our audit for the period to 31 December 2008 and 2009 cannot progress until the prior year audit is complete.

Two companies controlled by the University were deregistered during the year. They comprised Ucom Sixteen Pty Limited (deregistered 21 January 2009) and Institute for Magnetic Resonance Research (deregistered 14 November 2009). The Sydney Institutes of Health and Medical Research became an associate on 18 May 2009.

Audit opinions on the financial statements for Sport Knowledge Australia Pty Limited and Bandwidth Foundry International Pty Ltd have not yet been issued. The Bandwidth Foundry International Pty Ltd audit has been delayed pending the resolution of a number of issues.

Investment in Subsidiaries

I recommend that the University review the financial arrangements it has with its controlled entities to satisfy itself that an appropriate financial structure is in place to support their ongoing operations.

The following controlled entities reported net operating losses for the financial year ended 31 December 2009 (31 December 2008):

- The Warren Centre for the Advanced Engineering Limited - loss \$675,944 (surplus \$109,167)
- Sydney Learning Pty Limited - loss \$40,389 (nil)
- Sydney Talent Pty Limited - loss \$3.0 million (loss \$936,978)
- Bandwidth Foundry International Pty Ltd - unaudited loss \$88,449 (not available).

The University has provided financial guarantees to Sydney Learning Pty Limited, Sydney Talent Pty Limited, Sports Knowledge Australia Pty Limited, Bandwidth Foundry International Pty Ltd and The Warren Centre for Advanced Engineering Limited.

Write-Off of Loans to Sport Knowledge Australia Pty Ltd

Sport Knowledge Australia Pty Ltd (SKA) was established as an International Centre of Excellence in Sport, Science and Technology by way of an \$8.0 million grant from the DEEWR. It commenced operations at Sydney Olympic Park in January 2005.

SKA was initially jointly owned by the University of Sydney, the University of Technology Sydney and the Sydney Olympic Park Authority. The University of Sydney acquired 100 per cent ownership of SKA in June 2008.

SKA has consistently made losses and has been unable to generate forecast revenues. As a result the University has had to fund its operations since August 2008 by way of loans to the company.

On 26 October 2009, the SKA Board approved to wind the company up and cease operations immediately. The University approved the write off of \$1.8 million in loans to SKA.

OTHER BODIES ASSOCIATED WITH THE UNIVERSITY

The following bodies associated with the University, and audited by the Auditor-General, have not been reported on separately as they are not considered material by their size or the nature of their operations.

For further financial and other information on these entities we have listed the entities' websites.

Entity Name	Website
United States Studies Centre Limited	ussc.edu.au
University of Sydney Professorial Superannuation System	*

* This entity does not have a website

University of New England

AUDIT OPINIONS

The audits of the University and the following controlled entities' financial statements for the year ended 31 December 2009 resulted in unqualified Independent Auditor's Reports.

- Agricultural Business Research Institute
- National Marine Science Centre Pty Ltd (Joint Venture)
- Services UNE Ltd
- UNE Partnerships Pty Limited
- International Livestock Resources and Information Centre Ltd
- University of New England Sports Association
- Sport UNE Limited.

In 2009, the University recognised the UNE Foundation and its trustee, UNE Foundation Ltd, in its consolidated financial statements for the first time. The audit of the Foundation's financial statements resulted in a qualified Independent Auditor's Report as it was impractical for the Foundation to maintain an effective system of internal controls over donations it receives until their initial entry into the financial records. Accordingly, we were unable to express an opinion as to whether all donation revenues received by the Foundation were recorded.

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

KEY ISSUES

Corporate Governance

Last year, I reported that there were some governance issues affecting the University that included disagreement between the Chancellor and Vice-Chancellor over their respective roles. These disagreements led to serious divisions within the University. Subsequently, on 17 April 2009, the then Vice-Chancellor announced his retirement. A new Vice-Chancellor was appointed on 3 February 2010.

To improve the University's corporate governance, during 2009 a new Directorate was introduced into the Vice-Chancellor's Unit, the University Secretary and Legal Counsel, which oversees the Council Services Unit, the Legal Office, the Government relations Unit, Records Management and Audit and Risk; and provides advice to the Chancellor, Vice-Chancellor, members of the senior executive and senior management on governance and legal matters.

In mid 2009, the University Council undertook a comprehensive review of governance arrangements resulting in a series of recommendations. The major outcomes from that review are:

- a skills audit of current Council members has been undertaken to identify strengths and gaps in skill sets, to identify skills based training needs, and to guide Council in the recruitment and training of suitable members of the governing body
- an application was made to the New South Wales Minister for Education to amend the University's legislation to provide for the removal from office of the Chancellor or Vice-Chancellor if the Council decides on such action by a majority of two thirds at two consecutive Council meetings
- the Council is considering amending Council policies to nominate the Vice-Chancellor as the 'Principal Officer' rather than the Chancellor
- the Terms of Reference for the Finance Committee have been amended to allow it to consider defined strategic issues. The Terms of Reference have not been finalised because they are being considered further to possibly incorporate functions of the Investment Committee

- improvements are being made to the performance evaluation process of the Council and the Chancellor. This will include self review, external evaluation of performance and a peer review process
- the principle that the boards of controlled entities must include a University Council member will operate in the case of future appointments
- a review of the policies of controlled entities is in progress to assess compliance with the broader governance framework of the University and to ensure the consistency of financial reporting
- controlled entities will no longer be established without the approval of Council
- a review of the Entrepreneurial Policy is underway to ensure Council is informed of issues related to the establishment and operation of commercial activities that may affect the University's reputation.

Ageing of Academic Staff

I recommend the University review the effectiveness of its policies in managing its ageing workforce.

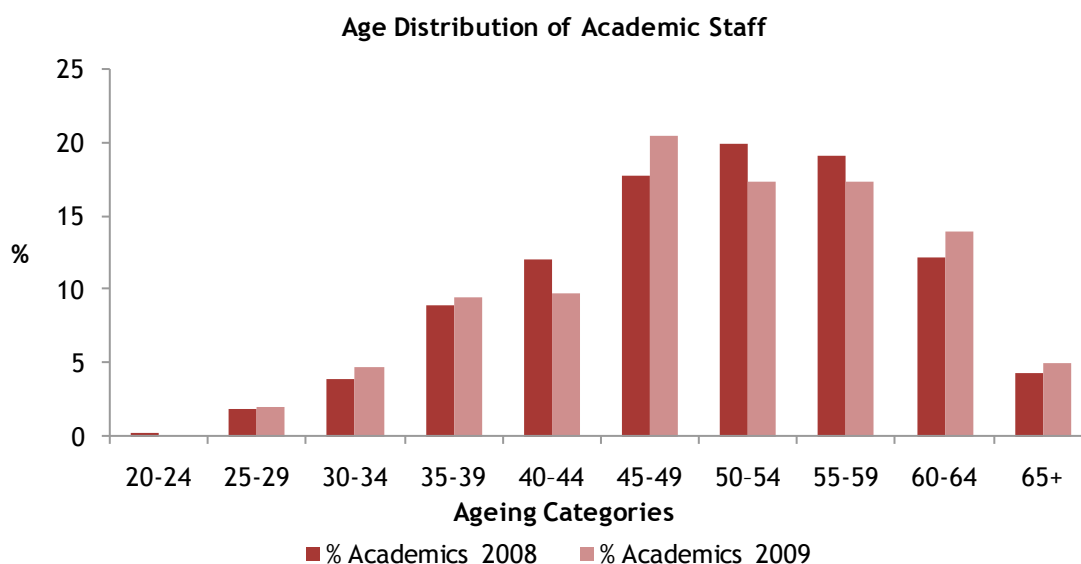
The University is facing challenges from the potential loss of a large number of retiring academic staff. University statistics below show that for academic staff:

- 36.3 per cent are aged 55 years and over
- 53.6 per cent are aged 50 years and over.

At 31 December Age Group	2009		2008	
	No. Of Academics	%	No. Of Academics	%
20-49	206	46.4	186	44.5
50-54	77	17.3	83	19.9
55-59	77	17.3	80	19.1
60-64	62	14.0	51	12.2
65+	22	5.0	18	4.3
Total	444	100	418	100

Source: University of New England (unaudited).

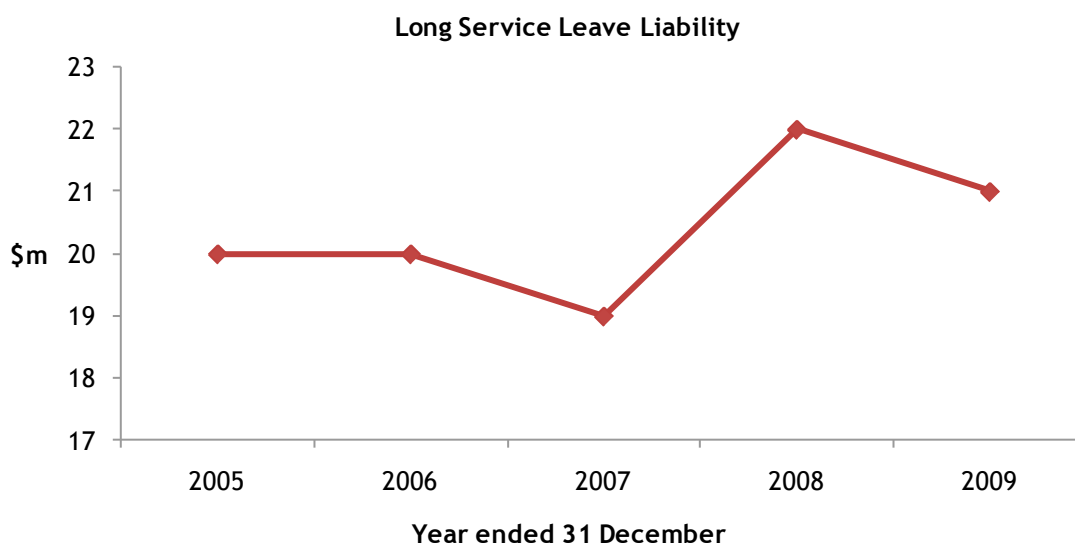
The graph below further demonstrates the age structure of academics.



To ensure an adequate supply of academic staff in the future, the University should actively monitor its workforce age profile and have strategies in place to develop, attract and retain staff whose skills are aligned with the strategic direction of the University. The University is currently considering its strategic and operational approach to workforce planning. Work is already underway in various areas across campus, but an overarching strategy needs to be developed.

Long Service Leave Liability

Long service leave liabilities were \$20.6 million in 2009 (\$21.6 million in 2008).



The liability increased between 2007 and 2008 because entitlements grew and the Government bond rate used to discount the liability fell because of the global financial crisis.

Although the University has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

Contract Employees

The University has employed a number of contractors for longer than one year. Some contract employees have been engaged for over 20 years and in one case 36 years.

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

Year end 30 June 2009	Number of contract employees		
	Academics	Non Academics	Total
Duration since contract start date			
Over 6 years	22	51	73
5 - 6 years	4	8	12
4 - 5 years	14	16	30
3 - 4 years	10	7	17
2 - 3 years	26	26	52
1 - 2 years	39	50	89
less than 1 year	29	69	98
Total	144	227	371

Source: University of New England (unaudited).

The University employs a number of staff on a contract basis to match staffing requirements to meet research and special purpose grant funding conditions, which typically have time and funding constraints. These staff are employed on a contract basis while funding is available. As new grant funding becomes available or is rolled over, contracted staff move to fulfil the requirements of new grant conditions.

The retention of contract employees for extended periods may result in additional costs to the University. This practice may also give rise to industrial relation issues. The University needs to review its practices relating to contract employees to ensure the desired outcomes are achieved and it is complying with employment related legislation.

Excessive Annual Leave Balances (Repeat Issue)

I recommend the University establish individual leave plans with employees to reduce leave balances within an acceptable timeframe.

Academic staff accrue 20 days annual leave per 12 month period and general staff accrue 25 days. The number of academic staff with annual leave balances in excess of 40 days has increased from two in 2006 to 62 in 2009. The number of general staff with leave balances in excess of 50 days has increased from nine in 2006 to 33 in 2009. The University has not implemented measures to address the increasing number of excessive annual leave balances. The University's employee agreements allow the University to direct staff to take annual leave where they have more than two years of accrued leave. Senior management of the University are yet to formulate a longer term strategy to address this issue.

PERFORMANCE INFORMATION

(Comparative performance data on universities appears in the 'Universities Overview' section earlier in this Volume. The information shown below is based on consolidated financial statements.)

The University's current ratio (a measure of its financial liquidity) was 1.8 at 31 December 2009, up from the previous year's ratio of 1.6. At this level it is above the State average of 1.4 per cent (1.5 per cent at 31 December 2008) and within the Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) 'good practice' parameter of 1.5 to 3.0.

Australian Government grants, as a percentage of operating revenue, decreased from 51.5 per cent in 2008 to 50.9 per cent in 2009. The University continues to have the highest level of reliance on Australian Government grants of all universities. Its reliance on these grants is significantly higher than the State average of 41.6 per cent (41.2 per cent in 2008) and it still exceeds the DEEWR 'good practice' parameter of no more than 50 per cent. Measures adopted by the University aimed at improving the ratio include actively restructuring course offerings to attract additional full fee paying students and offering University programs in conjunction with new partnership providers.

Employee benefits and on-costs, as a percentage of operating revenue, decreased from 58.1 per cent in 2008 to 57.8 per cent in 2009. This is higher than the State average of 53.4 per cent (55.9 per cent), but within the DEEWR 'good practice' parameter of 50 per cent to 70 per cent.

Higher education contributions as a percentage of total revenue increased from 19 per cent in 2008 to 19.3 per cent in 2009. This is above the State average of 14.5 per cent (14.8 per cent).

The University's operating surplus for the year was \$9.8 million or 4.5 per cent of total revenue (3.4 per cent). This return is below the State average of 8.1 per cent (negative 1.4 per cent).

OTHER INFORMATION

We identified opportunities for improvement in internal controls and have reported them to management.

Capital Expenditure Program

Capital expenditure in 2009 totalled \$12.7 million (\$20.4 million). During 2009, three original blocks of the Mary Wright College continued to undergo extensive refurbishment at a cost of approximately \$5.0 million. Expressions of interest are currently open for the design of the Wright Village upgrade.

The University's capital works program for the period 2010 to 2014 exceeds \$138 million. The University is seeking to fund this program through government grants and operating surpluses. The University's primary focus is to invest in areas that will support an increase in student numbers, to maximise space utilisation, to manage the demolition of unsuitable buildings and to manage the environment appropriately.

The University estimates its total deferred maintenance at \$75.8 million (\$73.4 million). Much of the deferred maintenance lies within the University's residential colleges and longer term strategies are currently being investigated to address the deferred maintenance issues in this area. In other areas, a systematic upgrading of infrastructure is planned over the coming years from a focussed effort to improve operating margins.

Voluntary Student Unionism

The University contributed \$775,000 (\$722,000) to controlled entities to fund services previously funded by student organisations prior to the introduction of Voluntary Student Unionism.

FINANCIAL INFORMATION

The consolidated financial information includes the financial statements of the University and its controlled entities.

Abridged Statement of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Australian Government grants	111,114	110,275	111,114	110,275
Higher Education Contribution Scheme	42,216	40,752	42,216	40,752
Fees and charges	34,127	40,877	34,127	31,764
Other	31,003	22,268	15,790	16,754
TOTAL REVENUE	218,460	214,172	203,247	199,545
Employee benefits and on-costs	123,472	124,407	114,519	115,430
Depreciation and amortisation	13,216	13,141	12,345	12,182
Other	69,164	69,384	65,452	64,042
Deferred expense - superannuation	2,845	--	2,845	--
TOTAL EXPENSES	208,697	206,932	195,161	199,654
SURPLUS	9,763	7,240	8,086	7,891
OTHER COMPREHENSIVE INCOME				
Loss on revaluation of land and buildings	(156)	(5,619)	(138)	(7,410)
Other comprehensive income/(expense)	(840)	(300)	291	(282)
TOTAL COMPREHENSIVE INCOME	8,767	1,321	8,239	199

The \$4.3 million increase in total revenue largely reflects an increase in the number of full time student enrolments from 8,885 in 2008 to 9,060 in 2009. In 2009, the University reported the revenue of its controlled entities as 'Other' revenue whereas this revenue was partly reported in 'Fees and charges' in 2008. The University believes this change in classification more accurately reflects the nature of the transactions.

Abridged Statement of Financial Position

At 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	73,442	62,701	56,668	52,918
Non-current assets	379,961	409,897	365,631	393,282
TOTAL ASSETS	453,403	472,598	422,299	446,200
Current liabilities	54,678	53,434	49,990	49,975
Non-current liabilities	152,085	185,001	151,896	184,051
TOTAL LIABILITIES	206,763	238,435	201,886	234,026
NET ASSETS	246,640	234,163	220,413	212,174

The increase in current assets was largely due to the University consolidating UNE Foundation as a controlled entity for the first time in 2009. The Foundation had cash assets of \$5.2 million.

The decrease in non-current assets and non-current liabilities largely reflects a reduction in superannuation liabilities resulting from improvements in financial markets. In 2009, the net defined benefit superannuation liability decreased by \$26.2 million.

UNIVERSITY ACTIVITIES

The University is constituted under the *University of New England Act 1993*. It:

- provides facilities for education and research at university standard
- disseminates and increases knowledge
- provides courses of study across a range of fields, and carries out research to meet community needs
- participates in public discourse
- confers degrees of Bachelor, Master and Doctor and awards diplomas and other certificates
- provides teaching and learning that engage with advanced knowledge and inquiry, and
- develops and provides cultural, sporting, professional, technical and vocational services to the community.

For further information on the University, refer to www.une.edu.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	Website
Agricultural Business Research Institute	www.abri.com.au
International Livestock Resources and Information Centre Ltd	www.ilric.com
Services UNE Ltd	www.servicesune.com.au
UNE Partnerships Pty Limited	www.unepartnerships.edu.au
UNE Foundation Ltd	*
UNE Foundation	*
University of New England Sports Association	www.une.edu.au/sportune
Sport UNE Limited	www.une.edu.au/sportune

* This entity does not have a website.

OTHER BODIES ASSOCIATED WITH THE UNIVERSITY

The following bodies associated with the University have not been reported on separately as they are not considered material by their size or the nature of their operations.

Entity Name	Website
National Marine Science Centre Pty Ltd	www.nmsc.edu.au
University of New England Professorial Superannuation Fund	*

* This entity does not have a website.

During 2009, the University Council agreed to transfer UNE's 50 per cent share of National Marine Science Centre Pty Ltd to the other joint venture partner, Southern Cross University, to allow UNE to redirect its strategic focus to its core strengths in regional and rural sciences. The sale is expected to be completed during 2010.

University of New South Wales

AUDIT OPINIONS

The audits of the University and its controlled entities' financial statements for the year ended 31 December 2009 resulted in unqualified Independent Auditor's Reports for 22 entities (including the parent) and a qualified Independent Auditor's Report for three entities.

I issued qualified Independent Auditor's Reports for UNSW Hong Kong Foundation Limited, UNSW & Study Abroad - Friends and U.S. Alumni, Inc and UNSW Foundation Trust. As is common for organisations of this type, it is impractical for these entities to maintain effective systems of internal control over donation revenues they receive until initial entry in the financial records. I was therefore unable to express an opinion as to whether all donations have been recorded in the respective financial records. The Independent Auditor's Reports for the year ended 31 December 2008 were similarly qualified for all three entities.

At the time of finalising this report, the audit of only one entity in the group was incomplete. This is a significant improvement over prior years. My audit of UNSW Hong Kong Limited is ongoing due to uncertainty over the accounting treatment for taxation and cost recoveries. Management engaged experts and are considering a report on the matters.

	2009	2008	2007	2006
Incomplete audits	1	3	8	20

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

KEY ISSUES

Singapore Campus - UNSW Asia (Repeat Issue)

I recommend the University finalise a framework to identify and manage foreign exchange and interest rate exposures to minimise losses.

Last year, I recommended that the University develop a framework to identify and manage foreign exchange and interest rate exposures to minimise losses. The University has now hedged the outstanding Singapore Economic Development Board (EDB) grant balance of SGD8.9 million (AUD\$7.2 million), which is the University's most significant financial liability exposed to foreign exchange risk.

Following the closure of UNSW Asia, the University signed a settlement agreement in December 2007 with EDB, the Government of the Republic of Singapore, the JTC Corporation and UNSW Asia. This resulted in the University assuming UNSW Asia's liabilities and closure costs, including an ANZ Bank loan, an EDB loan and a grant repayable to the EDB. UNSW Asia was liquidated on 19 October 2009 and dissolved on 22 January 2010.

The University has advised that a comprehensive analysis of foreign exchange exposures has recently been completed and a new approach to foreign exchange risk management is currently being implemented. The implementation process involves identifying, recording and managing all material foreign exchange exposures in accordance with a Treasury risk management policy. The policy and related processes and procedures are being drafted.

A framework for monitoring, benchmarking and reporting interest rate risk has been developed and implemented. Further work is being completed to enhance interest rate risk management through budgeting and reporting of interest income. A policy is being drafted which will detail interest rate risk management practices.

Impact of the Global Financial Crisis

I recommend the University finalise its longer term cash flow forecast model to minimise the risk of not meeting operating and capital expenditure commitments and other liability obligations.

Last year, I recommended the University continue to closely monitor its cash flow requirements to ensure it is able to fund its operating and capital expenditure commitments and meet other liability obligations.

The University advised it has completed the review to improve the monitoring and reporting of cash flow requirements. A three month cash flow forecast has been developed and implemented. A longer term cash flow forecast is being developed, which will further advance the University's cash flow management.

The fair value of investments declined significantly during 2008, predominantly due to the global financial crisis. Declines of \$68.1 million and \$91.0 million for the University and the Group, respectively, were recognised as impairment expenses in the Income Statement. In 2009, the fair value of the University's investments recovered by \$35.5 million and the Group's recovered by \$43.4 million. However, some investments were further impaired by \$4.1 million for the University and \$4.6 million for the Group.

The University's long-term investment fund has recovered and performed well during the year but the short-term working fund still continued to underperform against its benchmark:

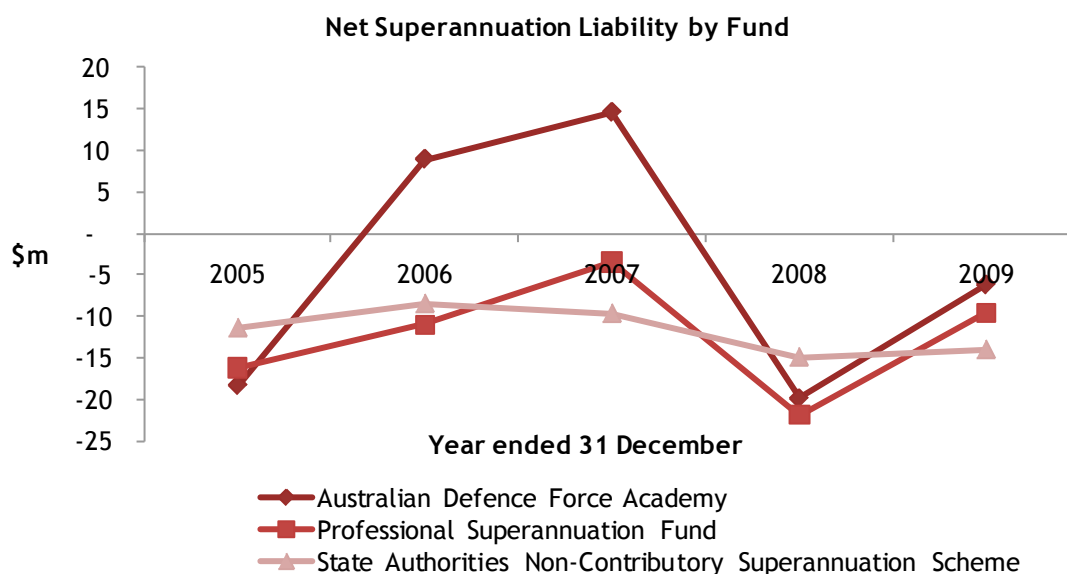
Fund	2009		2008		2007	
	University Return	Benchmark Facility Return	University Return	Benchmark Facility Return	University Return	Benchmark Facility Return
	%	%	%	%	%	%
Long-term	20.26	13.74	(17.06)	(15.75)	7.08	5.06
Short-term	3.46	3.79	4.27	7.62	5.90	6.55

Source: University of New South Wales (unaudited).

Superannuation Liabilities

Another significant impact of the global financial crisis was on superannuation investment earnings and benefit valuations.

Defined benefit superannuation liabilities decreased from \$789 million in 2008 to \$687 million in 2009. This represents a partial recovery from the \$419 million increase in superannuation liabilities in 2008. The Australian Government will fund the majority of these liabilities, which has minimised the impact on the University's operating result. However, the University is responsible for funding three defined benefit superannuation funds and, as at 31 December 2009, the combined liability for these three funds was \$29.8 million (\$58.3 million). The trend for these liabilities over the last five years has been:



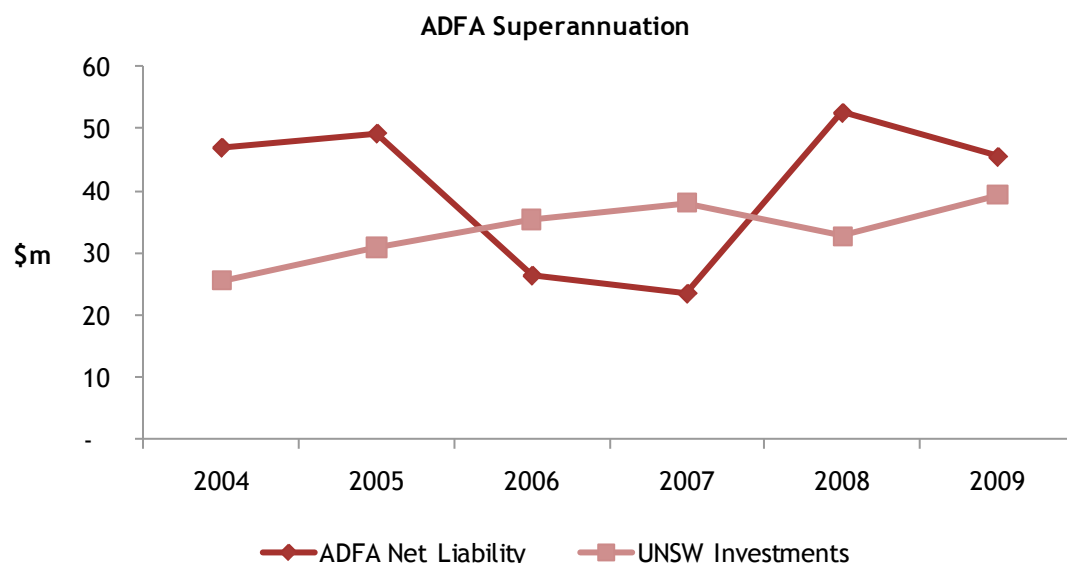
Source: University of New South Wales financial statements (audited).

Australian Defence Force Academy (ADFA) Superannuation

In 2006, I reported that the University planned to transfer investments it was holding to fund superannuation liabilities of ADFA employees to the State Superannuation Scheme (SSS Fund). The University has now considered this and resolved to retain the funds. In January 2010, the University and the Australian Government signed a new Transition Out agreement for funding the net ADFA defined benefit superannuation liability.

In 2004, the University reached agreement with the Australian Government for funding superannuation liabilities of ADFA employees transferred to the University when ADFA became a University college. In December 2004, the Australian Government paid the University \$25.5 million for those liabilities. Since then it has been the University's obligation to fund current and future liabilities.

As shown below, investments to fund the ADFA superannuation liabilities had grown by \$13.8 million in 2004 to \$39.3 million at 31 December 2009. These funds are externally managed as part of the University's pool of general investments. The ADFA superannuation liability at 31 December 2009 was \$45.5 million (\$52.6 million), leaving a net liability at 31 December 2009 of \$6.2 million (\$19.9 million).



Source: University of New South Wales financial statements (audited).

Excessive Annual Leave Balances (Repeat Issue)

I recommend the University establish individual plans with employees to reduce excessive leave balances within an acceptable timeframe.

Out of a total of 5,206 employees, 710 (13.6 per cent) at 31 December 2009 (683 and 13.5 per cent), held annual leave balances in excess of the maximum thresholds allowed under the University's leave policy. While the total number of employees with excess annual leave balances only increased by 27 in 2009, academic staff with excess annual leave balances increased by 89 (281 increase in 2008), from 412 to 501. This results in additional expense to the University as employee remuneration levels increase over time, and can lead to workplace health declining as employees are not taking sufficient breaks from work.

The University's management advised that changes to the industrial relations legislation, that took effect from 1 January 2010, will give the University greater flexibility in directing employees to take their annual leave. Management has also approved a new approach to managing employees with high leave balances.

Ageing of Academic Staff

I recommend the University review the effectiveness of its policies in managing its ageing workforce.

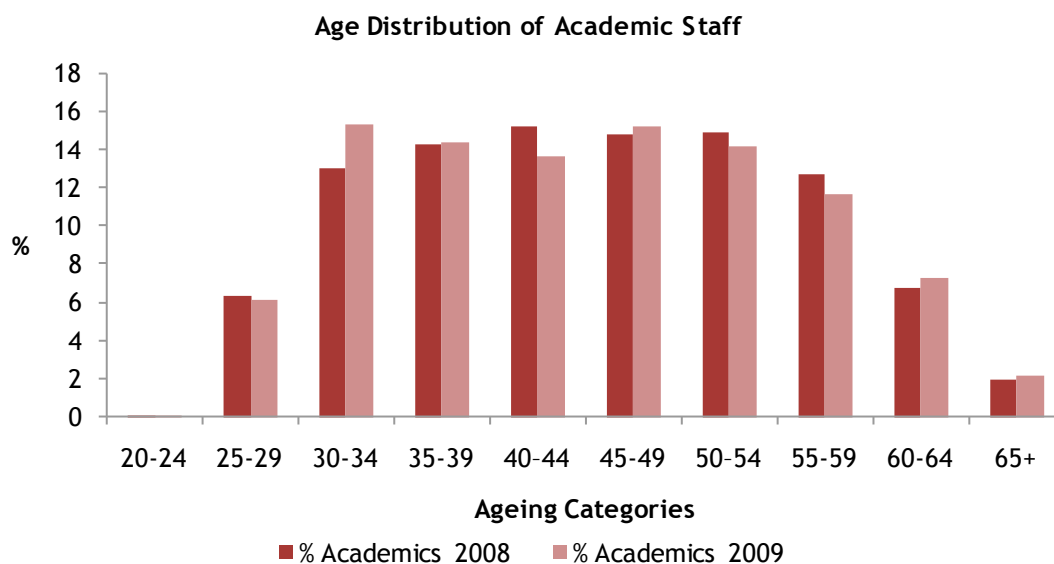
The University is facing challenges from the potential loss of a large number of retiring academic staff. University statistics below show that for academic staff:

- 21.1 per cent are aged 55 years and over
- 35.2 per cent are aged 50 years and over.

As at 31 December Age Group	2009		2008	
	No. of Academics	%	No. of Academics	%
20 - 49	1,393	64.8	1,278	63.7
50 - 54	304	14.1	298	14.9
55 - 59	249	11.6	255	12.7
60 - 64	157	7.3	136	6.8
65+	47	2.2	39	1.9
Total	2,150	100.0	2,006	100.0

Source: University of New South Wales (unaudited)

A significant proportion of academic staff are likely to retire within the next 15 years, which may result in a significant net loss of academic skills in the near future. The graph below demonstrates the age structure of academic staff in the University (parent only).

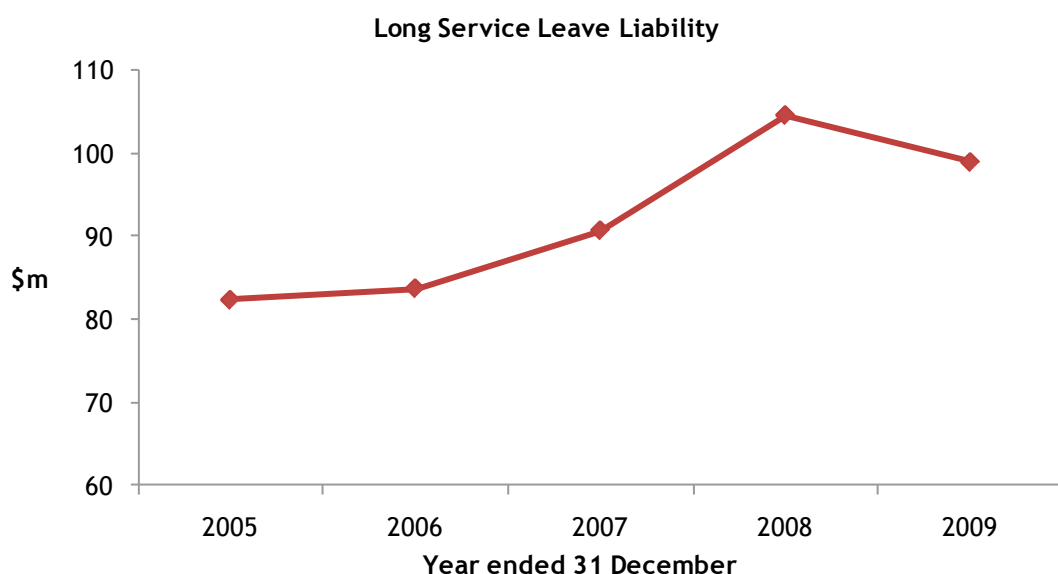


Source: University of New South Wales (unaudited)

To ensure there are sufficient academic staff in the future, the University should actively monitor its workforce age profile and ensure strategies are in place to develop, attract and retain staff whose skills are aligned with the strategic direction of the University.

Long Service Leave Liability

The long service leave liability of the University has increased by 20.2 per cent over the past four years to \$98.9 million in 2009. This liability presents a further funding challenge for the University.



Source: University of New South Wales financial statements (audited)

The increase in the liability from 2007 to 2008 resulted from a growth in entitlements plus the impact of a reduced Government bond rate used as the discount factor in calculating the present value of the liability. The reduced Government bond rate resulted from the global financial crisis. In 2009, a higher discount rate was used resulting in a lower liability.

Although the University has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities, which generally increase over time with increases in employee remuneration levels. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

Employment of Contractors

I recommend the University maintains a central register for contractors not paid through the human resources systems to reduce the risk of non-compliance with taxation laws and regulations.

The University has implemented changes to policies, practices and procedures to better manage taxation compliance risks associated with contractors. However, the University does not maintain a central register for contractors if they are not paid through human resources systems. This increases the risk of non-compliance with taxation and other employment laws and regulations.

The University was unable to provide information relating to the following as at 31 December 2009:

- the total number and cost of contractors hired
- the period of service for each contractor.

Retention of contract employees for extended periods may result in additional costs to the University. The University should consider implementing a central register of all contractors not paid through human resources systems to help ensure it is achieving the desired outcomes from using contractors and is complying with employment laws and regulations.

Complexity of the Universities' Business Arrangements

I recommend:

- the University complete the liquidation of AGSM Limited and UNSW Asia School Limited during 2010
- UNSW Global Pty Limited establishes policies and procedures to review the group's overseas operations, including representative offices, to ensure compliance with local laws and regulations.

At 31 December 2009, the University had one of the most complex business arrangements of all ten New South Wales' universities, with 25 controlled entities, two joint ventures and involvement as a core or supporting participant in 12 Cooperative Research Centres.

In 2007, I reported that management had identified the following areas for improvement:

- communication across the Group
- centralising compliance control activities in the University.

The University has continued to review and rationalise the Group structure to improve these areas. Five controlled entities were deregistered in November 2009 and another two in January 2010. Controlled entities have been reduced to 25 as at 31 December 2009 (31 at 31 December 2008). Two more controlled entities, AGSM Limited and UNSW Asia School Limited, are being liquidated. However, the process for UNSW Asia School Limited has been underway for nearly two years. Management has advised this is a complex matter and hopes the process will be completed by August 2010.

While some of the entities are dormant, each controlled entity must:

- prepare an audited financial report
- implement and maintain an effective compliance framework to ensure it complies with legislative requirements which apply to its operations.

Compliance Risk

The high number of business arrangements in the group significantly increases governance risks and compliance costs. During my audits of controlled entities, errors were identified as a result of non-compliance with local laws and regulations. These errors included:

- UNSW (Thailand) Limited - the VAT input of health insurance expenses for two employees could not be claimed because there was no supporting documents. Additionally, the company had not accrued VAT output for service fees billed to UNSW Global Pty Limited, resulting in a tax penalty for non-compliance
- UNSW Hong Kong Limited - the company may be exposed to transfer pricing issues under the Hong Kong tax regime. Expert taxation advice has now been obtained and is being considered by management.

PERFORMANCE INFORMATION

(Comparative performance data on all universities appears in the 'Universities Overview' section earlier in this Volume. The information shown below is based on consolidated financial statements.)

The University's current ratio (a measure of its financial liquidity) was 1.2 at 31 December 2009, an increase from the previous year's ratio of 1.0. At this level, it is still below the State average of 1.4 (1.5 at 31 December 2008) and below the Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) 'good practice' parameter of 1.5 to 3.0. However, another DEEWR guideline, the Annual Institutional Assessment Framework, suggests a current ratio of more than one is low risk, between 0.75 and one is medium risk, and less than or equal to 0.75 is high risk. Using this benchmark, the University's current ratio would be considered of low risk.

Australian Government grants, as a percentage of total revenue, increased from 40.8 per cent in 2008 to 44.0 per cent in 2009. This is higher than the State average of 41.6 per cent (41.2 per cent in 2008) and still below the DEEWR 'good practice' parameter of no more than 50.0 per cent.

Employee benefits and on-costs, as a percentage of total revenue, decreased from 56.6 per cent in 2008 to 50.4 per cent in 2009. This is below the State average of 53.4 per cent (55.9 per cent) and within DEEWR's 'good practice' parameter of 50.0 per cent to 70.0 per cent.

Higher education contributions, as a percentage of total revenue, decreased from 10.9 per cent in 2008 to 10.1 per cent in 2009. This is equal lowest of all universities and is significantly below the State average of 14.5 per cent (14.8 per cent).

The University's operating surplus for the year was \$93.0 million or 7.4 per cent of total revenue (negative 7.6 per cent). This return is below the State average of 8.1 per cent (negative 1.4 per cent). For benchmarking with DEEWR's performance parameters the operating surplus includes \$19.8 million in actuarial gains on defined benefit superannuation plans, but not other items of Other Comprehensive Income.

OTHER INFORMATION

Internal Controls

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

Capital Expenditure Program

Capital expenditure in 2009 was \$139 million, an increase of \$51.4 million on 2008. Major projects included:

- completion of the cancer research centre building (Lowy Building) in November 2009 at a cost of \$93.6 million
- completion of the 1,021-bed UNSW Village, which welcomed its first students on 1 January 2010 and reached 100 per cent occupancy before the start of semester one. Approximately 640 of the occupants are international students. This \$127 million development is a private public partnership and was designed and is managed by Campus Living Villages.

The University's capital expenditure program is designed to address the following major challenges:

- to meet infrastructure needs and address backlog maintenance, which was estimated at \$223 million at 31 December 2009 (\$236 million), for the parent only
- to replace outdated facilities with modern teaching and research facilities.

In 2009, the University received funds for capital works from the following sources:

- a Teaching and Learning Capital Fund grant from DEEWR totalling \$22.2 million as part of the \$4.7 billion nation-building infrastructure package to support Australia's economy
- \$32.9 million under the Education Investment Fund mainly earmarked for the Gateway@COFA (College of Fine Arts) redevelopment and the Energy Technologies Building. The COFA project will build state-of-the-art teaching, learning and studio/laboratory facilities, and a large installation gallery with a technical capacity to present world-class digital art and design works. These projects are in progress and total amount spent as at 31 December 2009 was \$2.7 million for COFA redevelopment and \$1.8 million for the Energy Technologies Building
- a \$2.0 million grant from the Department of Resources, Energy and Tourism for the Australian Solar Institute Foundation Project to research and develop solar energy technologies
- in 2008, the University received \$20.0 million from the South Eastern and Illawarra Area Health Service to fund the Virology Institute Building to be constructed on land owned by St. Vincent's Hospital, Sydney. The Australian Government and the University entered into a funding deed on 14 January 2010 for \$20.0 million to be paid to the University upon meeting milestones. The building is to facilitate the National Centre in HIV Epidemiology and Clinical Research's activities. The project is still in its early stages and total amount spent as at 31 December 2009 was \$1.0 million.

Student Debtors and other Reconciliations

In 2006, I reported that the University's management identified the need to complete a review of credit balances in student debtors' accounts. This review was satisfactorily completed with \$1.6 million being refunded to students and \$468,000 being paid to the Office of State Revenue.

FINANCIAL INFORMATION

The consolidated financial information includes the financial reports of the University and its controlled entities.

Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Australian Government grants	551,021	470,867	550,666	470,586
Higher Education Contribution Scheme	126,155	126,243	126,155	126,243
Fees and charges	400,361	347,634	315,369	276,914
Other	174,359	209,732	179,262	189,791
TOTAL REVENUE	1,251,896	1,154,476	1,171,452	1,063,534
Employee benefits and on-costs	649,175	605,121	605,846	563,657
Depreciation and amortisation	88,354	85,217	86,634	83,557
Impairment of available-for-sale assets	4,586	90,969	4,061	68,115
Other	436,457	403,927	395,032	370,986
TOTAL EXPENSES	1,178,572	1,185,234	1,091,573	1,086,315
Outside equity interest and income tax expense	(90)	(69)	--	--
SURPLUS/(DEFICIT)	73,234	(30,827)	79,879	(22,781)
OTHER COMPREHENSIVE INCOME				
Gain on revaluation of property, plant and equipment	27,840	20,296	27,840	20,296
Gain/(loss) on revaluation of available-for-sale financial assets	43,352	(960)	35,482	(7,270)
Exchange gains/(losses) on translation of foreign operations	(833)	767	--	--
Actuarial gains/(losses) on defined benefit superannuation plans	19,759	(56,512)	19,295	(55,102)
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	90,118	(36,409)	82,617	(42,076)
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	163,352	(67,236)	162,496	(64,857)

Australian Government grants increased by \$80.2 million. An amount of \$32.9 million came from the Education Investment Fund, \$22.2 million from the Teaching and Learning Capital Fund, \$15.0 million from National Health and Medical Research Council (mainly in relation to a National Drug and Alcohol Research Centre project) \$8.0 million for an increase in enrolment entitlements and another \$2.0 million for the Australian Solar Institute Foundation Project.

The \$52.7 million increase in fees and charges mainly came from a 13.0 per cent increase in overseas students (from 7,042 to 7,955) and 4.3 per cent increase in domestic students (from 23,362 to 24,374).

Other revenue decreased by \$35.4 million due to an \$18.0 million decrease in dividends from investments, a \$10.5 million decrease in gains on the disposal of assets and a \$7.8 million decrease in consultancy and contracts revenue.

The increase in employee benefits and on-cost expenses of \$44.1 million was mainly due to a four per cent annual salary increase.

Impairment of available-for-sale assets decreased by \$86.4 million as a result of improving financial markets.

During the year, the University changed its accounting policy to recognise defined benefit superannuation actuarial gains and losses in the Statement of Comprehensive Income. Previously, these gains and losses were recognised in the Income Statement. The change in policy was recommended by DEEWR and was adopted on the basis that recognition outside the Income Statement provides reliable and more relevant information. This is because actuarial gains/losses are re-measurements, based on assumptions that do not necessarily reflect the ultimate cost of providing superannuation. The change in accounting policy decreased the 2009 operating surplus of \$93.0 million to \$73.2 million and the 2008 operating loss from \$87.3 million to \$30.8 million.

Abridged Statements of Financial Position

At 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	285,500	243,346	225,505	202,259
Non-current assets	2,332,782	2,293,975	2,256,945	2,224,085
TOTAL ASSETS	2,618,282	2,537,321	2,482,450	2,426,344
Current liabilities	312,627	316,613	275,328	301,357
Non-current liabilities	809,547	887,952	807,502	887,863
TOTAL LIABILITIES	1,122,174	1,204,565	1,082,830	1,189,220
NET ASSETS	1,496,108	1,332,756	1,399,620	1,237,124

The increase in the University's total assets is predominantly due to revaluation increments in available-for-sale financial assets and property, plant and equipment of \$43.4 million and \$27.8 million, respectively.

The \$82.4 million decrease in total liabilities was mainly due to \$103 million decrease in superannuation liabilities offset partially by an increase in rentals in advance from the Children's Cancer Institute of Australia (CCIA) of \$34.5 million.

CCIA paid \$35.0 million upfront for the use of the Lowy Cancer Research Building. The University recognised \$533,000 as income in 2009, with the balance being deferred for recognition over a nine year period determined by management at the inception of the lease.

UNIVERSITY ACTIVITIES

The University is constituted under the *University of New South Wales Act 1989*. It mainly:

- provides education and research facilities of university standard
- aids, by research and other suitable means, the advancement, development and practical application of science to industry and commerce
- provides instruction and carries out research in humane studies and medicine and other disciplines as the Council may determine.

For further information on the University, refer to www.unsw.edu.au.

CONTROLLED ENTITIES

UNSW Global Pty Limited (Global)

Global controls and operates companies in Singapore, Hong Kong, India and Thailand to support the University programs in those countries. The companies provide undergraduate preparation courses and various language programs and services, conduct educational testing, provide consulting services, manage study abroad programs and facilitate technical assistance and training activities.

Abridged Statement of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Revenue	95,772	84,045	93,955	82,281
Expenses	82,649	74,455	82,014	72,914
Income tax expense	91	(08)	--	--
Operating results from discontinued operations	--	72	--	--
Operating profit after tax and minority interest	13,032	9,554	11,941	9,367
Other comprehensive income/(expense)	(342)	(734)	465	(1,411)
Total Comprehensive income	12,690	8,820	12,406	7,956
Net assets (at 31 December)	15,880	20,190	13,387	17,981

Consolidated Global revenue increased by \$11.7 million primarily due to an increase in course fees and charges, which were attributable to a combination of growth in the number of overseas enrolments, from 4,686 to 6,560, and increases in course fees.

Consolidated Global expenses increased by \$8.2 million mainly due to an increase of \$4.3 million in employee related expenses. The number of casual teaching staff increased to accommodate higher enrolments and average annual salaries increased by four per cent. Other expenses increased by \$3.8 million, particularly agent commissions as a result of higher student enrolments.

Consolidated Global net assets decreased by \$4.3 million primarily due to the distribution of \$17.0 million to the parent entity in 2009, which was offset by a decrease of \$1.5 million in trade receivables and an increase of \$13.8 million in cash from revenue growth.

For further information on Global, refer to www.nsg.unsw.edu.au.

NewSouth Innovations Pty Limited (NS Innovations)

On 22 November 2009, Audio Nomad Pty Ltd and HepatoCell Therapeutics Pty Limited were deregistered as there were no economic prospectus for the intellectual property held by each of these companies. Similarly, NewSouth Four Pty Ltd was deregistered on 6 January 2010, and the 2009 financial statements were prepared on liquidation basis.

On 8 December 2009, the University signed a loan agreement of \$603,000 with NS Innovations at an annual interest rate of 4.15 per cent. In January 2010, NS Innovations repaid the principal and interest amounting to \$605,000 to the University.

For further information on NS Innovations, refer to www.nsinnovations.com.au.

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

Entity Name	Website
ACN 125 694 546 Pty Ltd	*
AGSM Limited **	www.agsm.edu.au
Audio Nomad Pty Ltd ¹	*
Australian Education Consultancy Limited	www.aecl.com.hk
Cystemix Pty Limited	*
HepatoCell Therapeutics Pty Limited ¹	*
John Lewis and Pamela Lightfoot Trust	*
NewSouth Eight Pty Ltd ¹	*
NewSouth Five Pty Ltd	*
NewSouth Four Pty Ltd ²	*
NewSouth Global (Thailand) Limited	*
NewSouth Innovations Pty Ltd	www.nsinnovations.com.au
NewSouth One Pty Ltd ¹	*
NewSouth Seven Pty Ltd	*
NewSouth Six Pty Ltd ¹	*
Qucor Pty Ltd	www.qucor.com.au
The New South Wales Minerals Industry/University of New South Wales Education Trust	*
University of New South Wales Foundation Trust	*
University of New South Wales Foundation Limited	*
University of New South Wales International House Limited	www.ihunsw.edu.au
University of New South Wales Press Limited	www.unswpress.com.au
UNSW & Study Abroad - Friends and U.S. Alumni, Inc	*
UNSW (Thailand) Limited	www.unswthailandoffice.com
UNSW Asia ³	*
UNSW Asia School Limited **	*
UNSW Global (Singapore) Pte Limited	www.singapore.unsw.edu.au
UNSW Global India Private Limited	www.unswindiaoffice.com
UNSW Global (Thailand) Limited	*
UNSW Hong Kong Foundation Limited	*
UNSW Hong Kong Limited	www.hongkong.unsw.edu.au

* These entities do not have websites.

** These entities are being liquidated.

1 These entities were deregistered in November 2009.

2 This entity was deregistered on 6 January 2010.

3 This entity was liquidated on 19 October 2009 and deemed dissolved on 22 January 2010.

University of Newcastle

AUDIT OPINION

The audits of the University and its controlled entities' financial statements for the year ended 31 December 2009 resulted in unqualified Independent Auditor's Reports, except for the UON Foundation Trust.

I issued a qualified Independent Auditor's Report for UON Foundation Trust. As is common for organisations of this type, it is impractical for the Trust to maintain an effective system of internal controls over donation revenue received until initial entry in the financial records. I was therefore unable to express an opinion as to whether all donations have been recorded in the Trust's financial records. The independent Auditor's Report for the year ended 31 December 2008 was similarly qualified.

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

KEY ISSUES

New Campus

I recommend that the University conduct a comparative cost benefit analysis to the University of building a new city campus and relocating some of its operations versus upgrading its Callaghan campus.

The University should also review its ability to fund the proposed capital programs.

The University is planning to build a new campus in Newcastle city centre for an estimated cost of \$562 million. This plan is supported in principle by the New South Wales Government. Funding for the project has not been sourced, other than the contribution of a parcel of land worth approximately \$4.0 million. The University estimates that it is only able to contribute \$30.0 million to the project at this stage.

The advantages and disadvantages for the University of relocating some of its schools to the city centre have not been fully explored. The University has a very large site at Callaghan with good infrastructure, which may be capable of accommodating any anticipated increases in students. Issues associated with student accommodation and car parking at a city centre campus would also need to be resolved.

Capital Works

I recommend that the University implement total asset management plans to ensure assets are planned and managed efficiently and effectively.

In addition to the proposed city centre campus, the University is planning capital expenditure of \$89.3 million in 2010, \$33.7 million of which will be funded by grants. The major components of the planned capital expenditure are: \$70.3 million for buildings, \$5.0 million on IT projects, \$13.8 million on plant and equipment and \$11.0 million on the purchase of a site adjacent to the Callaghan campus.

The University is also considering building additional student accommodation for 750 students on its Callaghan campus. The cost of the accommodation is estimated at \$85.0 million and will be funded through debt. The University expects the income from the additional accommodation to be more than sufficient to fund this project over its life.

During 2009, the University spent \$35.0 million on capital expenditure. \$4.9 million of this was funded through grants, while the remaining \$30.1 million was funded through operational cash flows. The University estimates that its backlog maintenance is \$62.3 million.

Last year I recommended that the University implement a total asset management plan to ensure assets are planned and managed efficiently and effectively. The University is in the process of developing a total asset management plan.

Impact of the Global Financial Crisis

The fair values of the University's investments declined significantly during 2008 due to the global financial crisis. In 2009, the value of the investments increased to \$87.1 million at year end (\$76.1 million in 2008) reflecting improvements in financial markets.

The University recorded an operating surplus of \$45.4 million in 2009, compared to an operating loss of \$366,000 in 2008. The major contributor to the loss was an impairment expense of \$29.2 million, representing the decline in the value of equity investments.

Last year the global financial crisis also significantly impacted superannuation investment earnings and benefit valuations. As the economic conditions improved in 2009, superannuation liabilities decreased from \$234 million in 2008 to \$199 million in 2009.

Age profile of Academic Staff

I recommend the University review the effectiveness of its policies in managing its ageing workforce.

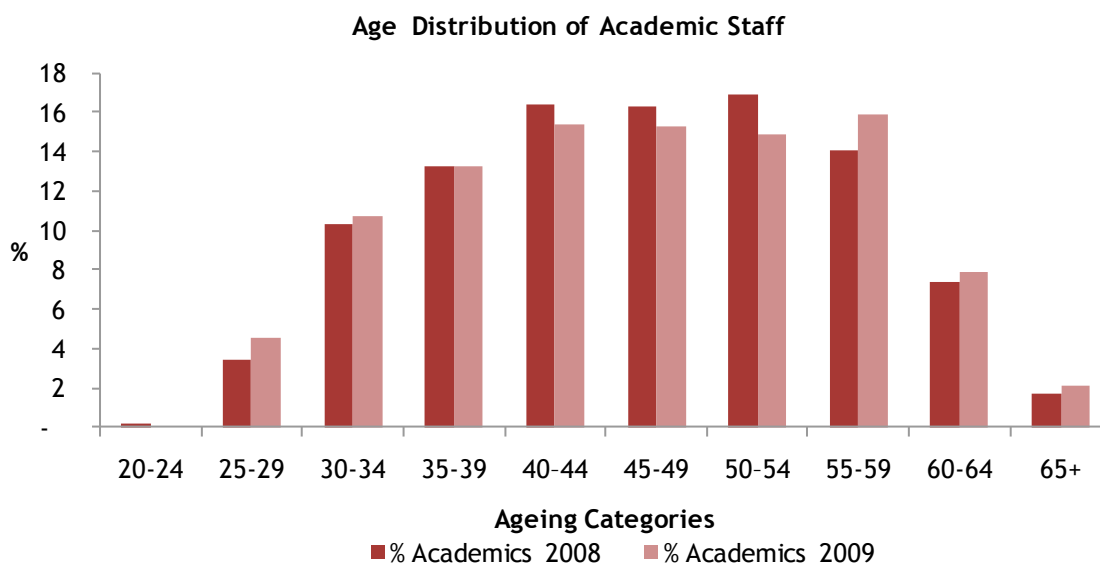
The University faces challenges from the potential loss of a large number of retiring academic staff as supported by the following University statistics:

- 26 per cent are aged 55 years and over
- 41 per cent are aged 50 years and over.

As at 31 December Age Group	2009		2008	
	No. Of Academics	%	No. Of Academics	%
Up to 49	620	59	595	60
50-54	156	15	168	17
55-59	166	16	140	14
60-64	82	8	73	7
65+	22	2	17	2
Total	1,046	100	993	100

Source: Information provided by University of Newcastle (Unaudited)

The graph below further demonstrates the age structure of academics.



Source: Information provided by University of Newcastle (Unaudited)

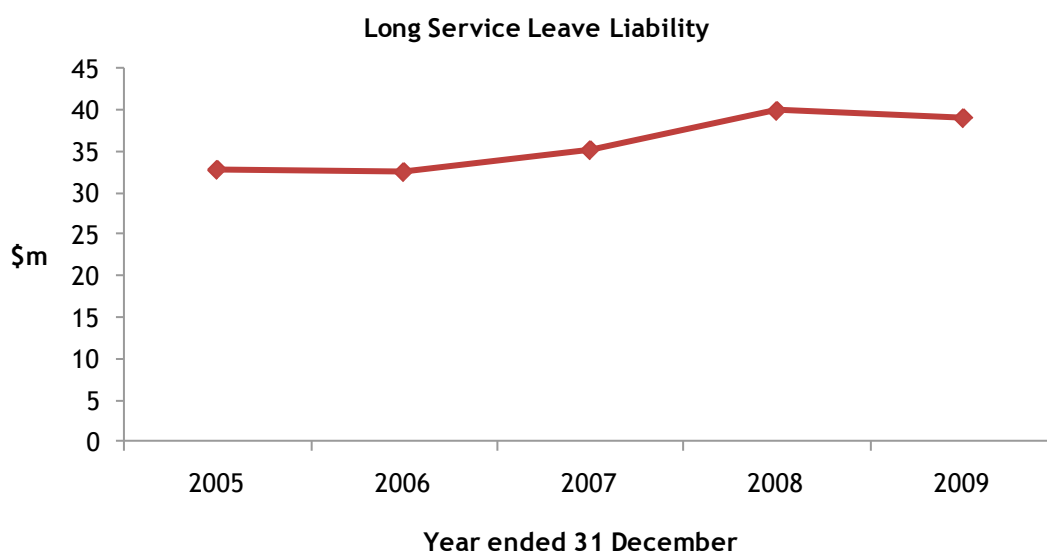
Annual Leave Balances

Out of its total workforce of 2,672 people, 61 people (two per cent) had annual leave balances in excess of the maximum thresholds allowed under the University's leave policy.

The overall number of staff with annual leave balances in excess of the maximum threshold decreased by 30 people during the year. The University's leave policy for academic staff allows a maximum balance of 40 days annual leave.

Long Service Leave Liability

Long service leave liabilities create funding challenges for the University. Long service leave liabilities have increased by 10.9 per cent over the past three years to \$39.1 million in 2009 (\$39.9 million in 2008).



Source: University of Newcastle Audited Financial Statements

The increase in the liability from 2007 to 2008 resulted from a growth in entitlements plus the impact of a reduced Government bond rate used as the discount factor in calculating the present value of the liability. The reduced Government bond rate resulted from the global financial crisis.

Although the University has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities, which generally increase over time with increases in employee remuneration levels. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

Employment of Contractors

I recommend the University create and maintain a single record of all contractors engaged by it.

The University should also periodically review the roles and responsibilities of all its contractors to ensure:

- its reliance on contractors is not excessive
- use of a contractor instead of a permanent employee is appropriate
- contractors do not become de facto employees by virtue of being with the University for an extended period of time
- use of contractors continues to represent value for money.

The University does not maintain a single, complete and detailed listing of all contractors it has engaged during the year. It uses a decentralised approach to engage and record contractors.

The University was unable to provide the following information as at 31 December 2009:

- the cost of contractors engaged
- the number of contractors engaged
- the period of service of contractors engaged.

The retention of contract employees for extended periods may result in additional costs to the University. The University should review its practices relating to contractors to ensure they are appropriate to achieve desired outcomes and comply with employment related legislation.

Credit Cards

I recommend the University review its use of corporate credit cards and the internal control structure it uses to control and monitor spending on credit cards.

I recommend the University records any personal expenditure on credit cards as a debt owing to the University. This will ensure that the money is collected from the employee involved.

I recommend the University raise a debt against the relevant employee for any spending not accounted for within two months of the credit card statement date. This will ensure all money is accounted for correctly or recovered from the relevant employee.

Credit cards can expose an organisation to a higher risk of fraud as the person with the card has the ability to incur the expense and pay for it at the one time. These two operations are usually separated in an accounts payable system to ensure appropriate segregation of duties. To offset the higher risk of fraud there needs to be a high level of monitoring of credit card expenditure.

The University advised that total credit card expenditure in 2009 was \$22.1 million, and 1,100 employees have credit cards.

The University noted that during the year 135 employees used their credit cards for personal expenditure totalling \$24,337. The purchase card policy classifies personal expenditure as a fraudulent transaction and a breach of policy unless it is used for emergency purposes only and reimbursed within 14 days. The University does not record personal expenditure as a debtor in its financial records but instead writes it off to an expenditure account. As a result personal expenditure may not be recovered from the employee.

The University's debtors system should be used to record any personal expenditure and monies not accounted for, as it will then be subject to the University's standard collection and recovery procedures. The extent of personal expenditure will also be more transparent and this will allow easier monitoring by management.

During the year the University introduced procedures to cancel or suspend credit cards if University policies were not complied with. We see this as a positive step in enforcing compliance with University policies. The University advised us that 55 people had their credit cards suspended and 22 were cancelled in 2009 for not following policy requirements.

At the beginning of March 2010 there were 127 credit card statements from 108 individuals who had not submitted documentation for expenditure incurred up to 31 December 2009. This does not include those individuals whose cards were already suspended or cancelled, which may have been for failing to submit documentation for review and approval.

Controlled Entities

Last year, I recommended the University review its group structure to ensure it meets its objectives effectively and efficiently. Eliminating unnecessary controlled entities could result in savings in compliance and assurance costs. During 2009, the University removed three entities from the consolidated group. The University has now advised that the current structure is appropriate.

PERFORMANCE INFORMATION

(Comparative performance data on all universities appears in the 'Universities Overview' section earlier in this Volume. The information shown below is based on consolidated financial statements.)

The University's current ratio (a measure of its financial liquidity) was 2.5 at 31 December 2009 (1.8 at 31 December 2008). This ratio is now higher than the State average of 1.4 (1.5 at 31 December 2008) but within the Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) 'good practice' parameter of 1.5 to 3.0.

Australian Government grants, as a percentage of operating revenue, increased from 44.7 per cent in 2008 to 44.9 per cent in 2009. This is higher than the State average of 41.6 per cent (41.2 per cent in 2008), but still meets the DEEWR 'good practice' parameter of less than 50 per cent.

Employee benefits and oncosts, as a percentage of operating revenue, decreased from 53.8 per cent in 2008 to 52 per cent in 2009. This is lower than the State average of 53.4 per cent (55.9 per cent) and within DEEWR 'good practice' parameter of 50 per cent to 70 per cent.

Higher education contributions, as a percentage of total revenue, remained steady at 17 per cent in 2009 (17.1 per cent). This is above the State average of 14.5 per cent (14.8 per cent).

The university's operating surplus for the year was \$45.4 million or 8.7 per cent of total revenue (negative 0.1 per cent). This return is above the state average of 8.1 per cent (negative 1.4 per cent).

OTHER INFORMATION

I identified some opportunities to improve accounting and internal control procedures at the University and its controlled entities and have reported them to management.

The University has advised that it is taking action on the issues we have raised.

FINANCIAL INFORMATION

The consolidated financial information includes the financial reports of the University and its controlled entities.

Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Australian Government grants	245,030	221,542	245,030	221,542
Higher Education Contribution Scheme	89,072	81,294	89,073	81,294
Fees and charges	95,970	82,054	77,642	59,939
Other	92,553	89,272	86,121	88,463
Deferred (expense)/income - superannuation	(34,781)	132,404	(34,781)	132,404
TOTAL REVENUE	487,844	606,566	463,085	583,642
Employee benefits and on-costs	271,698	255,224	258,948	241,633
Depreciation and Amortisation	38,997	36,899	38,306	36,133
Impairment of available for sale assets	66	29,181	--	29,181
Other	166,478	153,224	160,316	145,658
Deferred (income)/expense - superannuation	(34,781)	132,404	(34,781)	132,404
TOTAL EXPENSES	442,458	606,932	422,789	585,009
SURPLUS/(DEFICIT)	45,386	(366)	40,296	(1,367)
OTHER COMPREHENSIVE INCOME				
Gain on revaluation of land and buildings	68,173	--	68,173	--
Gain on value of available for sale financial assets	10,580	1,692	10,472	1,696
Other (expense)/income	(111)	302	--	168
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	78,642	1,994	78,645	1,864
TOTAL COMPREHENSIVE INCOME	124,028	1,628	118,941	497

Revenue received from the Australian Government, the Higher Education Contribution Scheme and Fees and Charges increased due to an increase in the number of students (20,014 students in 2008, increasing to 21,913 students in 2009) and an increase in fees of approximately five per cent.

Employee benefits rose due to an increase in the number of staff, salary increments and a pay increase of four per cent during the year. Other expenses decreased due to a \$29.1 million impairment of investments in the prior year which occurred as part of the global financial crisis.

The Deferred Government Superannuation Contributions declined due to reduced superannuation liabilities resulting from improvements in financial markets.

Abridged Statement of Financial Position

At 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	167,264	107,481	155,046	100,604
Non-current assets	1,022,497	994,074	1,019,746	991,318
TOTAL ASSETS	1,189,761	1,101,555	1,174,792	1,091,922
Current liabilities	94,044	89,374	93,362	89,828
Non-current liabilities	219,789	259,250	219,384	258,989
TOTAL LIABILITIES	313,833	348,624	312,746	348,817
NET ASSETS	875,928	752,931	862,046	743,105

Current assets increased due to an increase in cash resulting from the large operating surplus in 2009. Non-current assets increased due to a revaluation of property, plant and equipment, which increased the asset values by \$68.2 million.

Non-current liabilities decreased due a reduction in superannuation liabilities as a result of the improvement in financial markets during the year.

UNIVERSITY ACTIVITIES

The University is constituted under the *University of Newcastle Act 1989*. It mainly:

- provides educational and research facilities, having particular regard to the needs of the Hunter Region, the Central Coast and surrounding areas
- encourages the dissemination, advancement, development and application of knowledge
- provides courses of study and carries out research to meet the needs of the community
- confers degrees, including Bachelor, Master and Doctor, and awards diplomas and certificates.

For further information on the University, refer to www.newcastle.edu.au.

CONTROLLED ENTITIES

Hunter Uni-Clinics Pty Ltd, a subsidiary company of the University, has been deregistered. This company operated as trustee for the Cessnock Uni-Clinic Trust. A new trustee, independent of the University was appointed for the Trust during the year. As part of the deed of agreement for the new trustee, the new trustee will provide a scholarship to the University for the purposes of health research starting in 2010 and lasting five years.

Probiotic Health Pty Limited, a subsidiary of Newcastle Innovation Limited, is also in the process of being wound up. The company obtained an exemption from The Treasury from preparing a financial report as at 31 December 2010.

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

Entity Name	Website
GraduateSchool.com Pty Limited	www.gradschool.com.au
Newcastle Innovation Limited	www.newcastleinnovation.com.au
UON Foundation Ltd	www.newcastle.edu.au/foundation
- UON Foundation Trust	*
UON Services Limited	www.uonservices.org.au
UON, Singapore Pte Ltd	www.newcastle.edu.au/location/singapore

* This entity does not have a website.

University of Technology, Sydney

AUDIT OPINION

The completed audits of the University and its controlled entities' financial statements for the year ended 31 December 2009 resulted in unqualified Independent Auditor's Reports.

The audit of a controlled entity, UTSM Services (Malaysia) Sbn Bhd, remains incomplete.

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

KEY ISSUES

Impact of the Global Financial Crisis

Whilst the global financial crisis did not have a significant impact on the University in 2008 or 2009, risks still exist. Current issues in Europe have highlighted the fragile nature of the recovery in some global markets. Consequently, there remains a funding risk for the University as it enters a rapid expansion program with its campus development plan.

The recovery of the local and global markets in 2009 resulted in defined benefit superannuation liabilities decreasing from \$301 million in 2008 to \$260 million in 2009.

Campus Master Plan

The UTS Council approved the City Campus Master Plan in August 2008. Construction of the master plan projects started in December 2009 and will take approximately six years to complete at a total cost of approximately \$900 million.

Actual capital expenditure in 2009 of \$54.0 million was lower than budgeted expenditure of \$81.4 million because of delays in starting the projects. The capital expenditure budget for 2010 is expected to be \$171.5 million, which will be funded from internal resources.

Major construction projects that started in 2009 included a student housing tower and a multipurpose sports hall.

Major construction projects that will start in 2010 include:

- Thomas Street building - a five storey laboratory building
- Great Hall renovation
- Alumni Green central open space - the new 'green heart of the campus'.

Ku-ring-gai Campus

The New South Wales Minister for Education and Training approved the sale of a portion of the Ku-ring-gai Campus by the University in December 2009. Specific areas of the Campus will be excluded from the current sale for environmental and potentially, educational purposes.

The University will use all proceeds from the sale to fund part of the City campus master plan to improve educational facilities on the City campus.

The University endorsed a strategy in July 2003 to review its options for the long term use of the Ku-ring-gai Campus. In June 2008, the New South Wales Minister for planning approved the rezoning application and concept plan for the Campus.

Ageing profile of Academic Staff

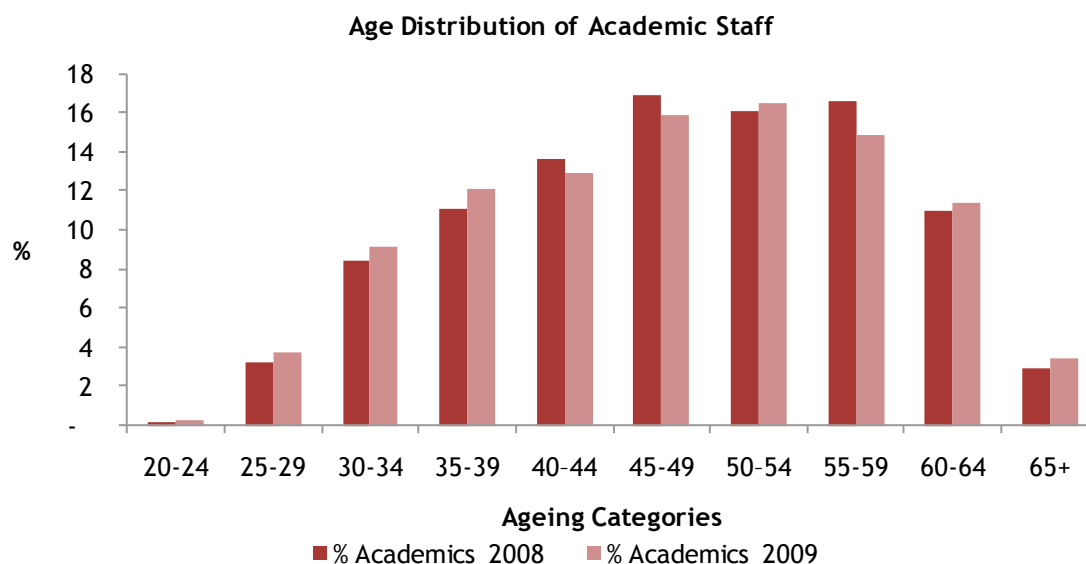
The University faces challenges from the potential loss of a large number of retiring academic staff as supported by the following University statistics:

- 29 per cent are aged 55 years and over
- 46 per cent are aged 50 years and over.

As at 31 December	2009		2008	
Age Group	No. of Academics	%	No. of Academics	%
20 - 49	503.4	54	476.2	53
50 - 54	154.2	17	143.3	16
55 - 59	138.3	15	148.1	17
60 - 64	106.0	11	98.1	11
65+	32.2	3	26.2	3
Total	934.1	100	891.9	100

Source: Information provided by University of Technology, Sydney (Unaudited)

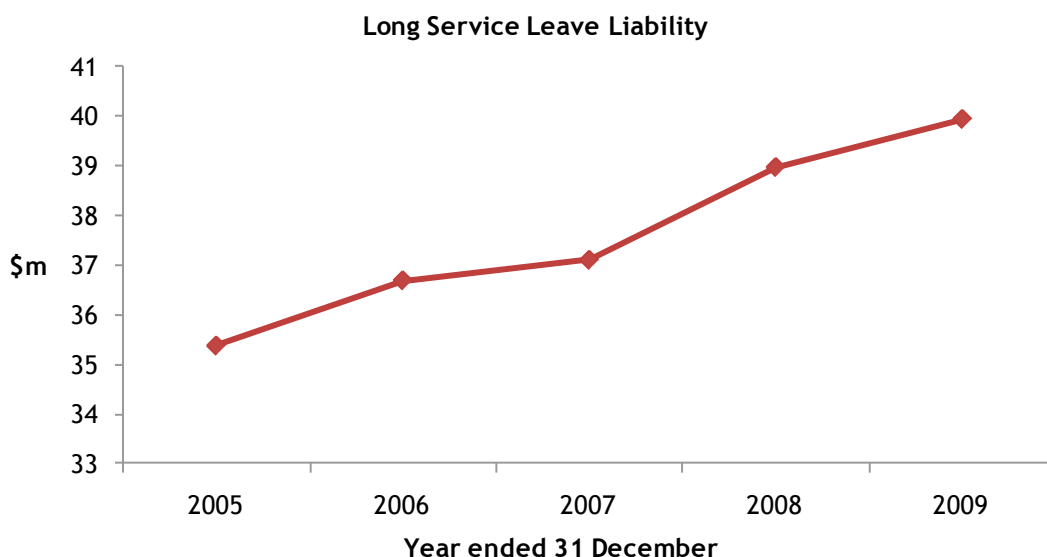
The graph below further demonstrates the age structure of academics.



The University has identified the challenge to ensure it has sufficient qualified academic staff to support current and future teaching and research objectives. The University has advised that it is implementing a number of attraction and retention strategies.

Long Service Leave Liability

Increasing long service leave liabilities create funding challenges for the University. Long service leave liabilities have increased by 7.5 per cent over the last three years to \$39.9 million in 2009.



Source: University of Technology, Sydney Audited Financial Statements

The liability increased between 2007 to 2008 because entitlements grew and the Government bond rate used as the discount the liability fell as a result of the global financial crisis.

Although the University has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

Excessive Annual Leave

Year ended 31 December Annual Leave Entitlement (Days)	2009		2008	
	Academic	Non-Academic	Academic	Non-Academic
41 - 60	83	40	101	72
61 - 90	19	12	17	14
91 - 120	3	1	--	1
120 +	--	--	--	--
Total	105	53	118	87

The highest employee leave balance as at 31 December 2009 was an academic with 100 days and a non-academic employee with 105 days.

Excess annual leave balances may increase costs as the associated liability generally increases over time with increases in salary levels. Allowing excessive annual leave balances means that staff performing key control functions may not be rotated regularly, which is a preventive control against fraud. There may also be occupational, health and safety implications.

Although the University has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

We encourage management to continue monitoring and managing the excessive leave balances on a periodic basis.

Contractors

I recommend the University create and maintain a single record of all contractors engaged by it.

The University should also periodically review the roles and responsibilities of all its contractors to ensure:

- its reliance on contractors is not excessive
- use of a contractor instead of a permanent employee is appropriate
- contractors do not become de facto employees by virtue of being with the University for an extended period of time
- use of a contractor continues to represent good value for money.

The University did not maintain a register of hired contractors to enable it provide information regarding the number of contractors at a given time or the duration of their employment as contractors.

PERFORMANCE INFORMATION

(Comparative performance data on all universities appears in the 'Universities Overview' section earlier in this Volume. The information shown below is based on consolidated financial statements)

The University's current ratio (a measure of its financial liquidity excluding long service leave classified as current) was 3.3 at 31 December 2009, an increase from the previous year's ratio of 2.6. This ratio is significantly higher than the state average of 1.4 (1.5 at 31 December 2008) and is above the upper range of the Australian Government's Department of Education, Education, Employment and Workplace Relations (DEEWR) 'good practice' parameters of 1.5 to 3.

Australian Government grants, as a percentage of total revenue, increased from 33.6 per cent in 2008 to 35 per cent in 2009. It remains lower than the State average of 41.6 per cent (41.2 per cent in 2009), and well within the DEEWR 'good practice' parameter of no more than 50 per cent.

Fees and charges, as a percentage of operating revenue, increased from 31.7 per cent in 2008 to 33.0 per cent in 2009. This is higher than the State average of 26.8 per cent (25.9 per cent).

The University's operating result for the year was \$67.9 million or 12 per cent of total revenue (12.0 per cent in 2008). This was the equal highest return on total revenue of all universities and well above the State average of 8.1 per cent (negative 1.4 per cent in 2008). For benchmarking with DEEWR's performance parameters, the operating surplus includes \$19.8 million in actuarial gains on defined benefit superannuation plans, but not other items of Other Comprehensive Income.

Employee benefits and on costs as a percentage of operating revenue decreased from 53.6 per cent in 2008 to 52.7 per cent in 2009 as shown in the table below. This is lower than the State average of 53.4 per cent (55.9 per cent in 2008) and within the DEEWR 'good practice' parameters of 50 per cent to 70 per cent.

OTHER INFORMATION

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

Backlog Maintenance

The University's backlog maintenance program requirement increased by 4.7 per cent, from \$12.3 million in 2008 to \$12.9 million in 2009. The University's backlog maintenance process is properly monitored to avoid any significant maintenance problems.

Year ended 31 December	Actual			
	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000
Backlog maintenance program requirement	12,880	12,298	12,700	19,800

FINANCIAL INFORMATION

The consolidated financial information includes the financial statements of the University and its controlled entities.

Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Australian Government grants	197,118	174,289	197,118	174,289
Higher Education Contribution Scheme	95,983	90,229	95,983	90,229
Fees and charges	220,354	192,600	173,689	153,717
Other	50,427	58,025	49,691	56,874
TOTAL REVENUE	563,882	515,143	516,481	475,109
Employee benefits and on-costs	297,756	273,504	277,526	256,689
Depreciation and Amortisation	53,314	50,610	51,551	29,210
Other	145,384	129,051	128,386	116,368
Deferred expense - superannuation	400	350	400	350
TOTAL EXPENSES	496,854	453,515	457,863	422,617
SURPLUS	67,028	61,628	58,618	52,492
OTHER COMPREHENSIVE INCOME:				
Gain/(loss) on revaluation of land and buildings	31,845	(19,311)	31,845	(19,311)
Other gains/(losses)	(1,769)	(6,023)	793	(7,274)
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	30,076	(25,334)	32,638	(26,585)
TOTAL COMPREHENSIVE INCOME	97,104	36,294	91,256	25,907

Australian Government grants increased mainly due to 'Teaching and Learning Capital Funding' of \$16.0 million and a DEEWR Commonwealth Grants Scheme of \$11.0 million resulting from an increase in student load and indexation.

Higher Education Contribution Scheme income increased by 6.4 per cent due to higher student enrolments which increased by 3.6 per cent.

The increase in employee benefits and on-costs was due to an increase in academic and support staff numbers. Other expenses increased due to consultancy costs and an increase in energy costs of up to 30 per cent.

Other comprehensive income increased due to a revaluation of land and buildings by \$31.8 million.

Abridged Balance Sheets

At 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	279,017	207,249	237,867	172,367
Non-current assets	1,235,362	1,244,468	1,219,788	1,228,031
TOTAL ASSETS	1,514,379	1,451,717	1,457,655	1,400,398
Current liabilities	111,855	106,223	94,748	88,471
Non-current liabilities	311,974	352,048	310,147	350,423
TOTAL LIABILITIES	423,829	458,271	404,895	438,894
NET ASSETS	1,090,550	993,446	1,052,760	961,504

Current assets increased by \$71.8 million mainly due to additional cash inflows from operating surpluses.

Non-current assets decreased by \$9.1 million mainly due to a decline of \$39.7 million in superannuation liabilities recoupable from the Australian Government offset by a \$31.4 million increase in the value of land and buildings resulting from a revaluation.

Non-current liabilities decreased by \$40.1 million, due to reduced superannuation liabilities resulting from improved financial markets.

UNIVERSITY ACTIVITIES

The University is constituted under the *University of Technology, Sydney Act 1989*. It mainly provides and is responsible for:

- educational facilities at university standard
- courses of study or instruction across a range of fields and carrying out of research to meet the needs of the community
- the encouragement of the dissemination, advancement, development and application of knowledge informed by free inquiry, and
- the conferring of degrees, including those of Bachelor, Master and Doctor, and the awarding of diplomas, certificates and other awards.

For further information on the University, refer to www.uts.edu.au.

CONTROLLED ENTITIES**UTSM Services (Malaysia) Sdn Bhd**

The University Council approved the winding up of UTS Malaysia on 25 February 2009 and the winding-up process commenced subsequently under Malaysian laws and regulations. This process requires a tax clearance to be issued by the Malaysian Inland Revenue Board. The Liquidator estimates the winding-up process will be completed in the second half of 2010.

The audit of UTS Malaysia was not completed at the time of this report. The company has not submitted financial statements for audit for 2008 and 2009. Failure to submit financial statements within the specified timeframe is a breach of legislation. The financial implications of the wind up is estimated to be less than \$100,000.

Insearch Limited

Insearch Limited operates controlled entities in China and a charitable foundation in the United Kingdom. Insearch disposed of its controlling interest in Australia Centre [Thailand] Limited on 30 November 2009. It also has two joint ventures in China and Vietnam. Insearch has about 425 agency agreements worldwide to enrol students from various countries.

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Revenue	51,692	47,592	51,580	44,215
Expenses	44,362	38,750	43,470	38,940
Profit	7,330	8,842	8,110	5,275
Net assets (at 31 December)	33,449	27,442	28,305	19,973

The increase in revenue was due to:

- increased numbers of new international and domestic students
- successful joint venture operations in China and Vietnam.

The decrease in profit in 2009 was due to the previous year's result including a one-off profit from sale of the company's United Kingdom branch operations.

The increase in net assets was due to higher cash balances generated from operations.

The company donated \$3.0 million to the University as a contribution towards the University's operations.

Insearch Limited is a company limited by guarantee. It provides education courses in English language, business, information technology and other disciplines to Australian and international students. Insearch Limited also provides approximately 1,000 full fee paying students to the University annually. It is accredited as a higher education institution.

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

Entity Name	Website
accessUTS Pty Limited	www.accessuts.uts.edu.au
UTSM Services (Malaysia) Sdn Bhd	*

* This entity does not have a website

OTHER BODY ASSOCIATED WITH THE UNIVERSITY

Austlii Foundation Limited

The University acquired an interest in Austlii Foundation Limited, which is a public company limited by guarantee with charitable objectives. This is a joint venture between the University of New South Wales and The University of Technology, Sydney to provide an online free-access public library of Australian legal materials.

The following body associated with the University has not been reported on separately as it is not considered material by its size or the nature of its operations.

Entity Name	Website
Sydney Educational Broadcasting Limited	www.2ser.uts.edu.au

University of Western Sydney

AUDIT OPINION

The audits of the University and 11 of its controlled entities' financial statements for the year ended 31 December 2009 resulted in unqualified Independent Auditor's Reports. The audits of the following entities resulted in qualified Independent Auditor's Reports:

- University of Western Sydney Foundation Trust
- Whitlam Institute within the University of Western Sydney Trust.

As is common for entities that have donations and fundraising as sources of revenue, it is impracticable for the Trusts to maintain effective systems of internal control over donation and fundraising revenues they receive until their initial entry in the financial records. I was therefore unable to express an opinion as to whether all donations have been recorded in the Trusts' financial records. My audit reports for 2008 were similarly qualified.

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

KEY ISSUES

Impact of the Global Financial Crisis

Last year the global financial crisis had a negative impact on the value of the University's investments, reducing the value from \$93.9 million at the start of the year to \$56.6 million at 31 December 2008.

This year, however, there has been an improvement in the value of these investments and in the funding position of defined benefits superannuation plans. Investments increased in value by a net \$1.1 million (\$11.1 million increase in value less redemptions of \$10.0 million). The overall return on investments was 19 per cent, while superannuation liabilities decreased from \$164 million in 2008 to \$127 million in 2009.

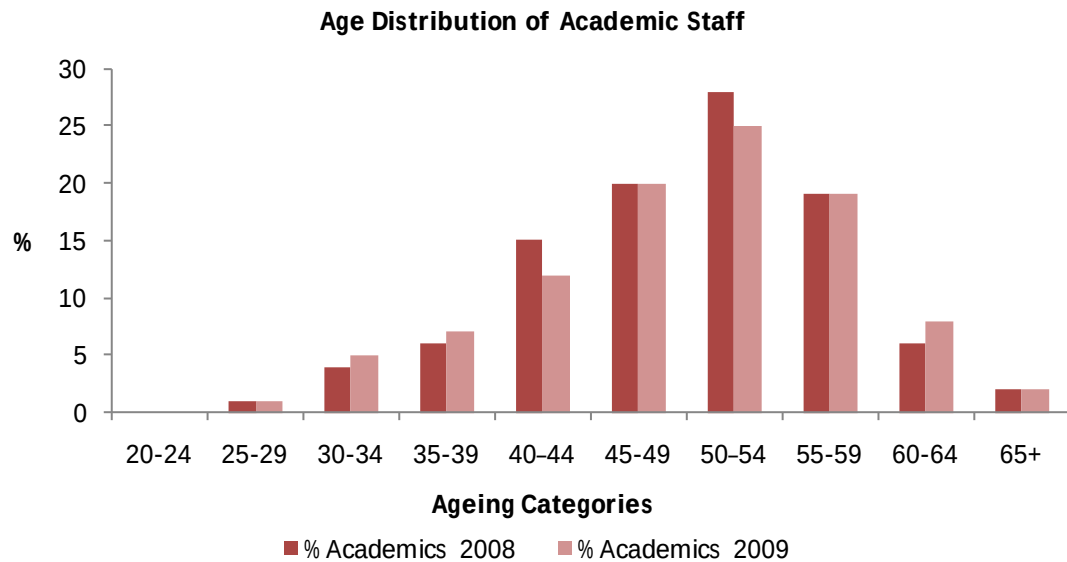
Ageing Profile of Academic Staff

The University is facing challenges from the potential loss of a large number of retiring academic staff. University statistics below show that for academic staff 29 per cent are aged 55 years and over while 54 per cent are aged 50 years and over.

As at 31 December Age Group	2009		2008	
	No. of Academics	%	No. of Academics	%
Up to 49	302	46	275	46
50 - 54	166	25	165	28
55 - 59	124	19	112	19
60 - 64	51	8	34	6
65+	15	2	10	2
Total	658	100	596	100

Source: Information provided by the University (Unaudited).

The table below details the age profile of academic staff for the University (parent only) as at 31 December 2009:

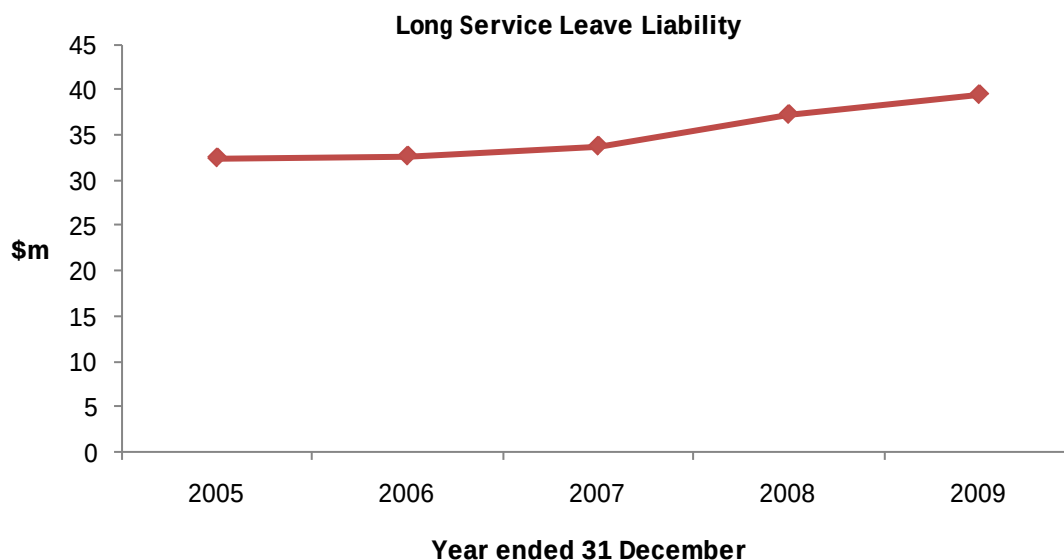


To ensure there is an adequate supply of academic staff in the future the University advised that the ageing profile of academics is being addressed by the implementation of a staffing strategy, 'Our People 2015'. The goals of the strategy, which include aligning the staff profile with workforce needs are being addressed through a number of projects and supported by a Workplace Productivity grant from DEEWR for \$2.9 million over three years. Initiatives currently in place to address attraction and retention of high quality academic staff include:

- establishment of research lectureships, targeting outstanding early career researchers
- staff surveys to identify good practice and areas for improvement
- development of late career transition options, including post and pre-retirement options
- establishment of ongoing relationships with retiring staff
- knowledge management and a structured mentoring program.

Long Service Leave Liability

Increasing long service leave liabilities create funding challenges for the University. Long service leave liabilities have increased by 22 per cent over the past five years to \$39.4 million in 2009 (\$37.2 million in 2008).



Source: University of Western Sydney Audited Financial Statements.

The University will need to ensure it has an adequate plan to fund these liabilities. This may be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

PERFORMANCE INFORMATION

(Comparative performance data on universities appears in the 'Universities Overview' section earlier in this Volume. The information shown below is based on consolidated financial statements.)

The University's current ratio (a measure of its financial liquidity) was 1.3 at 31 December 2009, down from the previous year's ratio of 1.5. At this level it is less than the State average of 1.4 (1.5 at 31 December 2008) and outside the Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) 'good practice' parameter of 1.5 to 3.0.

Australian Government grants as a percentage of operating revenue increased from 46.2 per cent in 2008 to 47.5 per cent in 2009. Although higher than the State average of 41.6 per cent (41.2 per cent in 2008), it is still below the DEEWR 'good practice' parameter of no more than 50 per cent.

Employee benefits and on-costs as a percentage of operating revenue decreased from 57.9 per cent in 2008 to 53.9 per cent in 2009. Although it is still above the State average of 53.4 per cent (55.9 per cent), it is within the DEEWR 'good practice' parameter of 50 per cent to 70 per cent.

Higher education contributions as a percentage of total revenue decreased from 26.7 per cent in 2008 to 25.4 per cent in 2009. This represents the highest contribution of all universities and is significantly above the State average of 14.5 per cent (14.8 per cent). The University has advised that this results from having a high percentage of Commonwealth Government Supported students combined with a low percentage of revenue from non-Government sources.

The University's operating surplus for the year was \$60.8 million or 11.4 per cent of total revenue (7.9 per cent). This return is above the State average of 8.1 per cent (negative 1.4 per cent).

OTHER INFORMATION

Capital Expenditure Program

Capital expenditure in 2009 was \$108 million, an increase of \$33.4 million on 2008. Major expenditures were:

- \$15.9 million for construction of the Parramatta South Campus multi-purpose building, which was completed in June 2009, at a cost of \$32.0 million
- \$19.5 million for additional student accommodation at Penrith, which is expected to be completed by the end of 2010, at a total budgeted cost of \$20.6 million.

In 2009, the University received funding for capital works of \$37.9 million. This represented 35 per cent of total capital expenditure, with the remainder being funded by operating cashflows.

Future Capital Works

The University plans to spend in excess of \$230 million over the next three years on capital works. It will fund this program from a combination of internal funds, grants from the Australian Government and borrowings.

The capital expenditure program is designed to address the challenges facing the University, including meeting its infrastructure needs and addressing backlog maintenance. Backlog maintenance at 31 December 2009 was estimated to be \$18.5 million, an increase of 72 per cent from the previous year. The University advised the increase relates to a restructure of their capital plan to realign asset management and up front planning. This change is expected to ensure better and more consistent standards of teaching facilities and improved economies of scale.

Excessive Annual leave

The University's initiatives to reduce employee excess leave balances have been successful as shown in the following table. The table shows the number of staff with leave in excess of 40 days.

Annual Leave Entitlement (Days)	2009		2008	
	No. of Academic Staff	No. of Non-Academic Staff	No. of Academic Staff	No. of Non-Academic Staff
41-60	41	55	55	74
61-90	6	6	7	14
91-120	--	--	--	--
120 +	--	--	--	--
Total	47	61	62	88

Initiatives implemented included regular reporting and monitoring of leave balances. Also changes to excess annual leave implemented through the new General Staff Agreement 2009 – 2012, include 30 days excess leave management and an option for staff to elect a 'cash out' of leave under certain conditions.

Excessive annual leave balances may result in increasing liabilities and costs for the University as employee remuneration levels increase over time and may also have cash flow implications. The overall health of the workforce may also decline if staff are not taking sufficient breaks from work.

Other

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

FINANCIAL INFORMATION

The consolidated financial information includes the financial statements of the University and its controlled entities.

Abridged Statement of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Australian Government grants	254,162	216,596	254,031	216,596
Higher Education Contribution Scheme	135,905	125,322	135,905	125,322
Fees and charges	77,418	68,852	59,977	54,865
Other	67,607	57,777	51,851	46,305
Deferred income – superannuation	--	--	--	--
TOTAL REVENUE	535,092	468,547	501,764	443,088
Employee benefits and on-costs	286,098	271,291	265,707	255,535
Depreciation	27,821	26,117	27,319	25,597
Other	158,074	133,904	155,616	129,877
Deferred expense – superannuation	2,270	--	2,270	--
TOTAL EXPENSES	474,263	431,312	450,912	411,009
SURPLUS	60,829	37,235	50,852	32,079
OTHER COMPREHENSIVE INCOME				
Change in fair value of available for sale financial assets	5,603	(14,980)	5,603	(14,980)
Gain in revaluation of land and buildings	--	4660	--	4660
Transfer of disposal of available for sale financial assets	--	(9,261)	--	(9,261)
Other gains/(losses)	1	72	1	73
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	5,604	(19,508)	5,604	(19,508)
TOTAL COMPREHENSIVE INCOME	66,433	17,727	56,456	12,571

Australian Government grants reflect additional funding of \$20.9 million and increased operating grants \$14.7 million.

Fees and charges rose mainly due to higher revenue from fee-paying overseas students and the increased activity in the adult migrant english program within a controlled entity of the University, UWS College Pty Limited.

The increase in other revenue was due predominantly to increased book sales of \$9.1 million from uwsconnect Ltd, a controlled entity of the University. It was the first full year of running bookshops on campuses.

An increase of \$26.4 million in other expenses was primarily due to a \$7.0 million impairment loss on an asset held for sale due to increased selling costs; a rise in consumables and supplies of approximately \$9.0 million that related to uwsconnect Ltd's costs of goods sold and the return of unspent DEEWR scholarship funding, \$5.3 million.

Abridged Statements of Financial Position

At 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	118,843	107,982	79,231	75,148
Non-current assets	1,089,600	1,046,488	1,087,420	1,044,529
TOTAL ASSETS	1,208,443	1,154,470	1,166,651	1,119,677
Current liabilities	119,989	97,374	114,181	89,227
Non-current liabilities	137,451	172,527	136,768	171,204
TOTAL LIABILITIES	257,440	269,901	250,949	260,431
NET ASSETS	951,003	884,569	915,702	859,246

The increase in current assets was due primarily to an increase in receivables of \$20.9 million relating to Australian Government Financial Assistance.

The rise in current liabilities includes a \$16.0 million increase in accrued payables for capital works and \$5.3 million accrual for the repayment of unawarded scholarship funds to DEEWR.

Although current liabilities exceed current assets in the parent, the University does not consider they have a liquidity risk as:

- current liabilities include \$30 million of leave provisions not expected to be paid in the next 12 months
- the University has access to an undrawn \$28.0 million loan facility.

Non-current liabilities have decreased by approximately \$35.0 million due mainly to a decrease in superannuation liabilities resulting from improved financial markets.

UNIVERSITY ACTIVITIES

The University is constituted under the *University of Western Sydney Act 1997*. It mainly:

- provides educational facilities of a university standard, having particular regard to the needs and aspirations of the residents of Greater Western Sydney
- achieves excellence through a commitment to scholarship, teaching, learning and research and provides educational services in the regional, national and international community beginning in the community of Greater Western Sydney
- disseminates and increases knowledge, undertakes and promotes research and scholarship and contributes to the intellectual life of Greater Western Sydney
- develops consultancy and entrepreneurial activities, including research and development initiatives, that will contribute to the development of Greater Western Sydney
- awards diplomas and degrees of Bachelor, Master and Doctor and other certificates and awards.

For further information on the University, refer to www.uws.edu.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.

The University has provided support in the form of loans/advances to three of its controlled entities, with the most significant being a \$4.0 million loan to Television Sydney (TVS) Limited, of which \$1.0 million was provided in 2009 as not collectable. The University has fully impaired the receivable as it is doubtful that Television Sydney (TVS) Limited will be able to repay the loan.

The University has provided financial guarantees to CADRE Design Pty Limited and Television Sydney (TVS) Limited to meet going concern considerations.

Entity Name	Website
CADRE Design Pty Limited and CADRE Design Unit Trust	www.cadre.com.au
Education Training Community Television (ETC TV) Limited	*
- Television Sydney (TVS) Limited	www.tvn.org.au
- Television Sydney Foundation Limited	
SGSM Limited	*
University of Western Sydney Foundation Limited and University of Western Sydney Foundation Trust	*
UWS College Pty Limited	www.uwscollege.edu.au
UWS Conference and Residential Colleges Limited	*
uwsconnect Limited	www.uwsconnect.com.au
Whitlam Institute within the University of Western Sydney Limited and Whitlam Institute within the University of Western Sydney Trust	www.whitlam.org

* This entity does not have a website.

University of Wollongong

AUDIT OPINION

The completed audits of the University and its controlled entities' financial statements for the year ended 31 December 2009 resulted in unqualified Independent Auditor's Reports, other than for the International Film School Sydney Pty Ltd (previously Sydney International Film School Pty Ltd). Reasons for the qualification are contained in the comment on Illawarra Technology Corporation Limited (ITC Ltd) later in this section.

At the date of finalising this report the audit of two controlled entities had not been completed. These entities are not material to the University's consolidated financial statements. They are referred to under the ITC Ltd comment.

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

KEY ISSUES

Impact of the global financial crisis

Last year, the global financial crisis had a negative impact on the value of the University's investments, reducing them from \$115 million at the start of the year to \$89.2 million as at 31 December 2008. The University believed the decrease in value would not impact its operations or capital works program going forward. This has proven to be the case for 2009.

This year there was a significant improvement in the value of the University's investments (and in the funding of the defined benefits superannuation plans) as economic conditions improved. The University's investments increased in value by \$16.4 million, while the superannuation liability decreased from \$146 million in 2008 to \$119 million in 2009.

Issues Relating to Offshore Operations

I recommend the University ensure that its subsidiary ITC Ltd improves oversight arrangements to ensure compliance with policies and procedures for its University of Wollongong in Dubai operations.

Some issues have been identified with respect to ITC Ltd's offshore campus, the University of Wollongong in Dubai (UOWD). Last year I reported that ITC Ltd's bank account was used inappropriately to transfer private funds for an employee. This year, a corporate credit card was used for personal use by the same employee in contravention of ITC Ltd's policy. An inappropriate salary advance was also made to that employee. More detailed comment on these issues appears under the ITC Ltd section later in this report.

The issues raise concerns over some aspects of oversight arrangements for the UOWD operations.

During 2009 a review of the governance structure of UOWD was undertaken by ITC Ltd. Subsequently the ITC Ltd Board established the UOWD Committee in December 2009, which met for the first time in February 2010. The Committee was established as a committee of ITC Ltd Board. Its primary purpose is to assist and advise the Board in fulfilling its corporate governance and oversight responsibilities in relation to the operations of UOWD.

As the University is ultimately responsible for UOWD it needs to ensure a good level of oversight is operating in order to protect the University's reputation and to reduce financial risks.

Ageing of Academic Staff

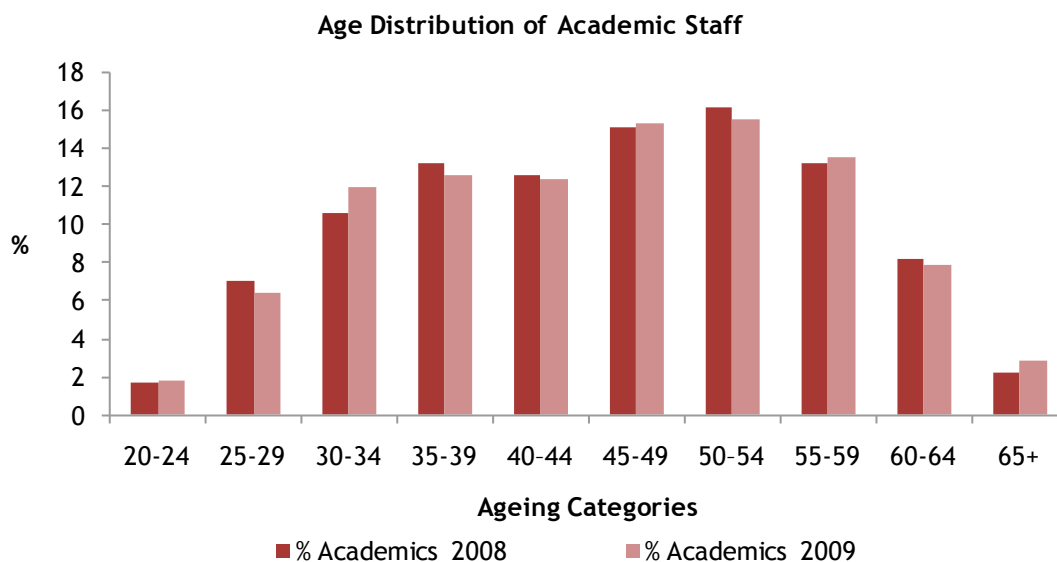
The University is facing challenges from the potential loss of a large number of retiring academic staff. University statistics show that for academic staff:

- 24.2 per cent are aged 55 years and over
- 39.8 per cent are aged 50 years and over.

As at 31 December Age Group	2009		2008	
	Academics FTE	%	Academics FTE	%
20-49	596	60.2	570	60.2
50-54	154	15.6	153	16.2
55-59	134	13.5	125	13.2
60-64	78	7.9	77	8.2
65+	28	2.8	21	2.2
Total	990	100.0	946	100.0

Source: University of Wollongong (unaudited)
FTE: Full time equivalents.

The graph below further demonstrates the age structure of academics:

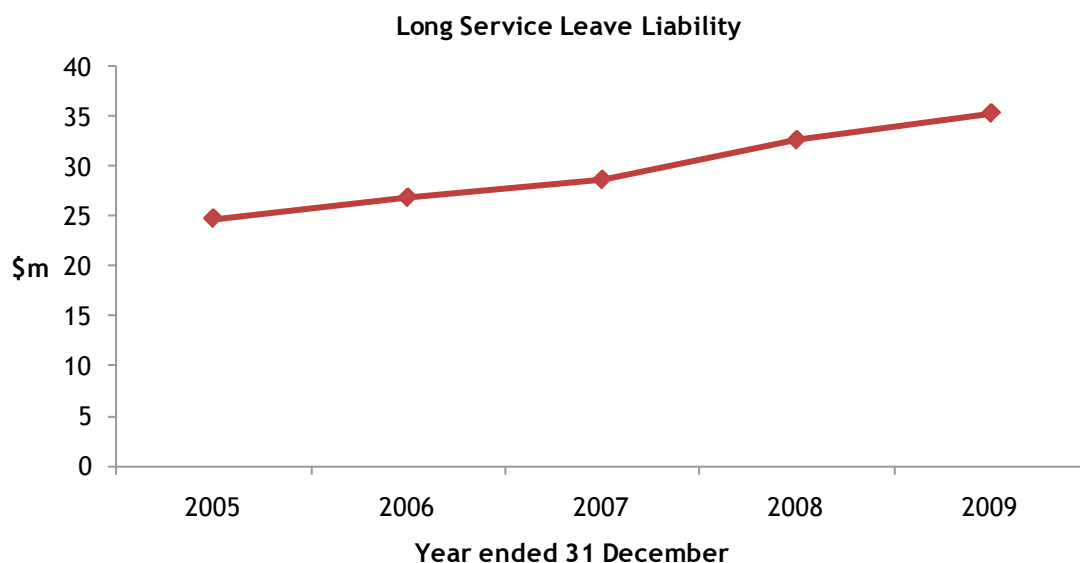


Source: University of Wollongong (unaudited).

To ensure there is an adequate supply of academic staff in the future the University advised that it actively monitors its workforce age profile and has strategies in place to develop, attract and retain staff whose skills are aligned with the strategic direction of the University. Initiatives include developmental programs for early career researchers, Ph D scholarship initiatives, identification of staff with potential for development through the annual strategic retention planning process, recruitment initiatives and transition to retirement initiatives.

Long Service Leave Liability

Increasing long service leave liabilities create funding challenges for the University. Long service leave liabilities have increased by 23.4 per cent over the past three years to \$35.3 million in 2009 (\$32.6 million in 2008).



Source: University of Wollongong Audited Financial Statements

The increase in the liability from 2007 to 2008 resulted from a growth in entitlements plus the impact of a reduced Government bond rate used as the discount factor in calculating the present value of the liability. The reduced Government bond rate resulted from the global financial crisis. The increase between 2008 and 2009 was primarily due to the actuarial assessment of the liability during the year.

Although the University has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

Excess Annual Leave

I recommend that the University review the effectiveness of its policies in managing excess annual leave.

The following table shows the number of staff with leave in excess of 40 days.

Annual Leave Entitlement (Days)	2009		2008	
	No. of Academic Staff	No. of Non-Academic Staff	No. of Academic Staff	No. of Non-Academic Staff
41-60	4	94	4	103
61-90	4	11	6	12
91-120	2	1	--	2
120 +		1	--	1
Total	10	107	10	118

Source: University of Wollongong (unaudited).

There has been little improvement in managing excess leave with 117 staff having leave balances in excess of 40 days at 31 December 2009. The highest annual leave balance was 175.6 days, with the next highest being 105.1 days.

Excess leave balances can adversely affect an organisation. The impacts include a growing leave financial liability due to salary increases, which can impact the organisation's cash flow. Excessive leave balances also may lead to fatigued staff, possibly leading to workplace health and safety issues.

The University has advised it has active procedures in place for managing annual leave accruals for all staff. This involves regular reporting and monitoring of leave balances and a series of escalating actions for the reduction of balances. Staff that have balances which are at or exceed 40 days are required to have in place leave plans to keep their balances within the prescribed limits. Staff that exceed or are approaching a balance of 50 days are required to book leave or have leave forfeited.

PERFORMANCE INFORMATION

(Comparative performance data on universities appears in the 'Universities Overview' section earlier in this Volume. The information shown below is based on consolidated financial statements.)

The University's current ratio (a measure of its financial liquidity) increased from 2.3 in 2008 to 2.4 at 31 December 2009. At this level it is still significantly higher than the State average of 1.4 (1.5 at 31 December 2008) and well within the Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) 'good practice' parameter of 1.5 to 3.0.

Australian Government grants as a percentage of operating revenue decreased from 38.5 per cent in 2008 to 37.9 per cent in 2009. It is lower than the State average of 41.6 per cent (41.2 per cent in 2008) and continues to be below the DEEWR 'good practice' parameter of no more than 50 per cent.

Employee benefits and on-costs as a percentage of operating revenue have decreased from 53.5 per cent in 2008 to 49.4 per cent in 2009. At this level it is now below the State average of 53.4 per cent (55.9 per cent) and is marginally outside the DEEWR 'good practice' parameter of 50 per cent to 70 per cent.

Higher education contributions as a percentage of total revenue decreased from 14.6 per cent in 2008 to 13.3 per cent in 2009. This is below the State average of 14.5 per cent (14.8 per cent).

The University's operating surplus for the year was \$57.7 million or 12 per cent of total revenue (1.4 per cent). This return is the highest of all Universities and is well above the State average of 8.1 per cent (negative 1.4 per cent).

OTHER INFORMATION

Internal Controls

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

Innovation Campus

In previous years I reported that the University was developing and constructing the Innovation Campus via an arrangement with a private sector firm. The first stage of the Campus opened in June 2008. To date five buildings costing \$88.0 million have been completed and are operational.

The first building, iC Central, opened in mid-2008, followed by the Australian Institute for Innovative Materials (AIIM) and the Institute for Transnational and Maritime Security (ITAMS) in 2009. The Sydney Business School and the Digital Media Centre opened in 2010. The Innovation Campus site also contains an 'Out of School Hours' care centre.

The site continues to expand with a second, Commonwealth funded, AIM - Processing and Devices building currently under construction. This building is expected to cost \$43.8 million on completion. In addition, the first fully commercial building (iC Enterprise 1) is also currently under construction and is due to be completed in 2011.

The success of the Innovation Campus will depend on the ability of the University to continue to attract investors and tenants. The University advised all completed buildings were fully occupied during 2009 with the exception of the Sydney Business School and Digital Media Centre, which only opened in recent months.

Future Capital Works

Last year I also reported that the University had commenced a significant capital works program. It plans to spend in excess of \$320 million over the next few years on capital works on the University campus, as well as on buildings at the Innovation Campus. It will fund this program from a combination of internal funds, grants from the Australian Government and borrowings.

Major projects in the next two years include:

- \$40.0 million for a SMART Infrastructure building, due for completion in late 2010
- \$30.0 million for the Illawarra Health and Medical Research Institute building, due for completion mid 2010
- \$71.0 million on the Innovation Campus site.

FINANCIAL INFORMATION

The consolidated financial information comprises the financial statements of the University and its controlled entities.

Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Australian Government grants	182,472	159,906	182,472	159,906
Higher Education Contribution Scheme	66,819	64,087	66,819	64,087
Fees and charges	166,242	140,273	113,033	92,601
Other	65,763	50,974	59,534	36,886
Deferred income - superannuation	(25,283)	86,907	(25,283)	86,907
TOTAL REVENUE	456,013	502,147	396,575	440,387
Employee benefits and on-costs	237,570	222,178	199,275	187,573
Depreciation and amortisation	25,458	25,446	22,310	22,564
Impairment of investment assets	1,665	23,694	1,265	23,694
Other	157,649	138,018	140,480	120,855
Deferred expense - superannuation	(25,283)	86,907	(25,283)	86,907
TOTAL EXPENSES	397,059	496,243	338,047	441,593
Income tax expense	(1,509)	(434)	--	--
Operating (loss)/profit from discontinued operations	(101)	274	--	--
Operating profit/(loss) attributable to minority interest	400	(116)	--	--
SURPLUS/(DEFICIT)	57,744	5,628	58,528	(1,206)
OTHER COMPREHENSIVE INCOME				
Gain/(loss) in value of available for sale financial assets	6,609	(33,462)	6,072	(34,108)
Transfer of realised losses to retained earnings	--	34,373	--	34,373
Other income/(expense)	637	(2,769)	--	--
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	7,246	(1,858)	6,072	265
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	64,990	3,770	64,600	(941)

The increase in Australian Government grants was mainly due to an increase in Commonwealth Grants Support funding, which reflected the increase in Commonwealth supported students from 9,642 in 2008 to 10,805 in 2009, and a total of \$24.0 million received for two projects under the Education Investment Fund and Teaching and Learning Fund.

A major reason for the increase in fees and charges was course fees from an increase in international student numbers, as a result of the University's marketing initiatives and an increase in course fees. International student numbers increased by 638 compared to 2008.

Employee benefits and on-costs increased primarily because of salary increases and growth in staff numbers for both teaching and research activities.

The reduction in impairment of investment assets was due to improved financial markets. Other expenses increased by \$16.6 million to \$127 million in 2009 largely due to a \$4.1 million increase in rental and leasing fees, mainly due to the University now leasing its computer equipment; a \$3.0 million increase in scholarships and grants; and a \$1.9 million increase in consultancy fees, which the University advised relates mainly to information technology and capital works projects.

The decrease in the deferred superannuation expense was mainly due to a decrease in the University's defined benefit superannuation liability following the improvement in financial markets. The Australian Government funds the majority of these liabilities which has minimised the impact on the operating result.

Abridged Balance Sheets

At 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	197,196	177,067	172,342	147,814
Non-current assets	702,558	677,771	691,575	665,344
TOTAL ASSETS	899,754	854,838	863,917	813,158
Current liabilities	106,749	98,581	89,609	74,946
Non-current liabilities	194,316	222,379	200,353	228,857
TOTAL LIABILITIES	301,065	320,960	289,962	303,803
NET ASSETS	598,689	533,878	573,955	509,355

The increase in current assets was mainly due to an increase in cash and investment balances.

Non-current assets increased because of an increase in property, plant and equipment due to the construction of new buildings mentioned earlier.

The decrease in non-current liabilities was mainly due to a decrease in the University's defined benefit superannuation liability.

UNIVERSITY ACTIVITIES

The University is constituted under the *University of Wollongong Act 1989*. It mainly:

- provides educational and research facilities of university standard, having particular regard to the needs of the Illawarra region
- provides courses of study across a range of fields and carries out research to meet community needs
- disseminates and increases knowledge, and
- confers degrees of Bachelor, Master and Doctor and awards diplomas and other certificates.

For further information on the University, refer to www.uow.edu.au.

CONTROLLED ENTITIES

Illawarra Technology Corporation Limited (ITC Ltd)

ITC Ltd was established to support and add value to the strategic goals and objectives of the University. Its activities include marketing and recruiting for the University and delivering offshore and pre-university education.

ITC Ltd is a company limited by shares. To grow its business ITC Ltd pursues opportunities in Australia and overseas. It owns ITC Education Ltd, ITC (New Zealand) Limited, ITC (Middle East) Ltd, ITC Emirates Limited, and has majority ownership interest in the International Film School Sydney Pty Ltd and the International School of European Aviation Pty Ltd (previously Australian School of European Aviation (JAA) Pty Ltd).

ITC (Middle East) Ltd and ITC Emirates Limited are currently dormant companies.

I expressed unmodified opinions on the financial reports of ITC Ltd, ITC Education Ltd, ITC (New Zealand) Limited and ITC (Middle East) Ltd. The audit of ITC Emirates Limited has been finalised, and I will be issuing an unqualified Independent Auditor's Report for it. The delay has been due to difficulties encountered in obtaining original signed financial statements. At the time of writing we were awaiting further information from management regarding the International School of European Aviation Pty Ltd in order to finalise the audits for the years ended 31 December 2008 and 31 December 2009.

I issued a qualified opinion on the financial statements of the International Film School Sydney Pty Ltd. This was because the 2008 financial report was the first the Film School had prepared and I did not become auditor until 28 February 2008. Consequently, I had not audited the prior period operations. I was unable to obtain sufficient appropriate audit evidence to form an opinion on the opening balances as at 1 January 2008. As these balances affected the determination of the results of operations and cash flows for the year ended 31 December 2008, I was unable to form an opinion on these results and cash flows, which are included in the 31 December 2009 financial statements for comparative purposes.

KEY ISSUES

Issues Relating to Offshore Operations

I summarised these issues earlier under the University comment. Details of the issues are as follows:

Payment of salary advances

ITC Ltd advised us that the President of UOWD approved and paid a salary advance of approximately \$7,800 (UAE 23,496 dirhams) to the Vice President Administration on 29 July 2009. This was repaid in the following pay run of 31 August 2009. Salary advances are not permitted to be paid to staff. ITC Ltd advised that the President has been counselled regarding the inappropriateness of this approval, and formally advised that no salary advances are to be provided to any staff in the future.

Inappropriate use of credit cards

ITC also advised the Vice President Administration at UOWD used his corporate credit card for personal transactions in July 2009 (\$4,300) and September 2009 (\$900). These amounts were reimbursed in August 2009 and November 2009 respectively. A review of internal controls by ITC Ltd highlighted a weakness in that the Vice President Administration was approving the summary of credit card expenditure for all credit card users, including his own.

ITC Ltd's Policies and Procedures Manual stipulates that corporate credit cards should only be used for work related expenditure, and that use for personal expenditure is not permitted. Should personal expenditure be incurred, authorisation is required by the CEO of ITC Ltd and an explanation of the exceptional circumstances which led to the transaction. The CEO's authorisation was not obtained in the above mentioned instance. Staff are required to reimburse such expenditure within seven days.

ITC Ltd has subsequently amended its procedures in relation to review of credit card expenditure at UOWD. Executive staff are now required to sign off on their direct reports and all UOWD executive expenditures are to be authorised by the UOWD President. The President's expenditures are to be authorised by the CEO of ITC Ltd.

Late Submission of Controlled Entities' Financial Statements

I recommend ITC Ltd implement a timetable to ensure financial statements are prepared and submitted, for each controlled entity, by the statutory deadline. Failure to submit financial statements within the specified timeframe is a breach of legislative requirements.

Four of ITC Ltd's controlled entities did not submit financial statements within the statutory deadline of six weeks after the year-end. As required by the *Public Finance and Audit Act 1983* I wrote to the Minister advising of the non-compliance by the following entities:

Entity	Date Due	Date submitted
International School of European Aviation Pty Ltd	11 February 2010	10 March 2010
ITC (New Zealand) Limited	11 February 2010	15 March 2010
ITC Emirates Limited (dormant)	11 February 2010	8 March 2010
ITC (Middle East) Ltd (dormant)	11 February 2010	8 March 2010

Business Developments

The following developments in ITC Ltd's operations occurred in 2009:

- introduction of Fee-Help at the International Film School Sydney Pty Ltd resulted in the largest student intake in the history of the school
- ITC (Europe) Ltd was deregistered in January 2009
- trading at ITC (New Zealand) Limited ceased as its operating leases expired in July 2009
- operations at the International School of European Aviation Pty Ltd were suspended during the year as the school was unable to attract sufficient students. The School had been marketed to European students. ITC Ltd's investment of \$400,000 in the School was fully impaired.
- ITC Ltd paid a deposit of \$100,000 for the potential acquisition of an aviation school which specialises in the delivery of an Australian pilot training course for domestic students.

FINANCIAL INFORMATION

ITC Ltd's summarised consolidated financial information is:

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Revenue	70,541	66,927	51,084	52,068
Expenses	64,222	56,786	47,066	42,103
Income tax expense (benefit)	1,552	403	(722)	1,061
Profit from continuing operations	4,767	9,738	4,740	8,904
Profit/(loss) from discontinued operations	(101)	273	(126)	38
Profit	4,666	10,011	4,614	8,942
Other comprehensive income/(expense)	1,259	(2,122)	1,159	(2,452)
Total comprehensive income	5,925	7,889	5,773	6,490
Net assets (at 31 December)	12,069	10,948	8,985	8,112

Profit has decreased from \$10.0 million to \$4.7 million. This was mainly due to the sale of an investment last year for \$3.2 million.

Expenses rose proportionately more than the increase in revenue as ITC Ltd invested in improving the quality and capacity of its operations, which included implementation of a new remuneration system in both Dubai and Australia; creation of new teaching support and marketing positions; and the development of three new undergraduate courses and doctoral programs in UOWD.

Revenue increased as the ITC Ltd group experienced strong student demand from its operations in both Wollongong and Dubai, and was able to generate significant international student income.

The impact of the global financial crisis did not impact ITC Ltd's operations.

Wollongong UniCentre Limited (UniCentre)

UniCentre, which is limited by guarantee, aims to complement the academic activities of the University of Wollongong by providing relevant products, services and facilities to meet the diverse social and cultural needs of the University population. In November 2004, the board of the company established a wholly owned subsidiary, UniCentre Conferences and Functions Pty Limited, to provide conference and functions services.

UniCentre's summarised consolidated financial information is:

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Revenue	17,289	16,066	16,395	14,766
Expenses	17,252	15,912	16,135	14,685
Income tax expense (benefit)	(43)	31	--	--
Profit after income tax	80	123	260	81
Total comprehensive income	80	123	260	81
Net assets (at 31 December)	9,031	8,950	9,139	8,878

Revenue increased mainly because of increases in income from book sales, childcare and food services.

Expenses increased predominantly because of higher employee related expenses for additional staff and wage rises.

The subsidiary incurred an operating loss of \$97,000 (\$86,000 profit in 2008). The loss, combined with negative net assets and an unfavourable liquidity ratio raises concerns over the subsidiary's ability to operate as a going concern. UniCentre will provide financial support to assist the subsidiary if required.

University of Wollongong Recreation and Aquatic Centre Limited

This company, limited by guarantee, principally provides aquatic and recreational facilities to the University community and the general public.

Year ended 31 December	2009 \$'000	2008 \$'000
Revenue	2,668	2,304
Expenses	3,693	3,087
Income tax expense	--	--
Loss	1,025	783
Net assets (at 31 December)	3,636	4,662

Mainly as a result of the change to voluntary student unionism introduced by the Australian Government in 2006, revenue from student membership has fallen for the last three years. The company incurred an operating loss of \$1.0 million for the year (\$783,000 loss in 2008). The loss, together with an unfavourable liquidity ratio and projected losses for the next couple of years, raises concerns over the company's ability to continue as a going concern. The University is committed to supporting the company's ongoing development and if required, will provide financial support.

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
The Sydney Business School Pty Limited

Minister for Lands

Refer to Appendix 1 for:

Wild Dog Destruction Board

Minister for Primary Industries

Refer to Appendix 1 for:

Trustees of the Farrer Memorial Research Scholarship Fund

Wine Grapes Marketing Board

Minister for Sport and Recreation

Refer to Appendix 1 for:

Boxing Authority of New South Wales

Parramatta Stadium Trust

Minister for Water

Gosford Water Supply Authority

Wyong Water Supply Authority

Gosford Water Supply Authority

AUDIT OPINION

The audit of the Authority for the year ended 30 June 2009 resulted in a qualified Independent Auditor's Report. I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the fair value and recoverability of the Authority's investment portfolio of \$46.5 million.

During the year ended 30 June 2009, global financial markets experienced a period of high volatility, which impacted the value, recoverability, liquidity, cash flows and rates of return of many financial assets. This market volatility impacted the Authority's investment portfolio. Many of its investments did not have market values that were independently quoted and were not widely traded.

The audit report for 2007-08 was similarly qualified.

KEY ISSUE

Dividend

The Authority paid a dividend of \$1.7 million (\$1.8 million in 2007-08) to Gosford City Council. Local government water and sewerage supply businesses are permitted to pay annual dividends to Councils from operating surpluses.

PERFORMANCE INFORMATION

Operational Performance Indicators

Year ended 30 June	2009	2008	2007	2006
Average volume of water consumed (kilolitres) per residential property	140	135	147	179
Water quality complaints per 1,000 properties	25.3	94.3	56.4	57.1
Average frequency of unplanned water supply interruptions per 1,000 properties	203.4	181.0	280.0	293.0
Water main breaks per 100 km of water main	27.1	28.9	36.4	43.0
Water losses (kilolitres/water main kilometre/day)	1.8	1.4	na	na
Total connection sewer main breaks and chokes per 100 kilometres of sewer main	29.7	35.4	43.9	44.0
Percentage of sewage treated to a secondary level (%)	98.1	99.0	99.0	100.0

Source: National Water Commission 'National Performance Report 2007-08: urban water utilities', March 2009 and Gosford City Council.
na not available.

The Authority advised:

- the average volume of water consumed (kilolitres) per residential property increased slightly due to an easing in water restrictions during 2008-09
- water quality complaints decreased as a result of works undertaken by the Authority under its \$9.0 million Water Quality 2010 initiative. The project comprised capital works, maintenance activities, system management and operational enhancements, monitoring and analysis programs, and a communications strategy. The project was supported by a \$4.5 million grant from the Federal Government.
- water main breaks reduced over time as a result of the Authority's expanded water main renewal program
- total connection sewer main breaks and chokes per 100 kilometres of sewer main decreased over time due to a proactive sewerage maintenance strategy.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2009 \$'000	2008 \$'000
Service charges	33,261	32,280
Usage charges	21,005	16,765
Other	9,234	6,811
TOTAL REVENUE	63,500	55,856
TOTAL EXPENSES	58,345	52,216
SURPLUS	5,155	3,640

The increase in service and usage charges was due to an easing of water restrictions, which resulted in a higher sales volume. Other revenue increased due to additional grant income of \$1.3 million and higher interest income of \$254,000.

Expenses increased due to higher borrowing costs of \$1.0 million associated with additional borrowings, higher depreciation of \$1.9 million due to an increase in assets, higher employee costs of \$1.8 million due to higher wages rates and a loss on the sale of water assets of \$349,000 (nil in 2008).

Abridged Balance Sheet

At 30 June	2009 \$'000	2008 \$'000
Current assets	54,639	48,226
Non-current assets	852,944	835,439
TOTAL ASSETS	907,583	883,665
Current liabilities	12,492	10,392
Non-current liabilities	56,601	38,266
TOTAL LIABILITIES	69,093	48,658
NET ASSETS	838,490	835,007

Current assets increased by \$6.4 million mainly due to the investment of temporary cash balances.

Non-current assets increased with the construction of infrastructure assets under the Gosford/Wyong Joint Water Scheme. This included components of the Mardi to Mangrove Transfer System and the Mardi Suite of Works. The Authority funded the construction costs by increased borrowings of \$20.0 million.

AUTHORITY ACTIVITIES

Gosford Water Supply Authority is part of Gosford City Council and provides water, sewerage and related services.

For further information on Gosford City Council, refer to www.gosford.nsw.gov.au.

Wyong Water Supply Authority

AUDIT OPINION

The audit of the Authority for the year ended 30 June 2009 resulted in an unqualified Independent Auditor's Report.

PERFORMANCE INFORMATION

Operational Performance Indicators

Year ended 30 June	2009	2008	2007	2006
Average volume of water consumed (kilolitres) per residential property	141	146	139	163
Water quality complaints per 1,000 properties	4.9	3.4	7.2	9.0
Average frequency of unplanned water supply interruptions per 1,000 properties	58.8	39.0	33.0	--
Water main breaks per 100 km of water main	8.6	4.0	4.0	5.0
Water losses (kilolitres/water main kilometre/day)	1.5	1.5	1.4	1.7
Total connection sewer main breaks and chokes per 100 kilometres of sewer main	47.7	46.6	38.0	48.7
Percentage of sewage treated to a secondary level	91.0	92.0	91.0	92.0
Percentage of sewage treated to a tertiary level	9.0	8.0	10.0	8.0

Source: National Water Commission 'National Performance Report 2007-08: urban water utilities', March 2009 and Wyong Shire Council. The Indicators for the year 2009 are the Authority's best estimate.

The Authority experienced a higher than normal number of water main breaks in 2008-09, for example with some of the trunk mains. This has also impacted the indicator for unplanned water supply interruptions.

Although water main breaks per 100 kilometres has doubled since 2008, the Authority recorded the lowest water main breaks in Australia for the fourth consecutive year. Water main breaks are expected to occur, and this number water main breaks does not appear to indicate an underlying maintenance problem.

Other measures have remained fairly constant.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2009 \$'000	2008 \$'000
Service charges	30,672	29,445
Usage charges	20,358	16,196
Other	7,872	10,776
TOTAL REVENUE	58,902	55,810
TOTAL EXPENSES	81,192	79,767
DEFICIT	22,920	23,957

The increase in usage charges was mainly due to higher water supply charges and increased sales volumes. The Authority eased water restrictions during 2008-09 and this translated to higher water sales.

The decrease in other revenue was mainly due to a reduction in investment earnings of \$1.7 million. This included unrealised and realised capital losses on managed funds investments of \$1.4 million. The Authority anticipates that most of the unrealised losses will be recovered in 2009-10.

Abridged Balance Sheet

At 30 June	2009 \$'000	2008 \$'000
Current assets	56,517	62,135
Non-current assets	1,024,102	997,209
TOTAL ASSETS	1,080,619	1,059,344
Current liabilities	40,452	20,809
Non-current liabilities	105,270	112,046
TOTAL LIABILITIES	145,722	132,855
NET ASSETS	934,897	926,489

The decline in current assets is due to a lower level of investments at year end. The Authority used the funds to meet loan repayments and the costs of operating activities.

Non-current assets increased with the construction of infrastructure assets under the Gosford/Wyong Joint Water Scheme. The Authority funded the construction costs by increased borrowings of \$20.0 million. The borrowings are in the form of an advance from Wyong Shire Council and are disclosed as a current liability.

AUTHORITY ACTIVITIES

Wyong Water Supply Authority is part of Wyong Shire Council and provides water, sewerage and related services.

For further information on Wyong Shire Council, refer to www.wyong.nsw.gov.au.

Premier

Refer to Appendix 1 for:

Trustees of the ANZAC Memorial Building

Appendices

Appendix 1
Agencies not reported elsewhere in this Volume

Appendix 2
Financial Statements Not Received by Statutory Date
(as at 2 June 2010)

Appendix 3
Financial Statements Received but Audit Incomplete by Statutory Date
(as at 2 June 2010)

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	Period/Year Ended
Boxing Authority of New South Wales	*	30 September 2009
NSW Board of Vocational Education and Training	*	30 June 2009
Parramatta Stadium Trust	www.parramattastadium.com.au	31 December 2009
Technical Education Trust Funds	*	31 December 2009
Trustees of the ANZAC Memorial Building	www.rslnsw.com.au	31 December 2009
Trustees of the Farrer Memorial Research Scholarship Fund	http://www.dpi.nsw.gov.au/agriculture/field-crops/farrer-memorial-trust	31 December 2009
UNILINC Limited	www.unilinc.edu.au	31 December 2009
Wild Dog Destruction Board	*	31 December 2009
Wild Dog Destruction Board Division	*	31 December 2009
Wine Grapes Marketing Board	www.wgmb.net.au	31 December 2009

* This entity does not have a website.

Appendix 2 - Financial Statements Not Received by Statutory Date (as at 2 June 2010)

Entity Name	Period/Year Ended	Due Date	Date Financial Statements Received
Boxing Authority of New South Wales	30 September 2009	12 November 2009	19 March 2010
International School of European Aviation Pty Ltd	31-December 2009	11 February 2010	10 March 2010
ITC (Middle East) Ltd	31-December 2009	11 February 2010	8 March 2010
ITC (New Zealand) Limited	31-December 2009	11 February 2010	15 March 2010
ITC Emirates Limited	31-December 2009	11 February 2010	8 March 2010
Macquarie University Medical Research Foundation	31-December 2009	11 February 2010	6 April 2010
Macquarie University Medical Research Foundation Limited	31-December 2009	11 February 2010	6 April 2010
MUH Operations No. 2 Limited	31-December 2009	11 February 2010	8 March 2010
MU Operations Pty Ltd	31-December 2009	11 February 2010	8 March 2010
Riverina Citrus	30 April 2010	11 June 2010	Not yet received
Sydney Cricket and Sports Ground Trust	28 February 2010	12 April 2010	Not yet received
Sydney Cricket and Sports Ground Trust Division	28 February 2010	12 April 2010	Not yet received
Trustees of the Farrer Memorial Research Scholarship Fund	31-December 2009	11 February 2010	15 February 2010
UTSM Services (Malaysia) Sdn Bhd	31 December 2009	11 February 2010	Not yet received

Appendix 3 - Financial Statements Received but Audit Incomplete by Statutory Date (as at 2 June 2010)

The *Public Finance and Audit Act 1983* requires that we issue an audit opinion within ten weeks of receiving an agency's financial statement. The Act also states that we cannot issue our opinion until the agency has signed its financial statement.

Access Macquarie Limited

Completion of the audit has been delayed pending the resolution of a number of issues.

Bandwidth Foundry International Pty Limited

Completion of the Bandwidth Foundry audit has been delayed pending the resolution of a number of issues.

Charles Sturt University

The audit was completed on 5 May 2010.

International School of European Aviation Pty Ltd

We are awaiting further information from management in order to finalise the audits for the years ended 31 December 2008 and 31 December 2009.

ITC Emirates Limited

The delay has been due to difficulties encountered in obtaining original signed financial statements.

Macquarie University Property Investment Company No. 2 Pty Limited

The audit was completed on 27 May 2010

Macquarie University Property Investment Company Pty Limited

The audit was completed on 27 May 2010

Macquarie University Property Investment Trust

The audit was completed on 27 May 2010

MUPI Holding Trust No. 1

The audit was completed on 27 May 2010

MUPI Holding Trust No. 2

The audit was completed on 27 May 2010

MUPI Holding Trust No. 3

The audit was completed on 27 May 2010

MUPI Holding Trust No. 4

The audit was completed on 27 May 2010

MUPI Holding Trust No. 5

The audit was completed on 27 May 2010

MUPI Holding Trust No. 6

The audit was completed on 27 May 2010

MUPIT Sub-Trust No. 1

The audit was completed on 27 May 2010

MUPIT Sub-Trust No. 2

The audit was completed on 27 May 2010

MUPIT Sub-Trust No. 3

The audit was completed on 27 May 2010

MUPIT Sub-Trust No. 4

The audit was completed on 27 May 2010

Risk Frontiers Flood (Australia) Pty Limited

The audit was completed on 6 May 2010

Risk Frontiers Group Pty Limited

The audit was completed on 6 May 2010

Sport Knowledge Australia Pty Limited

The previous audit of Sport Knowledge Australia Pty Limited for the year ended 30 June 2008, conducted by a private sector auditor, is incomplete. Our audit for the period to 31 December 2008 and 2009 cannot progress until the prior year audit is complete.

U@MQ Limited

The audit was completed on 31 May 2010

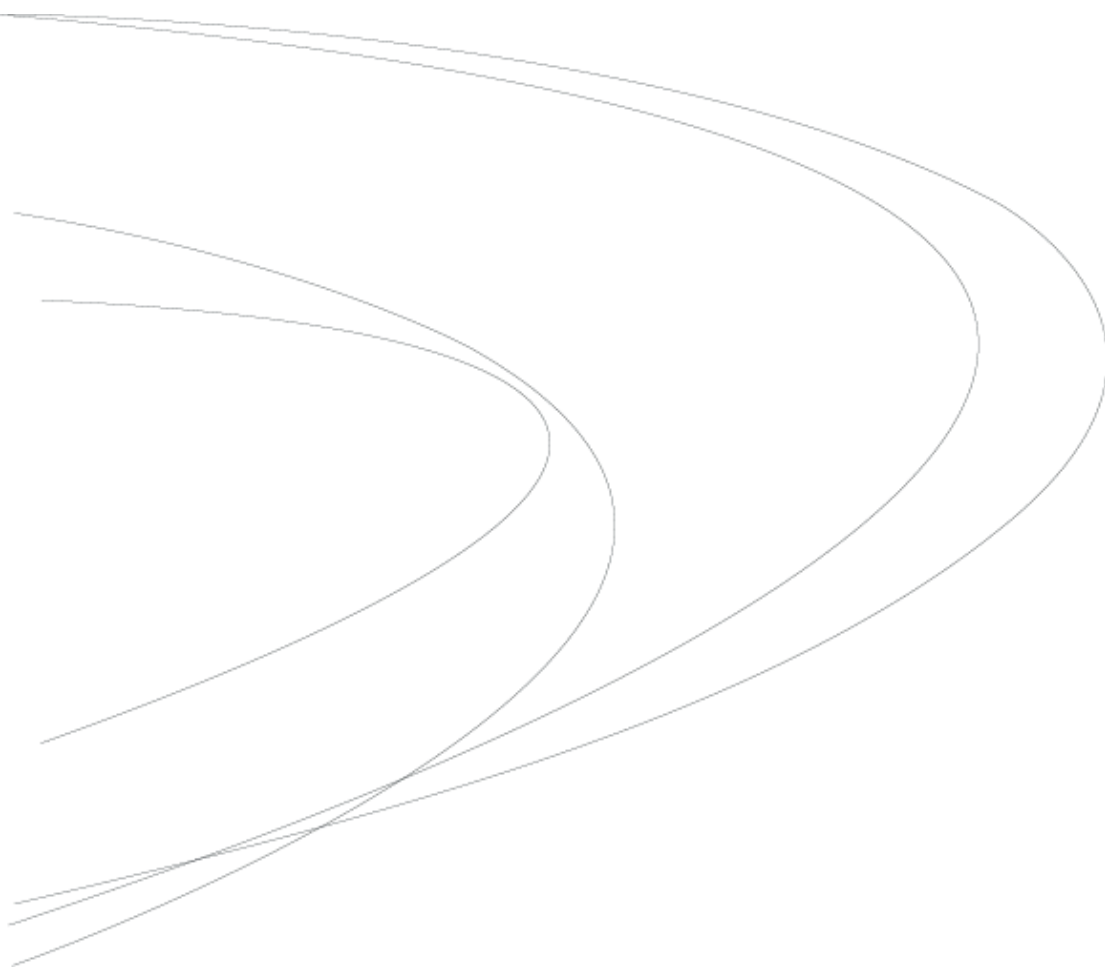
UNSW Global Pty Limited

The audit was completed on 10 May 2010

UNSW Hong Kong Limited

Completion of the audit has been delayed pending taxation advice.

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AUDITOR-GENERAL'S REPORT

FINANCIAL AUDITS

Volume Three 2010



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 Three of my 2010 Report.

Peter Achterstraat
Auditor-General

Sydney
October 2010

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Significant Matters

This report includes:

- audit result for the Total State Sector Accounts
- comments on the quality and timeliness of financial reporting
- financial analysis of the General Government and Total State Sectors
- a review of major capital projects for the State
- analysis of variances to budgetary information presented to Parliament and a review of budget highlights
- analysis of compliance with the *Fiscal Responsibility Act 2005*
- comments on agency amalgamations
- legal opinions provided by the Attorney General and Crown Solicitor.

AUDIT RESULT

The audit of the Total State Sector Accounts for the year ended 30 June 2010 resulted in a qualified Independent Auditor's Report.

Qualification

I was unable to obtain all information required to form an opinion on the value of the Crown reserves and the infrastructure on those reserves that should be recorded in the Total State Sector Accounts.

The Treasury has advised me that its preliminary assessment of the total value of Crown reserves controlled by the New South Wales Government, but not currently recognised in the Total State Sector Accounts, is between \$3.0 billion and \$5.0 billion. However, the total value may be greater. In addition, the estimated value of infrastructure on Crown reserves is between \$4.0 billion and \$5.5 billion.

Emphasis of Matter

I included an emphasis of matter relating to the significant uncertainty regarding an objection to a taxation assessment of \$424 million (\$259 million of duty and \$165 million of interest) recorded as revenue in 2006-07. Interest on the assessed amount increased by a further \$30.0 million during 2009-10 (\$41.0 million in 2008-09). The total amount receivable by the State as at 30 June 2010 is \$532 million.

The matter has been set down for hearing in the Supreme Court in October 2010. Until this matter is resolved, the ultimate outcome and its impact on the Net Operating Balance cannot be determined.

Other significant matters include:

NSW Lotteries

On 31 March 2010, the State granted a 40 year lotteries operating licence and sold the shares in the NSW Lotteries Corporation and granted other concessions to Tattersall's Holding Pty Ltd. Further comment on this transaction is included in the section titled Audit Result.

Sydney Metro Authority

Sydney Metro Authority has settled \$93.5 million of compensation claims and written off assets valued at \$176 million as a result of the decision to stop work on the Metro Network stages 1 and 2.

Amendments to the *Public Authorities (Financial Arrangements) Act 1987* (Repeat Issue)

I recommend that the Treasurer present amendments to the *Public Authorities (Financial Arrangements) Act 1987* (PAFA Act) to Parliament at its next sitting.

In 2006, I informed The Treasury that some of the advice in *TC06/17 Consequences of New Employment Arrangements – Other Taxation, Administrative and Operational Issues* is inconsistent with the provisions in the PAFA Act. To correct this, The Treasury said they would change the PAFA Act but so far the Treasurer has not presented an amending Act to Parliament.

There have been unreasonable delays in resolving this issue and it is probable that some agencies are breaching the PAFA Act because they are relying on the incorrect advice in *TC06/17*.

QUALITY AND TIMELINESS OF FINANCIAL REPORTING

I recommend the Premier and the Treasurer implement the recommendations of the Public Accounts Committee relating to the quality and the timeliness of financial reporting and ensure they have appropriate policies and processes to support the successful implementation of the recommendations.

Last year I expressed concerns about the quality and timeliness of financial reporting. While I recognise that events occur after the Budget is tabled in early June, I believe improved financial information would better inform the budget process and reduce subsequent variations and revisions. Refer to further comments under the title Net Operating Balance.

The quality and timeliness of the General Government and Total State Sector Accounts is largely dependent on:

- the quality and timeliness of financial information provided by agencies
- The Treasury's year end processes including coordination and guidance to agencies
- the competency of those preparing and providing financial information.

The Treasury will need to ensure appropriate policies and processes are in place to support the successful implementation of the Public Accounts Committee's recommendations. Implementing the recommendations will pose significant challenges for The Treasury, my Office and Government agencies, which need to be addressed urgently.

During 2009-10, The Treasury piloted a 'hard close' initiative to improve the quality and timeliness of financial reporting. Because the initiative was only partially implemented by some of the piloted agencies, it is difficult to determine how successful the initiative was. However, I firmly believe the full implementation of hard close procedures across the sector will result in improved quality and timeliness of financial reporting.

Seven (12) of the 24 largest agencies' financial statements for the year ended 30 June 2010 submitted for audit contained 24 (25) errors exceeding \$20.0 million.

Review of Recommendations made in 2009 Reports to Parliament

During 2009, I made 157 recommendations to improve the performance of agencies consolidated in the Total State Sector Accounts. I have reviewed the current status of these items and found the majority have been actioned and/or have been partially implemented.

Unactioned items have been separately identified.

FINANCIAL ANALYSIS

I have analysed trends in assets, liabilities, revenues and expenses. Significant transactions include:

Crown Restructuring and Privatisation Costs

During 2009-10, the Crown Entity incurred costs of approximately \$88.3 million associated with restructuring of the Energy Sector and privatisation of NSW Lotteries and WSN Environmental Solutions. Over the past three years, the Crown has incurred a total of \$124 million restructuring the Energy Sector.

MAJOR CAPITAL PROJECTS

The 2009-10 Budget states:

‘Over the four years to 2012-13, New South Wales will undertake a record infrastructure investment program, the largest in the State’s history, worth around \$62.9 billion. In 2009-10, Total State infrastructure investment is budgeted at \$18.0 billion.’

I have reviewed the status of major capital projects as set out in the Infrastructure Statement for 2009-10. Attention was focused on projects with anticipated costs exceeding \$30.0 million or more over the life of the project. I noted that most projects were on track to meet the original completion date. However, some projects have been delayed.

NET OPERATING BALANCE - GENERAL GOVERNMENT SECTOR

Total Revenues have increased by 13.4 per cent from \$49.6 billion to \$56.3 billion. Total expenses have increased by 9.5 per cent from \$50.5 billion to \$55.3 billion.

I have analysed variations to both the original budget presented to Parliament in June 2009 and the revised budget presented as part of the 2010-11 Budget Papers in June 2010.

I reviewed the status of budget highlights identified in the 2009-10 Budget Overview. I noted most highlights have been achieved by agencies.

National Partnership payments were \$504 million above the budget estimate, which contributed significantly to the reported surplus of \$994 million. If stimulus funding of \$3.2 billion had been excluded from the Net Operating Balance, the result would have been a deficit of \$861 million. Further comment is included in the section titled Net Operating Balance – General Government Sector.

COMPLIANCE WITH THE *FISCAL RESPONSIBILITY ACT 2005*

I recommend the Government seek amendments to the *Fiscal Responsibility Act 2005* (FR Act) so that it provides targets and priorities within the control of Government as part of the five yearly review.

The medium term targets of the FR Act have not been achieved at 30 June 2010. I understand The Treasury is currently conducting the statutory five-yearly review of the Act. A report on the outcomes will be tabled in Parliament by June 2011.

General Government Sector net financial liabilities were \$52.9 billion as at June 2010, equivalent to approximately 12.6 per cent (12.0 per cent) of Gross State Product (GSP). This is five per cent higher than the 7.5 per cent FR Act target for 30 June 2010. The long term target is six per cent or less by 30 June 2015.

At 30 June 2010, the General Government Sector net debt was 2.2 per cent (\$9.4 billion) of GSP compared to 2.0 per cent (\$8.1 billion) of GSP as at June 2009. This is 1.4 per cent above the FR Act target of 0.8 per cent of GSP.

Total State Sector unfunded superannuation liabilities were \$34.5 billion at June 2010, an increase of \$3.5 billion from June 2009. The FR Act target is to eliminate Total State Sector unfunded superannuation liabilities by 30 June 2030.

AGENCY AMALGAMATIONS

In 2009, the Government announced a comprehensive reform of the public sector, amalgamating 160 government agencies and offices into 13 new departments. The amalgamation has resulted in 13 new clusters as opposed to 13 new departments.

Governance Arrangements

I recommend The Treasury and Department of Premier and Cabinet clarify the intention of *TPP 09-05 Internal Audit and Risk Management Policy for the New South Wales Public Sector*. If the intention is for authorities within the same 'cluster' to use the Audit and Risk Committee of another authority, they should seek amendments to Section 11(2) of the *Public Finance and Audit Act 1983* (PF&A Act) and the TPP 09-05 to clearly authorise this.

Following the July 2009 amalgamation order, some new departments have proposed and established a single audit committee for the new department and invited other authorities within their clusters to use their audit committee. In some cases, authorities have accepted this invitation. However, some authorities share my concern as to the legality of such arrangements under the PF&A Act and TPP 09-05.

Subsequent legal advice indicates that such arrangements are not contemplated by either the PF&A Act or TPP 09-05. Further comments on these arrangements are included in the section titled Agency Amalgamations.

Financial Reporting Requirements

I recommend that The Treasury and Department of Premier and Cabinet take a lead role in monitoring, supporting and reporting on the implementation of common financial reporting and support systems within the new departments.

During my audits of amalgamated agencies I identified:

- some agencies are yet to make significant progress on implementing common financial reporting and support systems to leverage synergies expected from the amalgamations
- additional costs associated with the amalgamations are not readily identifiable
- systems have not been put in place to capture and report cost savings associated with the initiative.

LEGAL OPINIONS PROVIDED BY THE ATTORNEY GENERAL OR CROWN SOLICITOR

I have included all recent legal opinions obtained from the Attorney General or the Crown Solicitor under section 33 of the PF&A Act. Refer to Appendix A at the end of this volume.

Audit Result

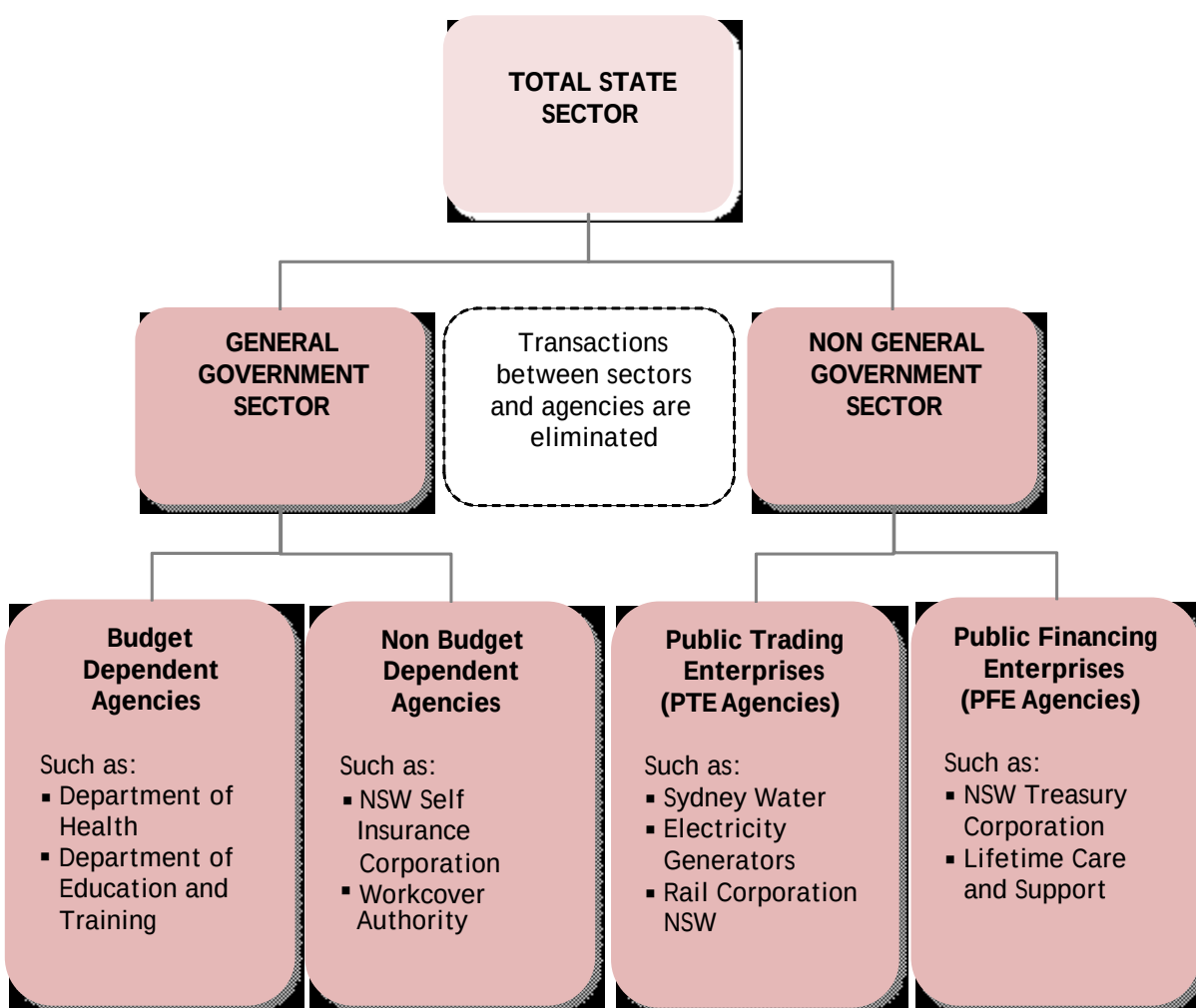
INTRODUCTION

The *Public Finance and Audit Act 1983* requires the Treasurer to prepare and submit consolidated financial statements for the New South Wales General Government and Total State Sectors to the Auditor-General by 15 September each year.

After the financial statements have been audited, the Treasurer presents them to Parliament and the Auditor-General reports the results of his audit to Parliament by 31 October.

THE GENERAL GOVERNMENT SECTOR AND TOTAL STATE SECTOR

The General Government and Total State Sectors are structured as shown below:



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

AUDIT OPINION

I modified my opinion on the General Government and Total State Sector Accounts for the following reasons:

Qualification

I was unable to obtain all information required to form an opinion on the value of the Crown reserves and the infrastructure on those reserves that should be recorded in the Total State Sector Accounts.

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

The Treasury has advised me that based on its preliminary assessment the total value of reserves controlled by the New South Wales Government, but not currently recognised in the Total State Sector Accounts, is between \$3.0 billion and \$5.0 billion. However, the total value may be greater, depending on the current valuation of the controlled assets. In addition, the estimated value of infrastructure on Crown reserves is between \$4.0 billion and \$5.5 billion.

The New South Wales Government will recognise the value of the assets it controls in future Total State Sector Accounts once the value can be reliably estimated.

Emphasis of Matter

Without further qualification to the audit opinion, an emphasis of matter relating to a significant uncertainty regarding an objection to a taxation assessment has been included in my opinion on the General Government Sector's financial statements.

In 2007, the Crown Entity recognised a one-off taxation assessment of \$424 million (\$259 million of duty and \$165 million of interest), which has increased to \$532 million with additional interest. The matter has been set down for hearing in the Supreme Court in October 2010.

Until this matter is resolved, the ultimate outcome and its impact on the Net Operating Balance cannot be determined.

Removal of Qualification for Land Under Roads

Land under roads valued at \$4.0 billion was recognised for the first time in the 2009-10 Total State Sector Accounts, removing the need to qualify my opinion concerning this matter.

OTHER SIGNIFICANT ISSUES

Other significant issues I noted include:

AAA Credit Rating

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

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

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

NSW Lotteries

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

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

The Treasury has accounted for the transaction as:

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

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

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

Sydney Water Corporation - Water Filtration Plants

The Total State Sector Accounts do not include a liability of \$477 million (\$481 million) relating to water filtration plants.

Sydney Water has agreements with the owners/operators of water filtration plants for the filtration of bulk water. The agreements are for 25 years and require Sydney Water to pay the owners a fee for the service provided. At the end of the agreement, Sydney Water has the option to extend the arrangements or to acquire the filtration plants at market value.

In my opinion, these arrangements effectively transfer to Sydney Water substantially all the risks and benefits incidental to ownership of the plants. Sydney Water considers these agreements to be service agreements for the filtration of water. They consider the agreements do not meet the definition of a finance lease as the agreements do not convey the right for Sydney Water to use the assets.

Sydney Metro Authority

As part of the New South Wales Government's February 2010 decision to stop work on the Metro Network stages 1 and 2, the Government announced it would compensate tenderers for major construction contracts for reasonable costs incurred.

Sydney Metro Authority established a review process to assess claims provided by all short listed tenderers. All claims by tenderers for major construction contracts were settled before 30 June 2010 at a total cost of \$93.5 million.

There are a further 75 claims relating to property and leasehold owners impacted by the Government's decision.

Sydney Metro Authority also wrote off assets of \$176 million during 2009-10.

Lifetime Care and Support Scheme

There is uncertainty in the estimate of the Scheme's provision for participants' care and support services, which was \$1.0 billion at 30 June 2010 (\$610 million).

The Lifetime Care and Support Scheme provides treatment, rehabilitation and attendant care services to people severely injured in motor accidents in New South Wales, regardless of who was at fault in the accident.

There is uncertainty associated with the estimate of the provision and the related expense item because of the long term nature of the provision and limited participants' experience to date. This uncertainty will remain until sufficient participants' experience is available.

Uncertainty regarding the effect of electricity industry reforms and carbon reduction scheme

The assessment of the carrying value of electricity generation assets is subject to unpredictable complex assumptions particularly regarding the potential impact of the New South Wales Government's proposed electricity industry reforms and any future carbon reduction scheme. The ultimate extent of the impact of the proposed reforms and the scheme cannot presently be determined and these create uncertainties regarding the fair value assessment of those assets.

Amendments to the *Public Authorities (Financial Arrangements) Act 1987* (Repeat Issue)

I recommend that the Treasurer present amendments to the *Public Authorities (Financial Arrangements) Act 1987* (PAFA Act) to Parliament at its next sitting.

In 2006, I informed The Treasury that some of the advice in *TC06/17 Consequences of New Employment Arrangements – Other Taxation, Administrative and Operational Issues* is inconsistent with the provisions in the PAFA Act. To correct this, Treasury said they would change the PAFA Act, but so far the Treasurer has not presented an amending Act to Parliament.

There have been unreasonable delays in resolving this issue and it is probable that some agencies are breaching the PAFA Act because they are relying on the incorrect advice in TC06/17.

Quality and Timeliness of Financial Reporting

I recommend the Premier and the Treasurer implement the recommendations of the Public Accounts Committee relating to the quality and the timeliness of financial reporting and ensure they have appropriate policies and processes to support the successful implementation of the recommendations.

The quality and timeliness of the General Government and Total State Sector Accounts is largely dependent on:

- the quality and timeliness of financial information provided by agencies
- The Treasury's year end processes including coordination and guidance to agencies
- the competency of those preparing and providing financial information.

The financial reporting process is complicated by the structure and number of reporting entities in the New South Wales public sector. The consolidated financial statements incorporate the financial results and position of 122 agencies controlled by the State with total net assets of \$151 billion.

In October 2010, the Public Accounts Committee released a report on the Quality and Timeliness of Financial Reporting. The Committee recommended:

- the Treasurer require all agencies to conduct a hard close of their accounts at 31 March from 2011
- the Treasurer propose amendments to the *Public Finance and Audit Act 1983* requiring chief financial officers to certify their financial reporting systems
- the Premier ensure that accountability for accurate and timely financial reporting is included in all chief executive officers' performance agreements
- the Treasurer develop and implement a program to bring forward the deadline for the tabling of annual reports in Parliament to three months after the end of the financial year by 2013 at the latest
- the Treasurer consider proposing amendments to prescribe minimum qualifications of chief financial officers in the *Public Finance and Audit Act 1983*.

The Treasury will need to ensure appropriate policies and processes are in place to support the successful implementation of the Public Accounts Committee's recommendations. This will pose significant challenges for The Treasury, my Office and Government agencies, which need to be addressed urgently.

The Treasury has defined 'hard close' to be the preparation of a full set of financial statements, note disclosures and work papers, including analytical review, for the nine months to March (or ten months to April).

PREPARATION OF FINANCIAL STATEMENTS

During 2009-10, The Treasury piloted a 'hard close' initiative to improve the quality and timeliness of financial reporting. Because the initiative was only partially implemented by some of the piloted agencies, it is difficult to determine how successful the initiative was. However, I firmly believe the full implementation of hard close procedures across the sector will result in improved quality and timeliness of financial reporting.

Seven (12) of the 24 largest agencies' financial statements submitted for audit contained 24 (25) errors exceeding \$20.0 million.

	Errors \$20 - \$50 million	Errors \$50 - \$100 million	Errors \$100 million - \$1 billion	Errors greater than \$1 billion	Total Errors greater than \$20million
Largest 24 Agencies (2009-10)	11	5	6	2	24
Largest 24 Agencies (2008-09)	12	4	9	--	25

Of the 24 errors over \$20.0 million, 16 were subsequently corrected in the individual agencies' financial statements.

Significant errors included:

Agency	Amount	Nature of Error
Roads and Traffic Authority	\$4.3 billion*	Misstatement of earthwork assets
Roads and Traffic Authority	\$1.0 billion*	Spreadsheet error in roads valuation
Department of Health	\$188 million*	Misstatement in property, plant and equipment values
Crown Finance Entity	Commercial in confidence	Non-deferral and amortisation of components of NSW Lotteries transaction
Crown Finance Entity	\$147 million*	Misstatement in tax receivables

* Corrected in individual agency financial statements

CURRENT STATUS OF PREVIOUS RECOMMENDATIONS

During 2009, I made 157 recommendations for agencies to improve their operations. I have reviewed the current status of these recommendations and found the majority have either been actioned or partially implemented. Unactioned items at 30 June 2010 include:

Agency	Recommendation	Current Status
Hunter Water Corporation	A sound business case be prepared before any decision is made to proceed with the Tillegra Dam	Hunter Water advised that extensive studies relating to aspects of the proposal have been undertaken and are subject to a merit assessment process currently underway by the Department of Planning. The outcome of these studies and the Department of Planning's determination will constitute the business case for the projects
State Water Corporation	The Government negotiate an inter-jurisdictional agreement providing a framework for managing the interstate trade of water allocations	No inter-jurisdictional agreement has been entered into
State Transit Authority	The Independent Transport Safety and Reliability Regulator (ITSRR) liaise with the Department of Transport and Infrastructure to secure funding for annual customer service surveys of Sydney metropolitan bus services and Sydney Ferries	Transport Administration Act amendments effective 1 July 2010 have resulted in Transport NSW assuming responsibility for customer surveys, not ITSRR. State Transit Authority (STA) undertakes periodic internal customer surveys and supports the principle of regular independent feedback on performance
State Transit Authority	The New South Wales Government reconsider the appropriateness of employment arrangements for the Authority to avoid further losses of Commonwealth Government grants	Public Service Employment Arrangements are the responsibility of the Department of Premier and Cabinet and The Treasury. STA will cooperate in any reviews of these arrangements
State Transit Authority	The ITSRR conduct annual independent surveys of bus customers so changes in customer satisfaction can be monitored	Transport Administration Act amendments effective 1 July 2010 have resulted in Transport NSW assuming the responsibility for customer surveys, not ITSRR. STA undertakes periodic internal customer surveys and supports the principle of regular independent feedback on performance
Department of Health	Maintenance of the Department's assets be improved so benchmark maintenance levels are met. This should be done in conjunction with the reviews being performed on fully depreciated plant and equipment	The 2.0% benchmark is an aspirational target based on analysis undertaken in Queensland. An annual review of maintenance expenditure continues to be carried out. The 2008-09 state-wide position (all Health Services) reflects an actual maintenance expenditure level of 1.1% compared to the 2.0% benchmark which was unchanged from the previous year. Maintenance expenditure is monitored to gain a better understanding of the levels of expenditure and budget required to maintain assets at an appropriate level.

Agency	Recommendation	Current Status
Forests NSW	Forests NSW arrange a full revaluation of its land in 2009-10	Forests NSW did not perform a full revaluation on its land holdings in 2009-10. However, it adjusted land values according to land valuation indices which considered all variables to bring land to fair value. This was performed by the Valuer-General after discussions with the Audit Office. A full revaluation will be carried out by Forests NSW in 2010-11
Waste Recycling and Processing Corporation	The Corporation liaise with The Treasury to resolve the difficulties in complying with the requirements of the <i>Waste Recycling and Processing Corporation Act 2001</i> (the Act)	Requires changes to the Act which are unlikely to be made at this point given the pending sale of the Corporation
Department of Justice and Attorney General	The Department should seek additional funding from the Consolidated Fund to ensure the backlog of claims relating to victims compensation is processed in a reasonable timeframe	The Department has not made a direct request for more access to the Consolidated Fund but has instead pursued more sustainable options to fund the scheme through reducing structural costs and increasing revenue to fund compensation claims
Justice Health	Justice Health should strengthen its policies and procedures in relation to plant and equipment stock-takes	No stock-takes were carried out in 2009-10. Rolling stock takes have commenced in 2010-11 and counts at all clinics throughout the State should be completed in the 2010-11 financial year. Independent managers will oversee the stock takes
The Treasury	The Government seek amendments to the <i>Fiscal Responsibility Act 2005</i> to provide targets and priorities within the control of Government	The Treasury is currently conducting the statutory five-yearly review of the Act. A report on the outcomes will be tabled in Parliament by June 2011
Australian Museum Trust	The Museum complete its program of recording its collections on an electronic database as soon as possible	The Museum is part of a funding bid to The Treasury being prepared and coordinated by Communities NSW to allow electronic databasing of its collections. The Museum continues to electronically database new and old material as resources allow

Financial Analysis

INTRODUCTION

This section analyses key financial data in the General Government and Total State Sector Accounts to inform Parliament and the community of trends in the State's financial position and its performance. The Treasury has prepared the General Government and Total State Sector Accounts in accordance with the requirements of *AASB 1049 Whole of Government and General Government Sector Financial Reporting*.

COMPLIANCE WITH ACCOUNTING STANDARDS

General principles of *AASB 1049* include:

- consolidated sector financial statements are prepared in accordance with the definition, recognition, measurement, classification, presentation and disclosure requirements of accounting standards
- where options exist in accounting standards, the option that is consistent with Government Finance Statistics (GFS) must be chosen
- where there is any conflict between Generally Accepted Accounting Principles (GAAP) and GFS, GAAP prevails. This creates a convergence difference which must be reconciled in the key fiscal aggregate reconciliations
- amended presentation requirements exist including a harmonised Statement of Comprehensive Income. The statement dissects revenues and expenses into transactions and other economic flows, as defined by the Australian Bureau of Statistics GFS Manual.

Financial Information

Statement of Comprehensive Income

Year ended 30 June	General Government		Total State Sector	
	2010 \$m	2009 \$m	2010 \$m	2009 \$m
REVENUES				
Taxation	19,129	17,855	18,028	16,940
Grants and subsidies	26,983	22,309	26,799	22,245
Sales of goods and services	4,327	4,048	17,351	16,251
Interest	316	415	1,066	1,144
Dividends and Income Tax Equivalents	2,037	1,828	--	--
Other Dividends and Distributions	285	196	285	196
Fines, Regulatory Fees and Other	3,256	3,012	3,894	3,697
TOTAL REVENUES	56,333	49,663	67,423	60,473
EXPENSES				
Employee costs	26,144	24,740	30,147	28,746
Depreciation and amortisation	2,769	2,614	5,623	5,264
Interest	1,653	1,505	3,512	3,186
Grants and subsidies	13,184	10,696	7,689	6,597
Other	11,589	10,970	16,834	16,385
TOTAL EXPENSES	55,339	50,525	63,805	60,178
TRANSACTIONS FROM DISCONTINUING OPERATIONS	--	--	288	402
NET OPERATING BALANCE SURPLUS/(DEFICIT)	994	(862)*	3,906	697*
Other Economic Flows - Included in the Operating Result				
Loss from Liabilities	(238)	(437)	(242)	(471)
Other Net Gains/(Losses)	875	(699)	(837)	(2,046)
Share of Earnings from Associates (excluding Dividends)	173	19	173	19
Dividends from Asset Sale Proceeds	--	11	--	--
Deferred Income Tax from other sectors	925	(1,021)	--	--
Other Losses	(90)	(88)	(104)	(96)
OPERATING SURPLUS/(DEFICIT)	2,639	(3,077)	2,896	(1,897)
Other Economic Flows - Other Comprehensive Income				
Revaluations	5,476	5,501	11,214	4,213
Actuarial Loss from Superannuation	(3,156)	(11,457)	(3,538)	(13,060)
Net Gain/(Loss) on Equity Investments	5,702	(1,606)	--	--
Net Gain/(Loss) on Financial Instruments	--	--	(31)	120
Other (Gain)/Loss	88	(98)	208	(113)
COMPREHENSIVE RESULT - TOTAL CHANGE IN NET WORTH BEFORE TRANSACTIONS WITH OWNERS AS OWNERS	10,749	(10,737)	10,749	(10,737)

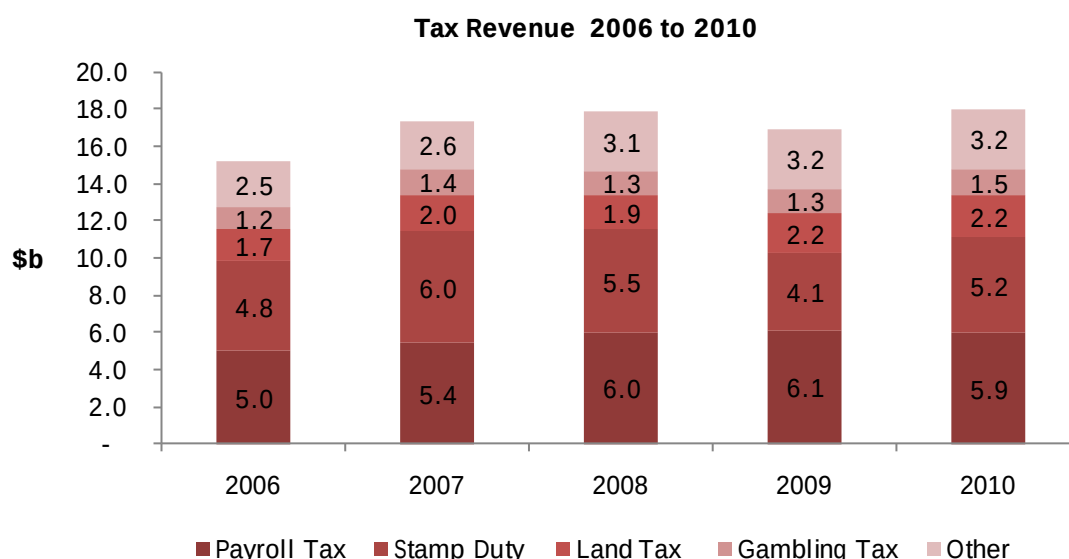
* The 2008-09 Net Operating Balance for the General Government Sector and Total State Sector increased by \$35.0 million as a result of a correction to capital grants relating to Land Under Roads.

Unless otherwise stated, the following commentary relates to the Total State Sector.

REVENUES

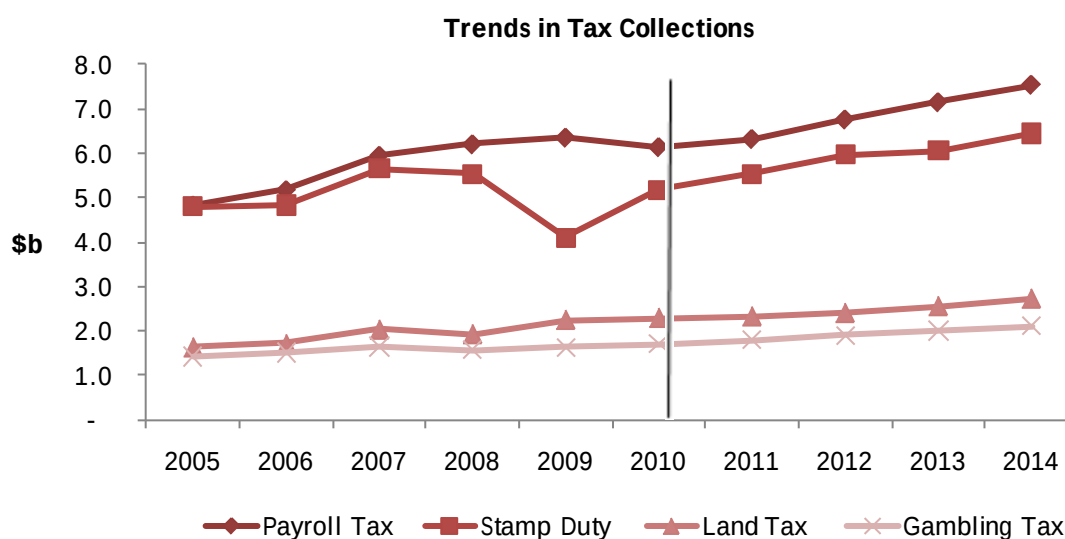
Taxation

Total taxation revenue increased from \$15.2 billion to \$18.0 billion (18.3 per cent) over the last five years (an average of 3.7 per cent per annum).



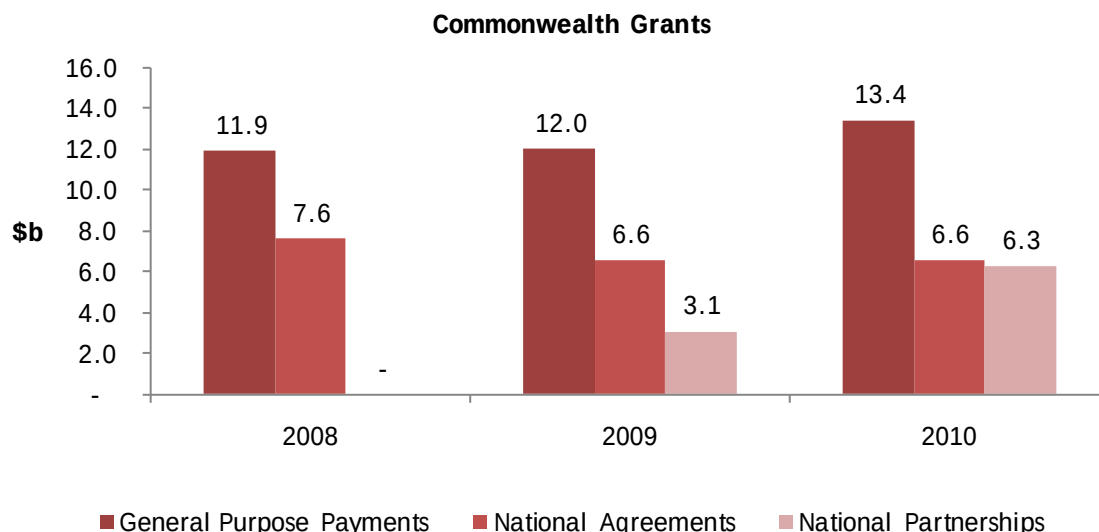
Tax revenue increased by \$1.1 billion when compared to 2008-09. Stamp duty increased by approximately \$1.1 billion (26.1 per cent) predominantly due to increase in transfer duty on residential property. Payroll tax decreased by 3.4 per cent, land tax increased by 1.4 per cent and gambling tax increased by 12.3 per cent from the prior year.

The following table details tax collected between 2005 and 2010 and The Treasury's forecasts for General Government Sector tax collections over the next 4 years.



Commonwealth Grants

The Government received significant new grants of \$6.3 billion (\$3.1 billion) including the Australian Governments' Nation Building – Economic Stimulus Plan and National Building for the Future Plan (National Partnership Payments).



General Purpose Payments

Commonwealth General Purpose GST grants increased by \$1.4 billion from 2008-09. This was primarily due to a change in the estimate of the total GST pool available for distribution to the States, compared to the estimates provided in the 2009-10 Commonwealth Budget. The estimate of total GST revenue has increased by \$11.6 billion for the four years 2009-10 to 2012-13 and stems from higher forecast growth for taxable consumption as the Australian economy recovers from the global downturn.

National Agreements (excludes stimulus funding)

National Agreements set out the policy objectives in six key service delivery areas, covering healthcare, education, skills and workforce development, disabilities, affordable housing and national Indigenous reform. Each agreement establishes the roles and responsibilities between levels of government and sets out the high level objectives, outcomes and performance indicators, as agreed by all jurisdictions (source: 2010-11 Budget Statement).

In 2009-10, the State received the following significant National Agreement payments:

National Agreements	Amount \$'000
National Healthcare (recurrent)	3,711,041
National Schools (recurrent)	1,104,539
National Affordable Housing (recurrent)	74,537
National Affordable Housing (capital)	305,682
Home and Disability Care Program (recurrent)	308,631
National Skills and Workforce (recurrent)	438,559

National Partnerships (includes stimulus funding)

National Partnerships are time limited arrangements that focus on delivering specific outputs or projects in areas of nationally significant reform or achieving service delivery improvements. The Australian Government gives payments to support National Partnerships to help progress the reforms and/or reward jurisdictions for achieving agreed performance benchmarks (source: 2010-11 Budget Statement).

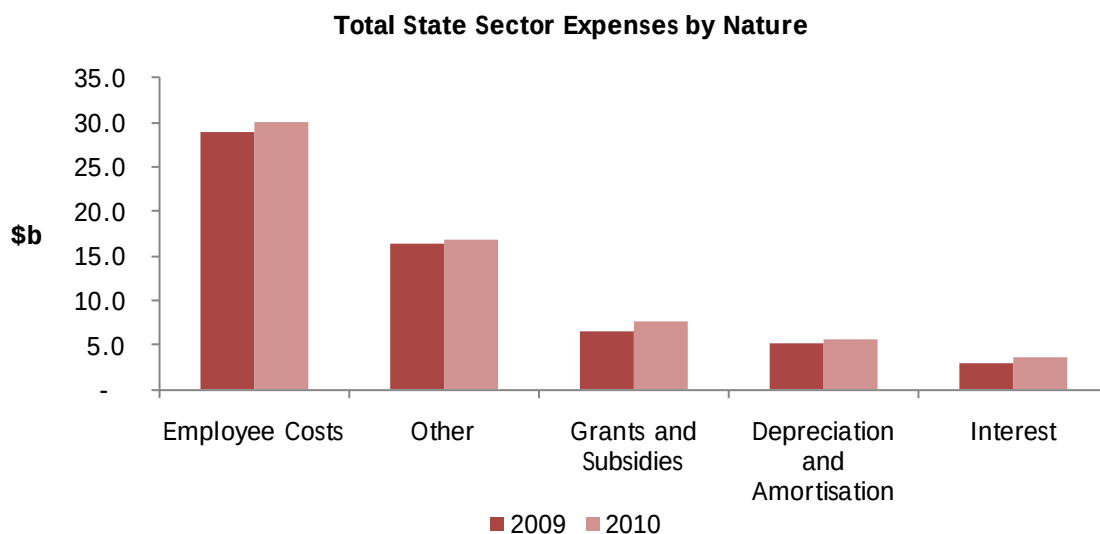
In 2009-10, the State received the following significant National Partnership Payments:

National Partnerships	Amount \$'000
Primary Schools for the 21st Century (capital)	1,623,659
Nation Building and Job Plans (capital)	1,312,647
National Land Transport (AUSLINK) (capital)	1,248,906

EXPENSES

Total State Sector Expenses by Nature

Total expenses increased from \$60.2 billion in 2008-09 to \$63.8 billion in 2009-10, an increase of six per cent.



Employee Costs

Employee costs (excluding superannuation costs) increased by approximately 3.5 per cent compared to 7.5 per cent in the prior year.

The increase in 2008-09 was significantly higher than that in 2009-10 due to award increases at the Department of Education and Training and Department of Health and increased workers' compensation claims incurred by NSW Self Insurance Corporation.

Employee costs do not include increases in superannuation obligations resulting from changes to assumptions used to calculate these obligations (e.g. movements in discount rates and other economic assumptions). These costs are reported in Other Economic Flows – Other Comprehensive Income.

Other Expenses

Other expenses increased by \$449 million to \$16.8 billion. The increase includes costs associated with privatising the Energy Sector, NSW Lotteries and WSN Environmental Solutions. It also includes the cost of compensation payments made as a result of the Government's decision to stop work on the Sydney Metro project.

Costs to 30 June	2010 \$'000	2009 \$'000	2008 \$'000	TOTAL \$'000
Compensation Payments – Sydney Metro Authority	93,500	--	--	93,500
Privatisation Costs – Energy Sector Reform	78,826	24,677	20,057	123,560
Privatisation Costs – NSW Lotteries	5,307	1,419	--	6,726
Privatisation Costs – WSN Environmental Solutions	4,140	1,379	--	5,519

I understand further costs will be incurred on all these transactions.

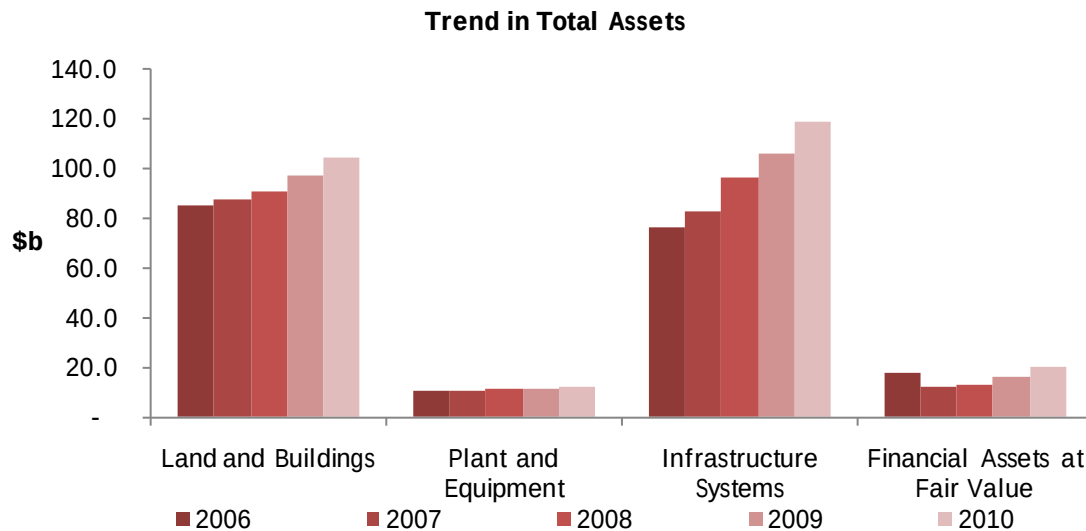
Financial Information

Statement of Financial Position

Year ended 30 June	General Government		Total State Sector	
	2010 \$m	2009 \$m	2010 \$m	2009 \$m
ASSETS				
Financial Assets				
Cash and Cash Equivalents	3,071	3,350	6,299	5,541
Receivables	6,176	5,556	6,775	7,197
Tax Equivalents Receivable	286	245	--	--
Financial Assets at Fair Value	6,620	5,272	19,857	15,763
Advances Paid	905	780	434	319
Deferred Tax Equivalents	5,734	4,576	--	--
Equity Investments	79,692	73,696	1,305	1,050
Total Financial Assets	102,484	93,475	34,670	29,870
Non Financial Assets				
Inventories	276	250	1,349	1,298
Forestry Stock and Other Biological Assets	7	7	669	560
Assets Classified as Held for Sale	133	115	267	173
Investment Properties	269	274	1,023	1,023
Property, Plant and Equipment	122,728	113,533	234,610	214,271
Intangibles	1,245	977	2,628	2,242
Other	1,116	1,023	1,497	1,374
Total Non Financial Assets	125,774	116,179	242,043	220,941
TOTAL ASSETS	228,258	209,654	276,713	250,811
LIABILITIES				
Deposits Held	76	72	206	182
Payables	3,739	3,345	6,541	6,224
Tax Equivalents Payable	19	7	--	--
Borrowing and Derivatives at Fair Value	20	21	56,866	47,777
Borrowings at Amortised Cost	19,053	16,582	2,411	2,179
Advances Received	811	835	805	835
Employee Provisions	10,910	9,888	12,944	11,911
Superannuation Provision	32,722	29,423	34,530	31,003
Deferred Tax Equivalent Provision	796	746	--	--
Other Provisions	5,717	5,501	7,326	6,642
Other	3,032	2,620	3,721	3,444
TOTAL LIABILITIES	76,895	69,040	125,350	110,197
NET ASSETS	151,363	140,614	151,363	140,614
NET WORTH				
Accumulated Funds	23,239	23,605	60,398	60,250
Reserves	128,124	117,009	90,965	80,364
TOTAL NET WORTH	151,363	140,614	151,363	140,614

ASSETS

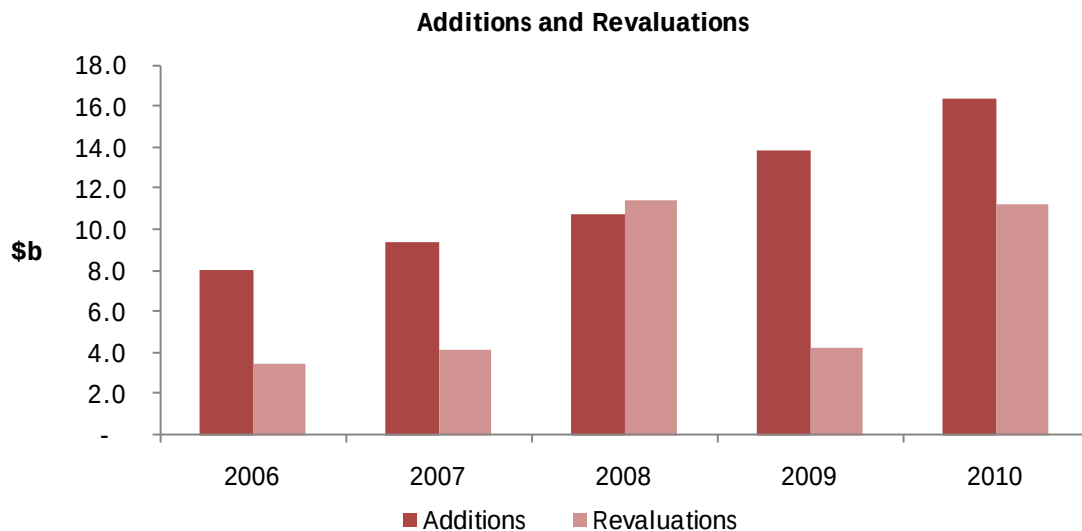
Total Assets have increased from \$206 billion in 2005-06 to \$277 billion in 2009-10, an increase of 34.5 per cent over five years.



Property, Plant and Equipment

Property, Plant and Equipment represents the State's physical assets of land and buildings, plant and equipment and infrastructure systems.

These assets are used to provide or support service delivery. Over the last five years the State has invested \$58.3 billion in these assets, which on average represents an investment of \$11.7 billion per annum.



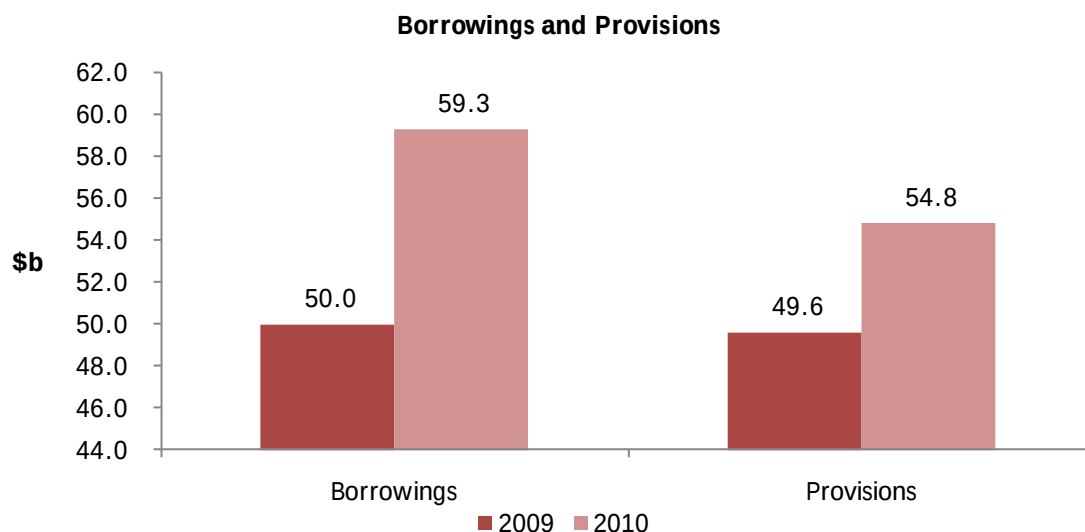
Additions to property, plant and equipment totalled \$16.4 billion during 2009-10. These were funded, in part, by National Partnership Payments of \$5.0 billion from the Australian Government.

Revaluations of existing assets included:

- NSW Land and Housing Corporation's revaluation of its residential property portfolio, including residential land held for redevelopment upwards by \$2.9 billion
- Country Energy's revaluation of its electricity system assets upwards by \$1.2 billion.

LIABILITIES

Total liabilities have increased by 13.8 per cent in the past twelve months from \$110 billion to \$125 billion. This was largely due to increased borrowings and actuarial movements in the State's Defined Benefit Superannuation obligations and increases in other provisions.



Borrowings

Domestic and foreign borrowings increased by \$9.3 billion during 2009-10. This was primarily driven by an increase in the borrowings of New South Wales Government agencies, managed by the New South Wales Treasury Corporation (T-Corp), to fund infrastructure programs. The 2010-11 Budget Papers forecast \$62.2 billion of capital spending over the four years to June 2014. The remainder of the Australian Government's economic stimulus and nation building grants is included in the projected \$16.6 billion investment in infrastructure for 2010-11. TCorp expects its loans to clients to increase by \$18.0 billion over the four years.

Superannuation Provisions

Included in the movement in provisions is an increase of \$3.5 billion in the unfunded superannuation liabilities of the Total State Sector. The State has the following liabilities:

Scheme	Unfunded Liability 2010 \$m	Unfunded Liability 2009 \$m
State Superannuation – Pooled Fund	33,015	29,664
Parliamentary Contributory Superannuation Scheme	269	231
Judges' Pension Scheme	660	605
Energy Industries Superannuation Scheme	586	503
TOTAL	34,530	31,003

Increases in unfunded superannuation liabilities are primarily due to a decrease in the discount rate from 5.59 per cent to 5.17 per cent.

Major Capital Projects

The Government publishes its capital infrastructure plans for the current and forward estimates periods in Budget Paper 4: Infrastructure Statement. In the 2009-10 Infrastructure Statement the Treasurer announced:

‘Over the four years to 2012-13, New South Wales will undertake a record infrastructure investment program, the largest in the State’s history, worth around \$62.9 billion. In 2009-10, Total State infrastructure investment is budgeted at \$18.0 billion.’

I have reviewed the status of major capital projects as set out in the Infrastructure Statement for 2009-10. Attention was focused on projects with anticipated costs exceeding \$30.0 million or more over the life of the project. I noted that most projects were on track to meet their original completion date. However, a number of projects have experienced delays:

Agency	Project Cost and Description	Reasons for delays and/or cost overruns
Department of Environment, Climate Change and Water	\$90.3m Riverbank	Extension of the Program was approved in the River Red Gum Cabinet Minutes
NSW Police	\$74.2m Upgrade of Core Operating Policing System	There has been a major delay in the negotiation of the fixed price contract
Department of Health	\$50.7m ICT Human Resource Information System	A combination of additional work to build common integration deliverables required by other ICT programs and the complexity of testing Health awards
Department of Health	\$115m ICT Patient and Clinical Systems Phase 2	Delay was caused by Health Services’ inability to provide resources to implement the Program
Department of Health	\$67.8m Local Initiatives 2009-10	Delays were due to higher pre-tender estimates and latent conditions
Department of Justice and Attorney General	\$52.8m Silverwater Women's Correctional Centre Staged Development	Increased costs due to security measures within an operational maximum security correctional centre and escalation costs

Agency	Project Cost and Description	Reasons for delays and/or cost overruns
Department of Justice and Attorney General	\$296m 1,000 Inmate Beds	Project originally included 500 beds for Nowra, 250 beds for Cessnock and 250 beds for Lithgow. Lithgow has been cancelled following community feedback, 100 beds added to Nowra and balance to be confirmed. Planning consent also delayed the start of construction
Rail Corporation NSW	\$51.2m Passenger Initiated Egress	Delays in supplying a prototype as the contractor experienced difficulty in finalising design work. Increased fitment times reflecting increased scope and testing due to the crew override and associated functions. Greater elapsed times required for tendering and approvals to meet new RailCorp procedures. Increased Safety Integrity levels for software design. The need to ensure consistency with the PPP Waratah trains
Rail Corporation NSW	\$66.2m Oatley, Sutherland Cronulla Resignalling and Overhead Wiring	Estimated cost increases due to the following factors: Limited signalling resources being diverted to other higher priority works. Procurement delays. Scope change with upgraded and improved reliability of signal interlocking from the original plan
Rail Corporation NSW	\$1.9b Clearways	The Budget Committee of Cabinet approved the variation for time and cost following reviews which changed scheduling, configuration and scope. This has led to completion date extensions and cost and escalation increases
Rail Corporation NSW	\$268m Outer Suburban Cars – Tranche 2	Due to a contractual dispute with the manufacturer of the Outer Suburban Cars, Rail Corporation sought and entered into formal arbitration. As a result of an increase in the budget for settlement of claims, legal and project resources in regards to the legal third party and defect claims has been necessary. This has increased the estimated total cost of the project by \$11.1m
Rail Corporation NSW	\$82.3m Southern Sydney Freight Line (SSFL) – Australian Rail Track Corporation Ltd (ARTC) Interface	Rail Corporation does not have direct control of the scheduled delivery of this project as delivery of the SSFL is being undertaken by ARTC
Roads and Traffic Authority	\$140m M5 Widening, Brooks Road to Narellan Road	Wet weather and delays to project approvals held up progress

Agency	Project Cost and Description	Reasons for delays and/or cost overruns
Roads and Traffic Authority	\$100m Network management (Pinch Point Strategy)	Wet weather delays
Roads and Traffic Authority	\$71.0m Hoxton Park Road, Banks road to Cowpasture Road	Issues with utility design and cabling supply slowed early progress
Roads and Traffic Authority	\$65.0m Camden Valley Way	Wet weather held up project progress
Roads and Traffic Authority	\$56.2m Newell Highway	Issues surrounding purchase of contaminated land held up project progress
Roads and Traffic Authority	\$53.0 million Alfords Point Bridge – Northern approach	Community consultation on noise walls slowed project progress
Roads and Traffic Authority	\$41.0 million Bangor Bypass Stage 2	Delays in project planning approvals held back project progress
Roads and Traffic Authority	N/A Tarcutta Bypass	Construction progress hampered by inclement weather conditions
Roads and Traffic Authority	N/A Woomargama Bypass	Expected property acquisition did not occur as planned
Roads and Traffic Authority	N/A Bulahdelah Bypass	Delay in tender process resulting from environmental/heritage legal cases
Roads and Traffic Authority	N/A Coffs Harbour to Woolgoolga Duplication	Expected property acquisition did not occur as planned
Roads and Traffic Authority	N/A Tintenbar to Ewingsdale	Expected property acquisition did not occur as planned
Roads and Traffic Authority	N/A F3 to Branxton Freeway	Problems with utility works and access to private railway restricted project progress
Roads and Traffic Authority	\$220m Lawson Ferguson Avenue to Ridge Street	Wet weather delays in rail access slowed project progress

Agency	Project Cost and Description	Reasons for delays and/or cost overruns
Roads and Traffic Authority	\$160m Woodford to Hazelbrook, Station Street to Ferguson Avenue	Wet weather slowed progress not allowing start up of construction as planned
Roads and Traffic Authority	\$158m Oxley Highway, upgrade from Wrights Road to the Pacific Highway	Wet weather and environmental issues held up progress.

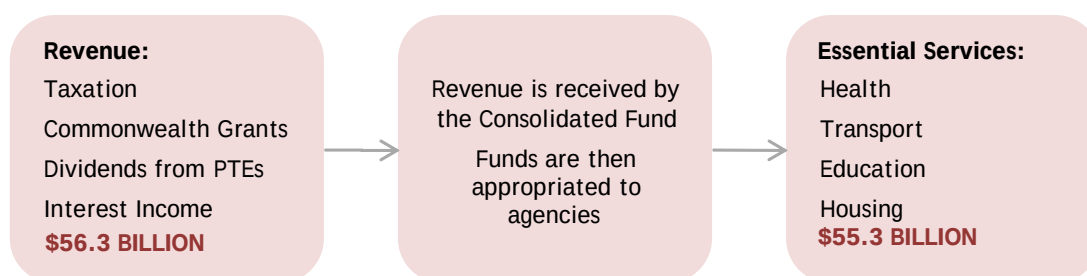
N/A - indicates that total cost and completion dates are not available as the projects are in the planning phase (Source: 2009-10 Budget Paper 4: Infrastructure Statement).

The Roads and Traffic Authority has advised that although there has been under expenditure on particular projects in the current year, overall time frames and project delivery are expected to be achieved in accordance with Budget Paper 4.

Net Operating Balance - General Government Sector

INTRODUCTION

The Net Operating Balance comprises transactions of the General Government Sector excluding Other Economic Flows, which include items such as valuation gains and major asset write downs.



NET OPERATING BALANCE - VARIANCE TO ORIGINAL BUDGET (JUNE 2009)

Financial Information

Year ended 30 June 2010	Actual \$m	Budget \$m	Difference \$m	Difference %
Revenues				
Taxation	19,129	18,011	1,118	6.2
Commonwealth Grants	26,340	25,038	1,302	5.2
Other Grants and Subsidies	643	639	4	0.6
Sale of Goods and Services	4,327	3,859	468	12.1
Interest	316	390	(74)	(19.0)
Dividend and Income Tax	2,037	2,013	24	1.2
Other Dividends	285	205	80	39.0
Fines, Regulatory Fees and Other	3,256	2,803	453	16.2
Total Revenues	56,333	52,958	3,375	6.4
Expenses				
Employee Related	23,073	22,724	349	1.5
Superannuation	3,071	3,028	43	1.4
Depreciation and Amortisation	2,769	2,915	(146)	(5.0)
Interest	1,653	1,531	122	8.0
Other Property	1	1	--	--
Other Operating	11,588	11,426	162	1.4
Current Grants and Subsidies	7,987	8,274	(287)	(3.5)
Capital Grants	5,197	4,049	1,148	28.4
Total Expenses	55,339	53,948	1,391	2.6
NET OPERATING BALANCE SURPLUS/(DEFICIT)	994	(990)	1,984	(200)

Total revenue exceeded budget by \$3.4 billion due to:

- Commonwealth grants increasing by \$1.3 billion due to a \$997 million increase in General Purpose Grants and \$504 million National Partnership Payments
- Taxation revenue increasing by \$1.1 billion due to increases in transfer duty on residential property
- Sales of Goods and Services increasing by \$468 million due to the reclassification of the High Cost drugs program grant of \$191 million, first time recognition of personnel services revenue by the Department of Human Services from NSW Land and Housing Corporation of \$213 million and toll revenue associated with the Sydney Harbour Tunnel following its reclassification as a finance lease of \$43.0 million
- Fines, Regulatory Fees and Other increasing by \$453 million. This was primarily due to Other revenue increasing by \$313 million as a result of the transfer of Council roads to the Roads and Traffic Authority following implementation of the NSW Road Reclassification Review.

The table below shows those agencies where actual expenses exceeded the original budget:

Agency	2010 \$m	Reason
Roads and Traffic Authority	530	▪ transfer of roads to local councils - \$401m ▪ recognition of expenses associated with Sydney Harbour Tunnel following its inclusion as an asset under finance lease - \$55.0m ▪ additional road maintenance due to storm damage - \$70.0m
Department of Transport and Infrastructure	438	▪ additional grants for South West Rail Link - \$350m ▪ higher private bus service contract payments - \$39.0m ▪ early implementation of the Metropolitan Transport Plan - \$115m
Crown Finance Entity	263	▪ reclassification of privatisation costs to operating expenses - \$92.0m ▪ long service leave and superannuation expenses - \$122m ▪ HIH liability expenses - \$71.0m ▪ Repayment of an Commonwealth Government grant of \$80.0m due to cancellation of the Sydney Metro project
Department of Human Services	239	▪ recognition for the first time of employee expenses relating to NSW Land and Housing Corporation - \$213m
Land and Property Management Authority	207	▪ grants of land to Local Councils, Crown Reserve Trusts and Aboriginal Land Claims of \$154m
NSW Police	156	▪ increase in Death and Disability expense - \$80.0m ▪ additional funding for salary maintenance - \$50.0m
NSW Self Insurance Corporation	147	▪ higher claims payments and actuarial forecasts for outstanding liabilities for NSW Police workers' compensation

Significant and consistent overruns in budgeted expenditure have occurred for:

Agency	2010 Excess over budget+ \$m	2009 Excess over budget+ \$m	2008 Excess over budget+ \$m
Crown Finance Entity	263	386	252
Roads and Traffic Authority	530	272	269
NSW Police	156	120	133
Department of Health	(43)*	674	611
Department of Education and Training	13*	178	176

* Significant improvement in the Department of Health and Department of Education and Training budget management processes

+ Post inter-agency eliminations and other adjustments

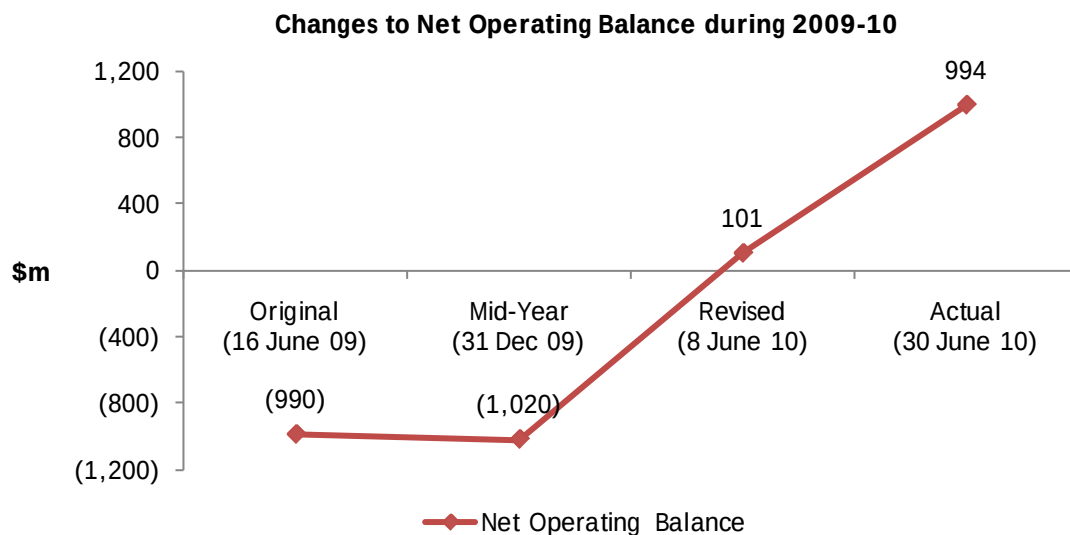
NET OPERATING BALANCE - VARIANCE TO REVISED BUDGET (JUNE 2010)

Last year and elsewhere in this report I have expressed concerns about the quality and timeliness of financial reporting. While I recognise that events occur after the revised budget is tabled in early June, I believe improved financial information would better inform the budget process and reduce subsequent variations and revisions.

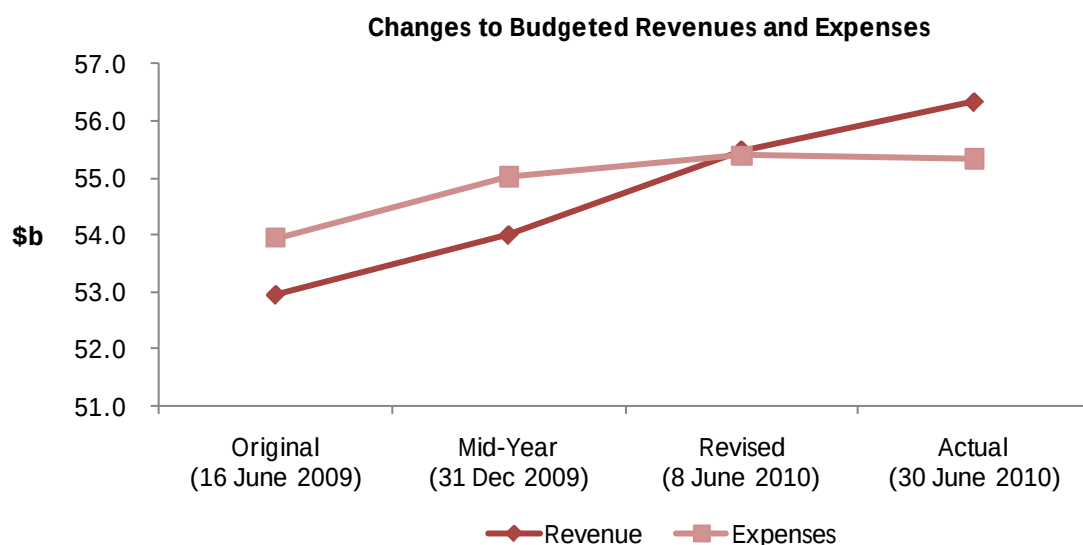
Net Operating Balance	2009-10 \$m Surplus/(Deficit)	2008-09 \$m Surplus/(Deficit)	2007-08 \$m Surplus/(Deficit)
Revised Budget	101	(1,337)	700
Actual Result	994	(897)	73
Difference	893	440	(627)

Changes to the Budget during 2009-10

The table below demonstrates how the State's budget changed during 2009-10. The Treasury revised the Net Operating Balance for 2009-10 when the 2010-11 budget was tabled in Parliament on 8 June 2010.



Changes to the revised budget and actual revenues and expenses are analysed below:



Between 8 June and 30 June 2010 revenue increased because:

- taxation revenue increased by \$375 million, predominantly due to electricity equalisation tariffs from retailers (\$105 million), transfer duty (\$123 million) and payroll tax (\$59.0 million)
- Commonwealth grants increased by \$185 million
- sales of goods and services increased by \$114 million
- dividend and income tax equivalents increased by \$182 million.

COMMONWEALTH GRANTS

National Partnerships

The Government received significant grants of \$6.3 billion (\$3.1 billion) which included the Australian Governments' Nation Building – Economic Stimulus Plan and National Building for the Future Plan (National Partnership Payments).

The Crown Entity, through the Consolidated Fund, receives most National Partnership Payments from the Commonwealth Government. It then appropriates these funds to the relevant agencies.

In 2009-10, the State received the following significant capital National Partnership Payments as a result of the Commonwealth Government's Economic Stimulus Plan:

National Partnerships – Impact of Stimulus Funding		Amount \$'000
Education		1,855,000
Housing		1,327,000
TOTAL		3,182,000

Impact of stimulus funding on the Net Operating Balance

National Partnership Payments (primarily stimulus funding) were \$504 million above the budget estimate, which contributed significantly to the reported surplus of \$994 million.

If stimulus funding of \$3.2 billion had been excluded from the Net Operating Balance, the result would have been a deficit of \$861 million.

	Net Operating Balance	Impact of Capital Stimulus Funding	Net Operating Balance (excluding stimulus funding)
	\$m	\$m	\$m
Revenues	56,333	3,182	53,151
Expenses	55,339	1,327	54,012
SURPLUS/(DEFICIT)	994	1,855	(861)

Unspent Commonwealth Grants

National Partnership Payments and National Agreements	Recurrent Grants \$m	Capital Grants \$m	Unappropriated at June 2010 \$m
Health	4,071	66	365
Education	2,056	2,018	185
Housing	1,270	1,630	148
Roads	59	1,249	908
Crown	399	--	--
Other	68	34	8
TOTAL	7,923	4,997	1,614

Stimulus funding can only be spent on specifically agreed items and to a specific timetable agreed with the Commonwealth or the funds must be returned.

Unspent grants have been used to reduce the Consolidated Fund's bank overdraft in accordance with the Crown's cash management practices. As a result, the State has benefited from lower finance costs. The agreements did not require the stimulus funding to be quarantined or interest earned applied to the project.

BUDGET HIGHLIGHTS

The State's Budget papers provide details on service delivery of the General Government Sector and each of its agencies (and sector level totals for the commercial sector). They also provide Parliament and the community with details of additional funding for specific initiatives and areas where services are to be improved.

The Budget Overview details 'budget highlights' in the areas of:

- Health
- Education and Training
- Public Transport and Roads
- Police and Community Safety
- Social and Disability Services
- Environment and Natural Resources.

These highlights may be funded by way of appropriation, borrowings or met by agency generated revenues.

The majority of highlights were achieved. The following table shows those highlights that have not been achieved:

Initiative	Highlight	Reason for deferral, cancellation or delay
Sydney Metro Authority	\$581 million for the new Sydney Metro through the CBD to bring a new public transport network to Sydney	On 21 February 2010, the NSW Government announced that work would stop on stages 1 and 2 of the Metro and funding redirected to other transport projects Sydney Metro Authority paid \$93.5m in compensation to tenderers during 2009-10 and wrote off assets valued at \$176m
Housing NSW	\$293 million to commence 871 new homes and complete 1,051 homes under the Housing NSW public and community housing supply program	Delays related to planning and approval and wet weather conditions
State Transport Authority	\$207m for 180 new buses and 244 new buses for private operators	STA was 38 buses short of its target due to production problems with the bus manufacturer
Roads and Traffic Authority	\$234m for initiatives to improve safety on the NSW road network including speed zone management and education campaigns.	1. Flashing Lights - Deferral of installation due to late delivery of flashing sign components 2. Safety Cameras - 2009-10 was the first year of installation. Deferral of expenditure was due to delays in the approval, procurement and construction phases 3. Point to Point Cameras - 2009-10 was the first year of installation. Deferral of installation program predominately due to a steel shortage 4. Rest Area Initiatives - Withdrawal of project on Pacific Highway - New Rest Area in Nambucca Heads, Boggy Creek due to property constraint

Compliance with the Fiscal Responsibility Act 2005

I recommend the Government seek amendments to the *Fiscal Responsibility Act 2005* so that it provides targets and priorities within the control of Government as part of the five-yearly review.

The *Fiscal Responsibility Act 2005* (FR Act) sets out principles for the financial management of the State. The purpose of the FR Act is to provide the framework for the conduct of New South Wales' fiscal policy, with a view to maintaining financial results that are fiscally sustainable in the medium and long term. The Treasury has provided commentary on its compliance with these principles in the 2009-10 and 2010-11 Budget Papers.

The FR Act requires Government to manage financial risks and financial shocks in future periods without having to introduce significant and economically or socially destabilising expenditure or revenue adjustments in those future periods. What is considered consistent with fiscal sustainability will vary depending on:

- the strength and outlook for the economy
- the structure of expenditure and revenue of the budget
- the outlook for the State's credit rating
- demographic and social trends that will affect the budget, and
- the nature of financial risks faced by the Government at any given time.

The FR Act requires the Government to pursue its policy objectives in accordance with the fiscal targets detailed below.

My analysis indicates the Government may not meet the measures included in the FR Act largely because they are significantly affected by variables outside their control. For example, the value of superannuation liabilities is affected by movements in rates used to discount liabilities to present value, over which the Government has no control. This makes it difficult to attribute accountability when targets are not met, which reduces the overall effectiveness of the FR Act.

The Government should review the measures and related variables to identify and differentiate between controllable and non-controllable events that will allow a reasonable analysis and assessment of the policy decisions of Government.

The FR Act is due for a statutory five-yearly review during 2010-11, to assess whether:

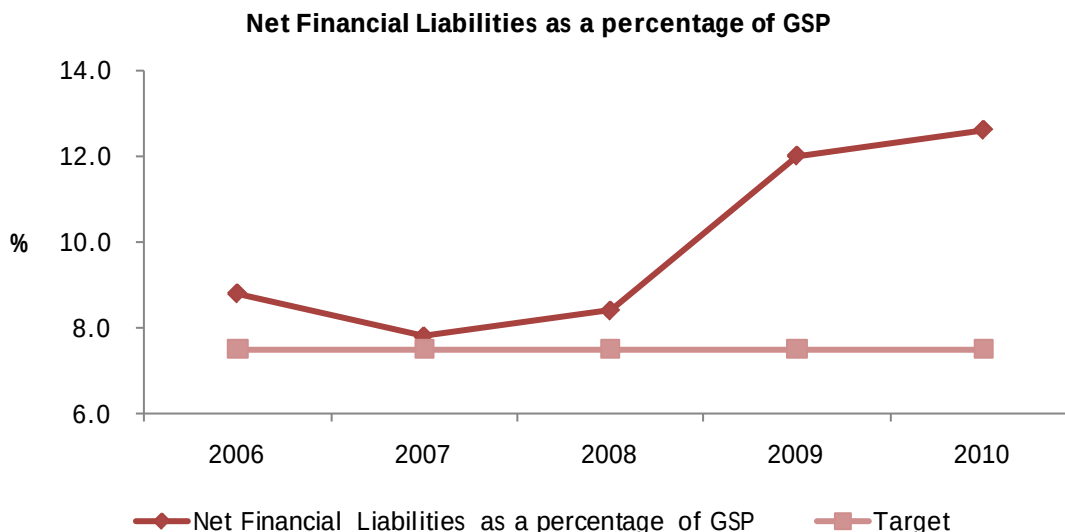
- the policy objectives of the FR Act remain valid, and
- the terms of the FR Act remain appropriate for securing those objectives.

In the 2010-11 Budget Papers, The Treasury indicated a report on the outcomes will be tabled in Parliament by June 2011.

LONG TERM MEASURES

General Government Sector Net Financial Liabilities

General Government Sector net financial liabilities were \$52.9 billion as at June 2010, equivalent to approximately 12.6 per cent (12.0 per cent) of GSP. This is 5.1 per cent higher than the 7.5 per cent FR Act target for 30 June 2010. The long term target is six per cent or less by 30 June 2015.

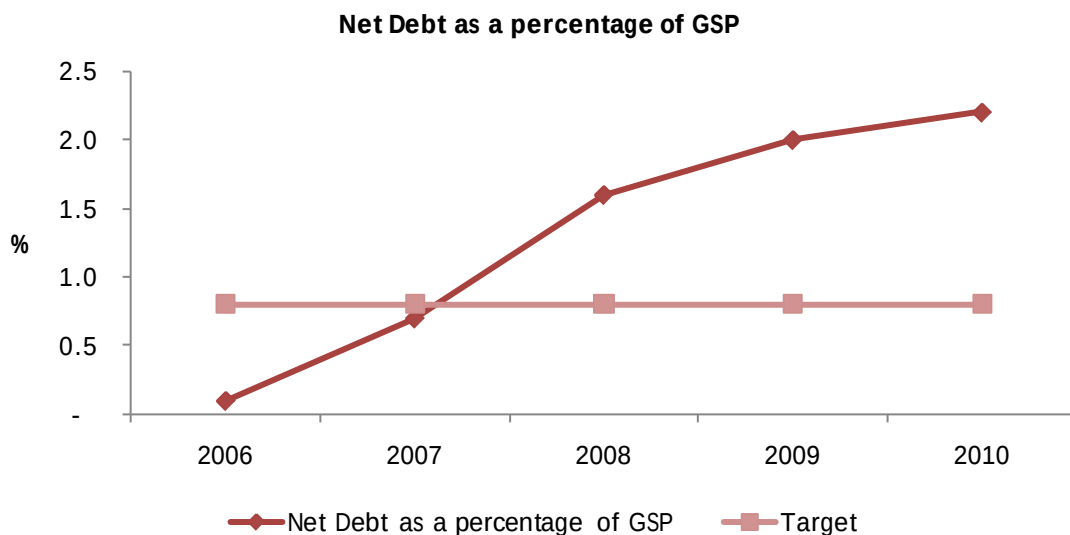


General Government Sector net financial liabilities include all liabilities of the General Government Sector less all financial assets (except for the Government's equity in the public financing and public trading enterprise sectors).

General Government Sector Net Debt

At 30 June 2010, the General Government Sector underlying net debt was 2.2 per cent (\$9.4 billion) of GSP compared to 2.0 per cent (\$8.1 billion) of GSP as at June 2009. This is 1.4 per cent above the FR Act target of 0.8 per cent of GSP.

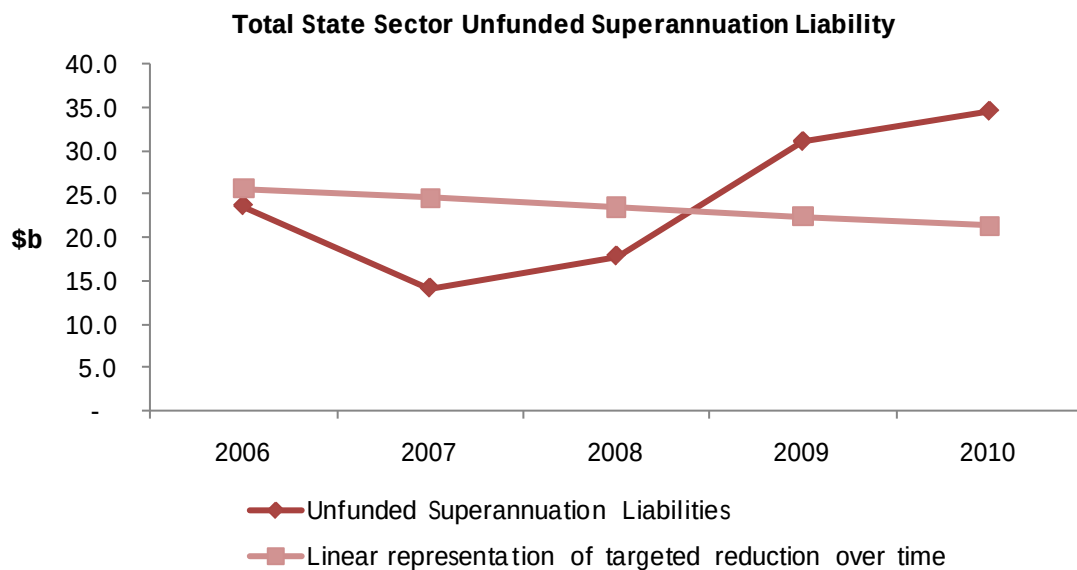
The Treasury has indicated that due to the increased capital program, General Government Sector net debt is estimated to be 2.7 per cent of GSP at 30 June 2011, but falling to 2.5 per cent of GSP by June 2014.



General Government Sector net debt is the sum of all deposits held by, advances received by and borrowings made by the General Government Sector less the sum of cash and deposits held by, advances paid and investments, loans and placements made by the General Government Sector. It excludes financial assets that are allocated to fund other liabilities through legislation or contract.

Total State Sector Unfunded Superannuation Liability

Total State Sector unfunded superannuation liabilities were \$34.5 billion at June 2010, an increase of \$3.5 billion from June 2009. The FR Act target is to eliminate Total State Sector unfunded superannuation liabilities by 30 June 2030.



The increase in 2009-10 unfunded superannuation liabilities was primarily due to a reduction in the discount rate used by the actuary in calculating the accrued liabilities.

At the time the 2010-11 Budget was presented to Parliament, The Treasury believed the fiscal target would be met in the future:

'Employer Contributions are being assessed periodically to ensure full funding by 30 June 2030.'

While the [Global Financial Crisis] GFC has slowed progress, the downward trend is continuing. Proceeds of the Lotteries transaction and a new funding plan will ensure full funding by 2030. Total State net unfunded superannuation liabilities are estimated to be \$28.6 billion at 30 June 2010 and \$28.7 billion at 30 June 2014.'

Agency Amalgamations

In my Volume Two 2010 Report to Parliament I raised the following concerns:

- governance arrangements are not yet fully operational
- financial reporting requirements and related processes have not been finalised by some newly formed departments
- uncertainty exists as to whether further legislative changes will occur that will impact financial reporting at 30 June 2010.

Since that time, I have surveyed agencies' compliance with The Treasury's Internal Audit and Risk Management Policy and the results of the survey will be reported in a later volume. Financial reporting by amalgamated agencies have not delayed the preparation of the Total State Sector Accounts. At the time of writing this report, the audits of the financial statements of these departments are in progress.

GOVERNANCE ARRANGEMENTS

I recommend The Treasury and Department of Premier and Cabinet clarify the intention of *TPP 09-05 Internal Audit and Risk Management Policy for the New South Wales Public Sector*. If the intention is for authorities within the same 'cluster' to use the Audit and Risk Committee of another authority, they should seek amendments to section 11(2) of the *Public Finance and Audit Act 1983* and the TPP 09-05 to clearly authorise this.

Following the July 2009 amalgamation order, some new departments have proposed and established a single audit committee for the new department and invited other authorities within their clusters to use their audit committee. In some cases, authorities have accepted this invitation. However, some authorities share my concern as to the legality of such arrangements under the *Public Finance and Audit Act 1983* (PF&A Act) and *TPP 09-05*.

In April 2010, two authorities sought advice from the New South Wales Crown Solicitor as to whether there was an obligation for the head of an authority to establish an internal audit organisation [audit committee] under Section 11(2) of the PF&A Act.

The Crown Solicitor responded that:

'On balance, I considered the required internal audit organisation was one which must be established within the authority.'

In May 2010, further advice was sought by these authorities to clarify whether they could join or use the audit committee of the new department.

The Crown Solicitor responded that:

'Nor do I think that Section 11(2) [PF&A Act] and TPP 09-05 contemplate that an Audit and Risk Committee of an authority is also to be the Audit and Risk Committee for another authority, even if the latter is in the same 'cluster'.

If it is intended that an internal audit organisation required by s11(2), PF&A Act, should be composed in accordance with TPP 09-05 and should also be able to be the Audit and Risk Committee for other authorities in the same 'cluster' as the authority whose Head establishes it, s.11 of the PF&A Act and TPP 09-05 should be amended appropriately to clearly authorise this.'

FINANCIAL REPORTING REQUIREMENTS

The amalgamation order resulted in the following financial reporting entities:

New Reporting Entity	Audit Status (at 21 October 2010)	Primarily made up of the previous:
Department of Premier and Cabinet	Independent Auditor's Report signed on 20 October	Department of Premier and Cabinet Ministry for Police Department of Local Government
Communities NSW	Independent Auditor's Report signed on 21 October	Department of Arts, Sport and Recreation Office for Children
Department of Justice and Attorney General	Independent Auditor's Report signed on 20 October	Attorney-General's Department Department of Corrective Services
Department of Human Services	Independent Auditor's Opinion signed on 20 October	Housing NSW Department of Juvenile Justice Department of Ageing, Disability and Home Care Services Department of Community Services Department of Aboriginal Affairs
Department of Industry and Investment	Independent Auditor's Opinion expected to be issued by 29 October	Department of State and Regional Development Department of Primary Industries Components of Department of Water and Energy
Department of Environment, Climate Change and Water	Independent Auditor's Opinion signed on 1 October	Department of Environment and Climate Change Components of Department of Water and Energy

Legislation was also enacted on 1 July 2010 creating Transport NSW.

I recommend The Treasury and Department of Premier and Cabinet take a lead role in monitoring, supporting and reporting on the implementation of common financial reporting and support systems within the amalgamated departments.

During my audits of amalgamated agencies I identified:

- some agencies are yet to make significant progress on implementing common financial reporting and support systems to leverage synergies expected from the amalgamations
- additional costs associated with the amalgamations are not readily identifiable
- systems have not been put in place to capture and report cost savings associated with the initiative.

Appendix A: Legal Opinions Provided by the Attorney General or Crown Solicitor

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

There was only one such legal opinion since my last report contained in Volume Four 2009, released on 29 October 2009. It relates to the application of Corporations Act 2001 to companies reporting under the PF&A Act. I have also included the supplementary advice from the Crown Solicitor regarding the same matter.

**Original PDF - D0929864/D0929865 - Application of the Corporations Act (Cwlth) 2001
to companies reporting under the PF&A Act - 9 July 2009**

S Fryer
9275 7218
A005025

Mr. I Knight
Crown Solicitor
GPO Box 25
Sydney NSW 2001

9 July 2009

Dear Mr. Knight

**Application of the Corporations Act (Cwlth) 2001
To companies reporting under the PF&A Act**

The *Public Finance and Audit Act 1983* (the PF&A Act) requires certain companies incorporated under the *Corporations Act (Cwlth) 2001* (the Corps Act) to prepare financial reports and have them audited by the Auditor-General. I seek your advice on whether these PF&A Act requirements also create an obligation for all such companies to prepare their accounts and have them audited in accordance with the Corps Act.

Under the Corps Act, a “small” proprietary limited company is not required to prepare accounts and have them audited unless requested to do so by a shareholder direction under s.293, or by an ASIC direction under s.294 of the Corps Act.

In situations where a “small” proprietary Limited company has not received a specific written direction from the shareholders of the company, I am unsure about the application of the Corps Act to the financial report prepared and audited under the PF&A Act. I believe the Auditor-General is not required to conduct the audit in accordance with the Corps Act. Accordingly the Auditor-General is not required to report breaches of the Corps Act to ASIC under s.311 or form an opinion in accordance with s.307 of the Act. I understand that the Auditor-General’s reporting obligations only arise from the provisions of the PF&A Act, and the requirements prescribed within the Australian Auditing Standards.

Section 4A of the PF&A Act provides for regulations to be made regarding the relationship with the Corporations Legislation. While such regulations would be relevant to my question, I am not aware that any exist.

We would like the opportunity to discuss this matter before you commence preparing your advice. When convenient, please call Steve Fryer (9275 7218) who is the relevant contact person in my office.

Yours sincerely

A T Whitfield

Deputy Auditor-General

CROWN SOLICITOR'S OFFICE

NEW SOUTH WALES

Facsimile

To: Anthony Whitfield
Deputy Auditor-General
Audit Office of NSW

Your ref: Steven Fryer
Fax: (02) 9275 7179
Date: 30 September 2009

From: I V Knight Crown Solicitor
Tel: (02) 9224-5235
Fax: (02) 9224-5244
My ref: TB 200902052
Email: ctownsolagd.nswgov.au

Application of Corporations Act to companies reporting under Public Finance, and Audit Act

Advice follows.

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CROWN SOLICITOR'S OFFICE

NEW SOUTH WALES

Your Ref:
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Mr. Anthony Whittleld
Deputy Auditor General
Audit Office of NSW
GPO Box 12
SYDNEY NSW 2000

By facsimile (02) 9275 7179

Attention: Steven Fryer

Dear Mr. Whitfield

Application of Corporations Act to companies reporting under Public Finance, and Audit Act

I enclose my advice in relation to the above matter.

Should you have any queries in relation to the matter, or if you require any further assistance, please do not hesitate to contact I V Knight on tel: (02) 9224-523and

Yours faithfully

Encl.

TB IV Knight
Crown Solicitor

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CROWN SOLICITOR

NEW SOUTH WALES

Advice

Application of Corporations Act to companies reporting under Public Finance and Audit Act

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Prepared for AUD018 The Audit Office
Date: 30 September 2009
Client Ref: Steven Fryer
CSO Ref: 200902052 18 Ann Fieldhouse

CROWN SOLICITOR'S OFFICE NEW SOUTH WALES

1. Summary of advice

- 1.1 At present no company is required by s.41A of the *Public Finance and Audit Act 1983* (the *PFA Act*, as a result of s.39 (1), to prepare and submit a financial report unless, as seems unlikely, its funds are held in an account in the Special Deposits Account. There may be a question as to whether s.39 (1) is intended to apply to a company and the *PFA Act* would benefit from clarification in this regard.
- 1.2 In my opinion, s.39(1A) does not have the effect of rendering a controlled entity (including a company) of a statutory body a statutory body within the meaning of s.39(1) so as to require it to prepare and submit a financial report pursuant to s.41A. The *PFA Act* would benefit from clarification in regard to the effect of s.39 (1A).
- 1.3 In my opinion, nothing in Division 4A of Part 3 of the *PFA Act* requires a controlled entity (including a company) of a Department to prepare and submit a financial report pursuant to s.45D of the *PFA Act*.
- 1.4 A small proprietary company is required to prepare a financial report for the purposes of the *Corporations Act 2001* (the *Corporations Act*) and have it audited if so requested by shareholders with 5% of the votes or directed by ASIC.
- 1.5 Assuming a small proprietary company is required to prepare and submit a financial report for the purposes of the *PFA Act*, the Auditor-General in conducting an audit in relation to that financial report would not contravene s.311 of the *Corporations Act* if he failed to report circumstances in relation to a contravention of the *Corporations Act*.
- 1.6 If the Auditor-General were to conduct an audit in relation to the financial report of a small proprietary company prepared for the purposes of the *Corporations Act*, the Auditor-General would be subject to the reporting requirements in s.311 of the *Corporations Act*. There must be some doubt as to whether it is within the functions of the Auditor-General to conduct an audit of a small proprietary company for the purposes of the *Corporations Act* and the *PFA Act* would benefit from clarification in this regard.
- 1.7 If the Auditor-General were to conduct an audit in respect of a financial report of a small proprietary company which the company was not required to prepare for the purposes of the *Corporations Act* but chose to prepare, s.311 of the *Corporations Act* would not apply but again there would be some doubt as to whether it was within the functions of the Auditor-General to conduct such an audit.

2. Background

- 2.1 In recent years a general question has arisen in the Auditor-General's Office about the auditing responsibilities of the various State Auditor-Generals in relation to audits of "small proprietary companies" (as defined in the *Commonwealth Corporations Act 2001*) and whether they ought to be audited for the purposes of that Act as well as the applicable State legislation. The various State Auditor-Generals apparently take different views as to their obligations in this regard. The NSW Auditor-General has sought some advice from ASIC, but has been advised by it to seek his own independent legal advice.
- 2.2 If there is a requirement to conduct audits under the *Corporations Act* then the financial report will need to be in a different form, covering different matters, and indicate on its face that the information has been prepared for the purposes of the *Corporations Act* as well as the *Public Finance and Audit Act 1983* (*PFA Act*).
- 2.3 In your letter of instructions you have stated that the *PFA Act* requires certain companies incorporated under the *Corporations Act* to prepare financial reports and have them audited by the Auditor-General. You seek my advice as to whether these *PFA Act* requirements also create an obligation for such companies to prepare their accounts and have them audited in accordance with the *Corporations Act*. You also state that:

"Under the *Corporations Act* a 'small' proprietary limited company is not required to prepare accounts and have them audited unless requested to do so by a shareholder direction under s.293, or by a direction under s.294 of the *Corporations Act*. In situations where a 'small' proprietary company has not received a specific written direction from the shareholders of the company, [you are] unsure about the application of the *Corporations Act* to the financial report prepared and audited under the PF&A Act. Accordingly the Auditor-General is not required to report breaches of the *Corporations Act* to ASIC under s.31 1 or form an opinion in accordance with s.307 of the Act. [You] understand that the Auditor-General's reporting obligations only arise from the provisions of the PF&A Act, and the requirements prescribed within the Australian Auditing Standards. Section 4A of the PF&A Act provides for regulations. to be made regarding the relationship with the Corporations legislation. While such regulations would be relevant to my question, I am not aware that any exist."

- 2.4 As this matter has required some careful analysis, and in the light of further conversations between Ms Feildhouse from this office and Messrs Fry and Ramsay from your office as to the substance of the issues, I have reduced the essence of your inquiry into the two questions set out below.

3. Advice sought

- 3.1 You have asked me to advise in respect of the following issues:

1. Whether all small proprietary companies to which the auditing requirements of the *PM Act* apply are also required to have their financial reports prepared and audited under the *Corporations Act*.
2. If not, whether the Auditor-General who conducts an audit under the *PFA Act* is required to report to ASIC breaches by such companies of the *Corporations Act* under s.31 1 of that Act.
- 3.2 Please note that the text of relevant legislation is set out in the Appendix to this advice.

4. Advice as to question 1

FINANCIAL REPORTS OF SMALL PROPRIETARY COMPANIES FOR THE PURPOSES OF THE PFA ACT

- 4.1 Only if a small proprietary company is a "statutory body" within the meaning of para (a) s.39 (1) of the *PFA Act*? is it required by s.41A to prepare and submit a financial report in accordance with s.41 S which must be audited by the Auditor General pursuant to s.41C. I assume a company is unlikely to be a statutory body as a result of para (b) of s.39 (1), which requires that the funds of the person, group of persons or body be held in an account within the Special Deposits Account.)
- 4.2 So far as para (a) of s.39 (1) is concerned, no company is presently specified in Schedule 2 to the *P64 Act*. It is not clear to me whether that is the result of a policy decision or because it was thought a company was not intended to come within s.39 (1) or because it was thought the inclusion of a company would be inconsistent with the financial reporting provisions of the *Corporations Act*. There may be a question whether a company could be validly specified in Schedule 2 and I think the *P64 Act* would benefit from clarification in this regard.
- 4.3 I have previously advised that s.39 (1A) does not have the effect of rendering a controlled entity a statutory body for the purposes of s.41A: rather, its purpose is to ensure that the financial position and financial performance of the controlling statutory body in its financial report includes that of the controlled entity. If that is correct, a company is not required to prepare and submit a financial report pursuant to s.41A by reason of being a controlled entity of a statutory body. I think the *P64 Act* would benefit from clarification in regard to the effect of s.39 (1A)

- 4.4 I note that s.45 in Division 4 of Part 3 of the P64 Act provides for particular types of audits in relation to a financial report of a "statutory body" within the meaning of s.44 of the *PFA Act*. Section 44 provides, *inter alia*, that a reference in Division 4 of Part 3 to a "statutory body" is a reference to a person, group of persons or body prescribed for the purposes of that Division. Clause 17(1) of the *Public Finance and Audit Regulation 2005* (the *Regulation*), which is headed "Prescribed statutory bodies under Division 4 of Part 3 of the Act" prescribes a number of entities for the purposes of s.44 (1), including some companies. That might suggest that the draftsman of the regulation thought that a company could be a statutory body for the purposes of s.39 (1), if the definition of statutory body in cl.3 (1) of the *Regulation* which means a statutory body referred to in Division 3 of Part 3 applies in some way to cl.1 7 so that entities prescribed for the purposes of s.44 are entities which are statutory bodies for the purposes 'of Division 3 of Part 3. That might also be the case if the reference to a financial report of a statutory body in s.45 is a reference to the financial report of the statutory body prepared pursuant to s.41A. Previously, a reference to a financial report of a statutory body was a reference to the financial report prepared pursuant to s.41A. However, as a result of amendments, there is now no guidance in the *PM Act* as to whether the reference to a financial report in s.45 is a reference to the financial report prepared pursuant to s.41A or to any financial report, including a financial report for the purposes of the *Corporation Act* Section 39(28) provides a reference to a financial report, in relation to a statutory body, is a reference to the financial report referred to in s.41A but that only applies to such references in Division 3 of Part 3, not Division 4 of Part 3. That might suggest the relevant amendments were intended to have the effect that a financial report in s45 was not intended to be confined to a financial report prepared pursuant to s.41A. The intended effect of these amendments is unclear as the Bill for them was presented as part of the 2008 Budget with no detailed explanation as to their intended effect. It seems to me that the scope of s.44 and the meaning of "a financial report" in s.45 would benefit from clarification as would the relationship between them and the provisions in Division 3 of Part 3.
- 4.5 A company could, presumably be a controlled entity of a Department under the Australian Accounting Standards. However, nothing in Division 4A of Part 3 of the *PF Act* appears to oblige a company which is a controlled entity of a Department to prepare and submit a financial report for the purposes of the *PFA Act*.
- 4.6 I conclude that at present no company, including a company which is a controlled entity of a statutory body or a Department appears to be obliged to prepare and submit a financial report under the *PM Act* (unless s.39(1) is intended to apply to a company and, the company's funds are held in an account within the Special Deposits Account).

FINANCIAL REPORTS OF SMALL PROPRIETARY COMPANIES FOR THE PURPOSES OF THE CORPORATIONS ACT

- 4.7 The *Corporations Act* only requires a small proprietary company (as relevantly defined) to prepare an annual financial report and have it audited if the shareholders with at least 5% of the votes of the company direct it to do so or ASIC directs it to do so (see ss.292(2), 293 and 294).
- 4.8 Small proprietary companies may need to prepare a financial report for the purposes of other laws e.g. income tax and I understand some small proprietary companies may choose to prepare a financial report which complies with the *Corporations Act* despite having no obligation to do so under the *Corporations Act*,

5. Advice as to question 2 - Reporting to ASIC of contraventions of the Corporations Act

CONDUCTING AUDIT FOR PURPOSES OF PFA ACT

- 5.1 This question assumes that in some circumstances a small proprietary company could be required to prepare and submit a financial report for the purposes of the *PFA Act* and that it would be within the functions of the Auditor-General to audit that financial report.
- 5.2 In my answer to question 1, I have concluded that at present no company, including a company which is a controlled entity of a statutory body or a Department, appears to be obliged to prepare and submit a financial report for the purposes of the *PFA Act* (unless s.39 (1) is intended to apply to a company and the company's funds are held in an account in the Special Deposits Account),
- 5.3 For the purposes of this question I shall assume that there are circumstances in which a small proprietary company does prepare and submit a financial report for the purposes of the *PFA Act* and that it is within the functions of the Auditor-General under the *PM Act* to audit that financial report.

- 5.4 Section 311(1) of the *Corporations Act* provides, inter alia, that an individual auditor conducting an audit contravenes s.311(1) if the auditor is aware of circumstances that the auditor has reasonable grounds to suspect amount to a contravention of the *Corporations Act* and the contravention is a significant one or is not significant but will not be adequately dealt with by commenting on it and the auditor does not notify ASIC in writing of these circumstances as soon as practicable, and in any case within 28 days, after the auditor becomes aware of these circumstances. (See also s.311(3) in the case of a lead auditor.)
- 5.5 The issue for determination is whether the reference to “conducting an audit” in s.311(1) (and s.311(3)) is confined to an audit for the purposes of the *Corporations Act* or extends to an audit conducted for the purposes of a State Act such as the *PFA Act*.
- 5.6 The definition of “audit” in the Dictionary in s.9 of the *Corporations Act* provides that, unless the contrary appears, “audit” means an audit conducted for the purposes of the *Corporations Act* and includes a review of a financial report for a half-year conducted for the purposes of the *Corporations Act*. There appears to be no intention manifest that “audit” in s.311 is to apply to audits other than for the purposes of the *Corporations Act*. That being the case, the Auditor-General, in conducting an audit of a small proprietary company for the purposes of the *PFA Act* would not contravene s.311 if he failed to notify ASIC of circumstances specified therein.

CONDUCTING AUDIT FOR PURPOSES OF CORPORATIONS ACT

- 5.7 If the Auditor-General were to conduct an audit in relation to the financial report of a small proprietary company prepared for the purposes of the *Corporations Act* the Auditor-General would be subject to the reporting requirements in s.311 of the *Corporations Act*. Section 311 of the *Corporations Act* does not appear to recognize as a justification for not reporting circumstances specified therein the existence of a State provision such as s.38 of the *PM Act*. In any event, s.38 does not appear to purport to prohibit disclosure of circumstances of which the Auditor-General becomes aware when conducting an audit of a financial report prepared for the purposes of the *Corporations Act*. There must be some doubt as to whether it is within the functions of the Auditor-General to conduct an audit of a small proprietary company for the purposes of the *Corporations Act* notwithstanding that the Auditor-General of a State is taken to be registered as an auditor under the *Corporations Act* (see s.1281). The functions of the Auditor-General are determined by the *PFA Act* and are set out in s.27B. Those functions would not appear to include conducting an audit of a small proprietary company for the purposes of the *Corporations Act* at the request of shareholders with 5% of the vote or the direction of ASIC. It might be sought to argue that comes within the incidental function in s.27B(3)(e), on the basis that doing so in relation to such a financial report is incidental to the exercise of his function to audit a financial report of that company for the purposes of the *PFA Act*. While *doing an* audit in relation to a financial report prepared for the purposes of the *Corporations Act* may assist an audit in respect of a financial report prepared for the purposes of the *PFA Act* I do not think it can be said the former is an incident of the latter. The *PM Act* **would** benefit from clarification in this regard.

CONDUCTING AUDIT WHERE FINANCIAL REPORT NOT REQUIRED FOR PURPOSES OF CORPORATIONS ACT

- 5.8 If the Auditor-General were to conduct an audit in respect of a financial report of a small proprietary company which the company was not required to prepare for the purposes of the *Corporations Act* but chose to prepare) then *Corporations Act* would not apply as the Auditor-General would not be conducting an audit for the purposes of the *Corporations Act*. Again, there would be a question as to whether conducting such an audit is a function of the Auditor-General.

Crown Solicitor

CROWN SOLICITOR'S OFFICE NEW SOUTH WALES

Appendix: Relevant legislation

Commonwealth

Corporations Act 2001 (CM)

Chapter 1—Introductory

Part 1.2—interpretation

9 Dictionary

Unless the contrary intention appears:

Audit means an audit conducted for the purposes of this Act and includes a review of a financial report for a half-year conducted for the purposes of this Act.

Small proprietary company has the meaning given by subsection 45A (2).

Division 5A—Types of company

45A Proprietary companies

- (1) A proprietary company is a company that is registered as, or converts to¹ a proprietary company under this Act,

Small proprietary company

- (2) A proprietary company is a small proprietary company for a financial year if it satisfies at least 2 of the following paragraphs:
- (a) the consolidated revenue for the financial year of the company and the entities it controls (if any) is less than \$25 million, or any other amount prescribed by the regulations for the purposes of this paragraph;
- (b) the value of the consolidated gross assets at the end of the financial year of the company and the entities it controls (if any) is less than \$12.5 million, or any other amount prescribed by the regulations for the purposes of this paragraph;
- (c) the company and the entities it controls (if any) have fewer than 50, or any other number prescribed by the regulations for the purposes of this paragraph, employees at the end of the financial year

Note: A small proprietary company generally has reduced financial reporting requirements (see subsection 292(2)).

Part 1.4 - Technical provisions about aids for readers

111J Small business guide

- (1) If, because of:

(a) Regulations made Under this Act; or

(b) Instruments issued by ASIC under this Act; the small business guide as set out in Part I 6 has become out of date, the regulations may set out modifications of the guide that would bring it up to date. The guide then is to be read as if it were so modified.

(2) The small business guide is divided into sections (numbered 1, 2, 3...) and the sections are divided into paragraphs (numbered 1.1, 1.2, 1.3...). For example, a reference in the guide to 3.1 is a reference to paragraph 3.1 of the guide.

CROWN SOLICITORS OFFICE NEW SOUTH WALES

Part 1.5—Small business guide

This guide summarizes the main rules in the Corporations Act (the Corporations Act 2001) that apply to proprietary companies limited by shares—the most common type of company used by small business. The guide gives a general overview of the Corporations Act as it applies to those companies and directs readers to the operative provisions in the Corporations Act.

The notes in square brackets at the end of paragraphs in the guide indicate the main provisions of the Corporations Act, the regulations made under the Corporations Act and ASIC Practice Notes that are relevant to the information in the paragraphs.

Other Commonwealth, State and Territory laws also impose obligations on proprietary companies and their operators.

10 Annual financial reports and audit

10.1 The small/large distinction

The accounting requirements imposed on a proprietary company under the Corporations Act depend on whether the company is classified as small or large. A company's classification can change from 1 financial year to another as its circumstances change.

A company is classified as small for a financial year if it satisfies at least 2 of the following tests:

- gross operating revenue of less than \$10 million for the year
- gross assets of less than \$5 million at the end of the year
- fewer than 50 employees at the end of the year.

A company that does not satisfy at least 2 of these tests is classified as large. [Section 45A]

As the great majority of proprietary companies are small under these tests⁷ the discussion below deals mainly with the accounting requirements for small proprietary companies. [sections 286–301]

10.2 Financial records

Under the Corporations Act, all proprietary companies must keep sufficient financial records to record and explain their transactions and financial position and to allow true and fair financial statements to be prepared and audited. Financial record here means some kind of systematic record of the company's financial transactions not merely a collection of receipts, invoices, bank statements and cheque butts. Financial records may be kept on computer.

[sections 286–289]

10.3 Preparing annual financial reports and director and reports

The Corporations Act requires a small proprietary company to prepare an annual financial report (an annual profit and loss statement, a balance sheet and a statement of cash flows) and a directors' report (about the company's operations, dividends paid or recommended, options issued etc.) if:

- the shareholders with at least 5% of the votes in the company direct it to do so; or
- ASIC directs it to do so.

Unless the shareholders' direction specifies otherwise, the company must prepare the annual financial report in accordance with the applicable accounting standards.

Although the Corporations Act itself may not require a small proprietary company to prepare a financial report except in the circumstances mentioned, the company may need to prepare the annual financial reports for the purposes of other laws (for example, income tax laws). Moreover, good business practice may also make it advisable for the company to prepare the financial reports so that it can monitor and better manage its financial position.

Large proprietary companies must prepare annual financial reports and a directors' report, have the financial report audited and send both reports to shareholders. They must also lodge the annual financial reports with ASIC unless exempted

Part 2M.3—Financial reporting

Division 1—Annual financial reports and directors' reports

292 Who has to prepare annual financial reports and directors' reports?

(1) A financial report and a directors' report must be prepared for each financial year by:

- (a) all disclosing entities; and
- (b) all public companies; and
- (c) all large proprietary companies; and
- (d) all registered schemes.

Note: This Chapter only applies to disclosing entities incorporated or formed in Australia (See subsection 265(2)).

(2) A small proprietary company has to prepare the financial report and directors' report only if:

- (a) it is directed to do so under section 293 or 294; or
- (b) it was controlled by a foreign company for all or part of the year and it is not consolidated for that period in financial statements for that year lodged with ASIC by:
 - (i) a registered foreign company; or
 - (ii) a company, registered scheme or disclosing entity,

The rest of this Part does not apply to any other small proprietary company.

293 Small proprietary company—shareholder direction

(1) Shareholders with at least 5% of the votes in a small proprietary company may give the company a direction to:

- (a) prepare a financial report and directors' report for a financial year; and
- (b) send them to all shareholders.

(2) The direction must be:

- (a) signed by the shareholders giving the direction; and
- (b) made no later than 12 months after the end of the financial year concerned.

(3) The direction may specify all or any of the following:

- (a) that the financial report does not have to comply with some or all of the accounting standards;
- (b) that a directors' report or a part of that report need not be prepared;
- (c) that the financial report is to be audited.

294 Small proprietary company—ASIC direction

- (1) ASIC may give a small proprietary company, a direction to comply with requirements of this Division and Divisions 3, 4, 5 and 6 for a financial year.

- (1A) An offence based on subsection (1) is an offence of strict liability.

Note: For strict liability, see section 6.1 of the Criminal Code.

- (2) The direction may be general or may specify the particular requirements that the company is to comply with.
- (3) The direction must specify the date by which the documents have to be prepared, sent or lodged. The date must be a reasonable one in view of the nature of the direction.
- (4) The direction must:
 - (a) be made in writing; and
 - (b) specify the financial year concerned; and
 - (c) be made no later than 6 years after the end of that financial year.

295 Contents of annual financial report

Basic contents

- (1) The financial report for a financial year consists of:
 - (a) the financial statements for the year; and
 - (b) the notes to the financial statements; and
 - (c) the directors' declaration about the statements and notes.

Financial statements

- (2) The financial statements for the year are:
 - (a) the financial statements in relation to the entity reported on that are required by the accounting standards; and
 - (b) if required **by** the accounting standards—the financial statements in relation to the consolidated entity that are required by the accounting standards.

Notes to financial statements

- (3) The notes to the financial statements are:
 - (a) disclosures required by the regulations; and
 - (b) notes required by the accounting standards; and
 - (c) any other information necessary to give a true and fair view (see section 297)

Directors' declaration

- (4) The directors declaration is a declaration by the directors:
 - (a) whether, in the directors' opinion, there are reasonable grounds to believe that the company, registered scheme or disclosing entity will be able to pay its debts as and when they become due and payable; and

(b) whether, in the directors' opinion, the financial statement and notes are in accordance with this Act, including:

- (i) section 295 (compliance with accounting standards); and
- (ii) section 297 (true and fair view); and

(d) if the company, disclosing entity or registered scheme is listed—that the directors have been given the declarations required by section 295A.

(e) Note: See paragraph 285(3)(c) for the reference to the debts of a registered scheme.

(5) The declaration must:

- (a) be made in accordance with a resolution of the directors; and
- (b) specify the date on which the declaration is made; and
- (a) be signed **by** a director.

296 Compliance with accounting standards and regulations

(1) The financial report for a financial year must comply with the accounting standards. However, a small proprietary company's report does not have to comply with particular accounting standards if:

- (a) the report is prepared in response **to** a shareholder direction under section 293; and
- (b) the direction specifies that the report does not have to comply with those accounting standards.

(2) The financial report must comply with any further requirements in the regulations

297 True and fair view

The financial statements and notes for a financial year must give a true and fair view **of**:

- (a) the financial position and performance of the company, registered scheme or disclosing entity; and
- (b) if consolidated financial statements are required—the financial position and performance of the consolidated entity.

This section does not affect the obligation under section 296 for a financial report to comply with accounting standards.

Note: If the financial statements and notes prepared in compliance with the accounting standards would not give a true and fair view, additional information must be included in the notes to the financial statements under paragraph 295(3)(c),

Division 3—Audit and auditor's report

307 Audit

An auditor who conducts an audit of the financial report for a financial year or half-year must form an opinion about:

(a) whether the financial report is in accordance with this Act, including:

(1) section 296 or 304 (compliance with accounting standards); and

(ii) section 297 or 305 (true and fair view); and (aa) if the financial report includes additional information under paragraph 296(3)(c) or 303(3)(c) (information included **to** give true and fair view of financial position and performance)— whether the inclusion of that additional information was necessary to give the true and fair view required by section 297 or 305; and

(b) whether the auditor has been given all information, explanation and assistance. necessary for the conduct of the audit; and

(c) whether the company, registered scheme or disclosing entity has kept financial records sufficient to enable a financial report to be prepared and audited; and

(d) whether the company, registered scheme or disclosing entity has kept other records and registers as required by this Act, 311 Reporting to ASIC Contravention by individual auditor

(1) An individual **auditor** conducting an audit contravenes this subsection if:

(a) the auditor **is** aware of circumstances that:

- (i) the auditor has reasonable grounds to suspect amount to a contravention of this Act; or
- (ii) amount to an attempt, in relation to the audit, by any person to unduly influence, coerce¹ manipulate or mislead a person involved in the conduct of the audit (see subsection (6)); or
- (iii) amount to an attempt, by any person, to otherwise interfere with the proper conduct of the audit; and

(b) if subparagraph (a)(i) applies:

- (i) the contravention is a significant one; or
- (ii) the contravention is not a significant one and the auditor behaves that the contravention has not been or will not be adequately dealt with by commenting on it in the auditor's report or bringing it to the attention of the directors; and

(c) the auditor does not notify ASIC in writing of those circumstances as soon as practicable, and in any case within 26 days after the auditor becomes aware of those circumstances. Contravention by audit company

(2) An audit company conducting an audit contravenes this subsection if;

(a) the lead auditor for the audit is aware of circumstances that:

- (i) the lead auditor has reasonable grounds to suspect amount to a contravention of this Act; or
- (ii) amount to an attempt, in relation to the audit, by any person to unduly influence, coerce manipulate or mislead a person involved in the conduct of the audit (see subsection (6)); or
- (iii) amount to an attempt, by any person, to otherwise, interfere with the proper conduct of the audit; and

(b) if subparagraph (AXI) applies:

- (i) the contravention is a significant one; or
- (ii) the contravention is not a significant one and the lead auditor believes that the contravention has not been or will not be adequately dealt with by commenting on it in the auditor's report or bringing it to the attention of the directors; and

(c) the lead auditor does not notify ASIC in writing of those circumstances as soon as practicable, and in any case within 28 days, after the lead auditor becomes aware of those circumstances
Contravention by lead auditor

(3) A person contravenes this subsection if:

(a) the person is the lead auditor for an audit; and

(b) the person is aware of circumstances that

- (i) the person has reasonable grounds to suspect amount to a contravention of this Act; or
- (ii) amount to an attempt, in relation to the audit, by any person to unduly influence, coerce, manipulate or mislead a person involved in the conduct of the audit (see subsection (6)); or
- (iii) amount to an attempt, by any person, to otherwise interfere with the proper conduct of the audit; and

(c) if subparagraph (b)(i) applies:

- (i) the contravention is a significant one; or
- (ii) the contravention is not a significant one and the person believes that the contravention has not been or will not be adequately dealt with by commenting on it in the auditor's report or bringing it to the attention of the directors; and

(d) the person does not notify ASIC in writing of those circumstances as soon as practicable, and in any case within 28 days, after the person becomes aware of those circumstances. Significant contraventions

(4) In determining for the purposes of this section whether a contravention of this Act is a significant one, have regard to:

(a) the level of penalty provided for in relation to the contravention; and

(b) the effect that the contravention has, or may have, on:

- (i) the overall financial position of the company, registered scheme or disclosing entity; or
- (ii) the adequacy of the information available about the overall financial position of the company registered scheme or disclosing entity; and

(c) any other relevant matter.

(5) Without limiting paragraph (4Xa), a penalty provided for in relation to a contravention of a provision of Part 2M.2 or 2M.3 includes a penalty imposed on a director, because of the operation of section 344, for failing to take reasonable steps to comply with, or to secure compliance with, that provision.

Person involved in an audit

(6) In this section: person involved in the conduct of an audit means:

- (a) the auditor; or
- (b) the lead auditor for the audit; or
- (c) the review auditor for the audit or
- (d) a professional member of the audit team for the audit; or
- (e) any other person involved in the conduct of the audit

Division 6—Appointment, removal and fees of auditors for companies

Subdivision A—Appointment of company auditors

328A Auditors consent to appointment

(1) A company, the directors of a company or the responsible entity of a registered scheme must not appoint an individual, firm or company as auditor of the company unless that individual, firm or company:

- (a) has consented, before the appointment, to act as auditor; and
- (b) has not withdrawn that consent before the appointment is made. For the purposes of this section, a consent or the withdrawal of a consent, must be given by written notice to the company, the directors or the responsible entity of the scheme.

(2) A notice under subsection (1) given by a firm must be signed by a member of the firm who is a registered company auditor both:

- (a) in the firm name; and
- (b) in his or her own name.

(3) A notice under subsection (1) given by a company must be signed by a director or senior manager of the company both:

- (a) in the company's name; and
- (b) in his or her own name.

(4) If a company, the directors of a company or the responsible entity of a registered scheme appoints an individual, firm or company as auditor of a company in contravention of subsection (1):

- (a) the purported appointment does not have any effect; and
- (b) the company or responsible entity, and any officer of the company or responsible entity who is in default, are each guilty of an offence.

Part 9.2

Division 2

1281 Auditor-General taken to be registered as auditor

(1) A person who holds office as, or is for the time being exercising the powers and performing the duties of:

- (a) the Auditor-General; or
- (b) the Auditor-General of a State or Territory in this jurisdiction; is taken despite any other provision of this Part, to be registered as an auditor.

New South Wales

Public Finance and Audit Act '1983

Part 3 Audit

Division I The Auditor-General

278 The Auditor-General

(1) There is to be an Auditor-General for the State.

(2) The Auditor-General has the functions conferred or imposed on the Auditor-General by law.

(3) The Auditor-General's functions include the following:

- (a) to audit the consolidated financial statements the general government sector financial statements and any other financial reports that the Auditor-General is required or authorised to audit by law
- (b) to provide any particular audit or audit-related service to Parliament at the Joint request of both Houses of Parliament
- (c) to provide any particular audit or audit-related service to the Treasurer at the request of the Treasurer or to any other Minister at the request of that other Minister,
- (d) to report to Parliament as required or authorised by law,
- (e) to do anything that is incidental to the exercise of the Auditor-General's functions.

(7) In this section, **by law** means by or under this or any other Act or law.

Division 2 Audit—generally

38 Secrecy

(1) The Auditor-General, an auditor and an authorised person shall preserve and aid in preserving secrecy with respect to matters and things that come to the knowledge of the Auditor-General, auditor or authorised person in the exercise of the functions of the Auditor-General auditor or authorised person under this Act and the prescribed requirements and shall not communicate to any person any such matter or thing.

(2) Nothing in subsection (1) applies to or in respect of:

- (a) the conduct of any matter necessary for the proper administration of this Act or the prescribed requirements, or
- (b) proceedings for an offence relating to public money, other money, public property or other property or for the recovery of public money other money, public property or other property, or
- (c) disciplinary proceedings brought against an officer of an authority, or
- (d) a report or communication authorised or required to be made by or under this Act or the prescribed requirements, or
- (e) a report or communication that the Treasurer authorises the Auditor-General to make to a person for the purposes of a due diligence or similar process relating to the sale of any government undertaking

Division 3 General audit of statutory bodies

39 Application and interpretation

(1) A reference in this Division to a statutory body is a reference to:

- (a) a person, group of persons or body specified in Schedule 2, and
- (b) a person, group of persons or body (not being a person¹ group of persons or body specified in Schedule 3) whose funds are held in an account within the Special Deposits Account.

(1A) A reference in this Division to a statutory body also includes a reference to an entity ,² of which the statutory body has control as defined in Australian Accounting Standards.

(1B) A reference in this Division to a statutory body does not include a reference to a person, group of persons, body or entity who or which is, by a regulation made for the purposes of this subsection, declared not to be a statutory body for the purposes of this Division.

(2B) A reference in this Division to a financial report, in relation to a statutory body, is a reference to the financial report referred to in section 41A,

(3) The provisions of this Division are in addition to any other statutory provisions relating to the financial report, books, records or audit of a statutory body but, in the event of any inconsistency between the provisions of this Division and any other such statutory provisions, the provisions of this Division shall, to the extent of the inconsistency, prevail.

(4) Nothing in this Division limits or derogates from the provisions of Division 2.41 Keeping of books and records

(1) A statutory body shall cause to be kept proper books, and records in relation to all of its operations.

(2) Without limiting the generality of subsection (1), a statutory body, being the Senate or Council of a university, shall cause to be kept proper books and records in relation to the funds of the university.

4Th Preparation of financial report

(1) A statutory body (other Than the Audit Office) shall, within the period of 6 weeks after the end of each financial year of the statutory body, prepare and submit:

- (a) to the Minister and
- (b) to the Auditor-General, a financial report *for* the financial year then ended.

(2) The Auditor-General is, within the period of 6 weeks after the end of each financial year of the Audit Office, to prepare and submit to the auditor appointed under section 47 the Audit Office's financial report for the financial year then ended.

410 Auditing etc of financial report

(1) The Auditor-General is to audit a statutory body's financial report for a financial year within 10 weeks of its receipt by the Auditor-General.

(1A) The Auditor-General or a person (being the Deputy Auditor-General or an auditor) authorised by the Auditor-General is, within that 10-week period to furnish an opinion;

(a) stating that the Auditor-General has audited the financial report of the statutory body for that financial year, and

(b) indicating whether the financial report complies with section 418, and

(c) setting forth any qualifications subject to which the opinion is given.

(1B) An opinion in relation to the financial report of a statutory body is not to be furnished under subsection

(1A) unless the Auditor-General has received a statement made in accordance with a resolution of the statutory body and:

(a) Stating whether, in the opinion of the person or persons by whom the statement is signed:

(i) the financial report exhibits a true and fair view of the financial position and financial performance of the statutory body, or

(ii) if the statutory body is the Senate, Council or Board of Governors of a university, the financial report exhibits a true and fair view of the financial position and financial performance of the university, and

(b) Including such matters as are prescribed by the regulations for the purposes of this subsection.

(1C) The statement referred to in subsection (1 B) is to be signed:

(a) in the case of a statutory body that has a governing body—by at least 2 members of the governing body, or

(b) in the case of a statutory body that does not have a governing body—by the chief executive officer of the statutory body or the person who exercises the functions of a chief executive officer in relation to the statutory body, or

(c) by a person prescribed by the regulations in respect of the statutory body.

(1D) For the purposes of subsection

(1C), a member of the governing body of a statutory body includes, where the statutory body is the Senate, Council or Board of Governors of a university, a member of the Senate, Council or Board of Governors.

(2) Nothing in this section prevents the alteration of a statutory body's financial report, with the approval of the Auditor-General, after its receipt by the Auditor-General and before its submission to the Minister.

(3) (Repealed)

4.4 Application and interpretation

(1) A reference in this **Division** to a statutory body is a reference to:

(a) a person, group of persons or body prescribed **for the purposes of** this Division, or

(b) a person, group of persons or body having the control or management of a fund or account, being a fund **or** account which is prescribed for the purposes **of** this Division.

(2) A reference in this Division to a Minister, in relation to a statutory body, is a reference to the Minister having the administration of the Act by or under which the statutory body is appointed, constituted **or** regulated.

(3) Nothing in this Division limits or derogates from the provisions of Division 2

45 Particular audit

(1) In accordance with the request of the Treasurer, a Minister or a person prescribed for the purposes of this section in relation to a statutory body, the Auditor-General is to inspect and audit:

(a) in the case of a statutory body to which section 44 (1) (a) applies—the financial report of the statutory body and the books and records of financial transactions of or relating to:

(i) the statutory body, and

(ii) assets of or in the custody of the body, and

(b) in the case of a statutory body to which section 44 (1) (b) applies—the financial report of the statutory body and the books and records of financial transactions of or relating to the fund or account under the control or management of the statutory body.

(2) The Auditor-General or a person (being the Deputy Auditor-General or an auditor) authorised by the Auditor-General shall report to the statutory body, the Minister, the Treasurer and any person prescribed for the purposes of this section in relation to the statutory body as to the result of any such inspection and audit and as to such irregularities or other matters as in the judgment of the Auditor-General or authorised person call for special notice,

(2A) The Auditor-General is to include a reference to any audit conducted under this section in the report referred to in section 52 (1).

(3) Towards defraying the costs and expenses of any such inspection and audit, the statutory body shall pay to the Auditor-General such amounts, at such times, as the Treasurer decides.

Division 44 General audit of Departments

45A Application and interpretation

(1) A reference in this Division to a Department is a reference to a person, group of persons or body specified in Column 1 of Schedule 3,

(1A) A reference in this Division to a Department also includes a reference to an entity of which the Department (or the Minister responsible for, or an officer of, the Department) has control as defined in Australian Accounting Standards.

(1B) A reference in this Division to a Department does not include a reference to a person, group of persons, body or entity who or which is, by a regulation made for the purposes of this subsection, declared not to be a Department for the purposes of this Division.

(2) A reference in this Division to a Minister, in relation to a Department, is a reference to the Minister responsible for the Department.

(3) A reference in this Division to a Department Head, in relation to a Department, is a reference to the person holding the position specified in Column 2 of Schedule 3 opposite the name or description of the Department.

(3A) A reference in this Division to a financial report, in relation to a Department¹ is a reference to the financial report referred to in section 450.

(4) The provisions of this Division are in addition to any other statutory provisions relating to the financial report, books, records or audit of a Department but, in the event of any inconsistency between the provisions of this Division and any other such statutory provisions, the provisions of this Division shall, to the extent of the inconsistency, prevail.

(5) Nothing in this Division limits or derogates from the provisions of Division 2. Public Finance and Audit Regulation 2005

3 Definitions

(1) In this Regulation: **statutory** body means a statutory body referred to in Division 3 of Part 3 of the Act
cl.17(1) Prescribed statutory bodies under Division 4 of Part 3 of the Act

(l) For the purposes of section 44(l) of the Act, the following persons, groups of persons or bodies are **prescribed for** the purposes of Division 4 of Part 3 of the Act:

- (a) Agricultural Scientific Collections Trust,
- (b) The trustees for the time being of The Art Gallery of New South Wales Foundation,
- (c) The trustees for the time being of each state recreation area reserved under the *National Parks and Wildlife Act 1974*,
- (ci) Dumaresq Barwon Border Rivers Commission,
- (e) C B Alexander Foundation,
- (f) Australia Day Council (New South Wales),
- (g) Area health services within the meaning of the *Health Services Act 1997*,
- (h) Trustees of the Farrer Memorial Research Scholarship Fund,
- (i) Trustee of the Home Purchase Assistance Fund, -
- (j) Minister administering the *Environmental Planning and Assessment Act 1979* (a corporation),
- (k) Minister administering the *Heritage Act 1977* (a corporation).
- (l) P43W Insurance Ministerial Corporation,
- (m) Ambulance Service of New South Wales,
- (n) UNILINC Umited,
- (o) Office of the Minister for Public Works and Services,
- (p) Uni projects Pty Limited,
- (q) Universities Admissions Centre (NSW and ACT) Pty Limited)
- (r) Cowra Japanese Garden Maintenance Foundation Limited,
- (s) Cowra Japanese Garden Trust,
- (t) Belgenny Farm Agricultural Heritage Centre Trust,
- (u) The trustees for the time being of each superannuation scheme established by a trust deed as referred to in section 127 of the *Superannuation Administration Act 1996*,
- (v) Bligh Park Estate Joint Venture,
- (w) Gosford City Council, being a Water Supply Authority listed in Schedule 3 to the *Water Management Act 2000*,
- (x) Wyong Council, being a Water Supply Authority listed in Schedule 3 to the *Water Management Act 2000*,
- (y) Kings Bay Five Dock Project, being the joint venture for the development of an Urban Design Project at Five Dock,
- (z) (Repealed)

(aa) Blacksmiths Project Joint Venture, being the joint venture for the development of an Urban Design Project at Blacksmiths,

- (ab) West Pennant Hills Project Joint Venture,
- (ac) Quakers Hill Project Joint Venture,
- (ad) Oatlands Project Joint Venture,
- (ae) East Fairfield Project Joint Venture,
- (af) Storniwater Trust
- (ag) Jannali Project Joint Venture,
- (ah) Zetland Project Joint Venture,
- (ai) (Repealed)
- (aj) The Australian Institute of Asian Culture and Visual Arts United,
- (ak) State Super Financial Services Ltd¹
- (al) Valley Commerce Pty Ltd,
- (am) Buroba Pty Ltd,
- (an) Elsun Pty Limited,
- (ao) The Brett Whiteley Foundation,
- (ap) Coffs Harbor Technology Park Ltd,
- (aq) Eif Pty Limited,
- (ar) Little Bay Joint Venture, being the joint venture relating to property development at Little Bay between Landom and Little Bay Developments Pty Ltd,
- (as) NSW Fire Brigades Superannuation Pty Limited,
- (at) NSW Businesslink Pty Limited,
- (au) (Repealed)
- (av) Marine Parks Authority, +
- (aw) United States Studies Centre Limited.
- (ax) Cobbora Coal Unit Trust,
- (ay) CCP Holdings Pty Limited,
- (az) Cobbora Unincorporated Joint Venture.
- (ba) Cobbora Management Company Pty Limited.

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**CROWN SOLICITOR'S OFFICE
NEW SOUTH WALES**

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Dear Mr. Fryer

Application of Corporations Act to companies reporting under Public Finance and Audit Act

I enclose my supplementary advice in relation to the above matter.

Should you have any queries in relation to the matter, or if you require any further assistance, please do not hesitate to contact me on tel: (02) 9224-5238.

Yours faithfully

I V Knight
Crown Solicitor

Encl.

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**CROWN SOLICITOR
NEW SOUTH WALES**

Supplementary Advice

Application of Corporations Act to companies reporting under Public Finance and Audit Act

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CROWN SOLICITOR'S OFFICE
NEW SOUTH WALES

1. Summary of supplementary advice

- 1.1 Section 638(3) of the *Public Finance and Audit Act 1983* (the Act) would appear to be intended to oblige a Department or statutory body to ensure that any audit required to be done in respect of a controlled entity, regardless of the source of the requirement for the audit, is done by the Auditor-General, including audits of a controlled entity which is a company under and for the purposes of the *Corporations Act 2001* (C'th) (the *Corporations Act*). Section 638(3) is not itself the source of a requirement that an audit be done.
- 1.2 Section 638(3) is an implied conferral on the Auditor-General of the function of conducting all audits in respect of controlled entities which are required.
- 1.3 If it is considered that the Act is intended to require an audit under and for the purposes of the Act of a financial report of a controlled entity of a Department or statutory body, then Divisions 3 and 4A of Part 3 of the Act should be amended to put that beyond doubt. The application of Division 4 to controlled entities could also be clarified.

2. Background

- 2.1 In my earlier advice I expressed doubt as to whether a company which is a controlled entity of a statutory body or a Department was required by ss. 41A and 45D of the Act to prepare a financial report for the purposes of that Act. I considered the Act obliged a statutory body or Department to include in its financial report of its financial position and performance that of its controlled entities. The financial operation and performance of its controlled entities would have to be obtained from them to enable inclusion in the financial report of the statutory body or Department.
- 2.2 My doubt as to whether the Act required controlled entities to prepare a financial report for audit under and for the purposes of the Act caused me to query whether it was a function of the office of Auditor-General under the Act to audit financial reports prepared by controlled entities which are companies. While the Auditor-General is taken to be a registered auditor for the purposes of the *Corporations Act*, and thus able, so far as the *Corporations Act* is concerned, to be an auditor for the purposes of that Act, the functions of the Auditor-General are determined by the Act.
- 2.3 For the purposes of advising on the effect of s. 311 of the *Corporations Act* I assumed in my earlier advice that controlled entities which are companies are required to prepare a financial report for audit under and for the purposes of the Act and may Inc choose to prepare financial reports that comply with the *Corporations Act* while not obliged to do so. I also assumed that it was a function of the Auditor-General under the Act to audit such reports.
- 2.4 In a subsequent email on 1 October 2009, I drew attention to s. 638(3) of the Act and indicated I would provide advice as to the effect of this provision on my earlier advice.

3. Advice

EFFECT OF S.63B PFA ACT

- 3.1 Section 638(3) of the Public Finance and Audit Act 1983 (PFA Act) provides:

"638(3) A Department or statutory body must take such steps as are appropriate to ensure that an entity referred to in section 45A(1A) or .39(1A) which is controlled by the Department or statutory body is audited by the Auditor-General."

- 3.2 Section 638(3) is not an easy provision to construe. It does not make clear whether its purpose is to require an audit of the entity by the Auditor General (and, if so, the Act under which and for the purposes of which that audit is to be done) or its purpose is to ensure that any audit of a controlled entity which is done (regardless of the source of the requirement for the audit), is done only by the Auditor General.
- 3.3 When originally inserted in 1988, s. 638 provided that a statutory body shall take such steps as are appropriate to ensure that no corporation, association or trust becomes a privately audited subsidiary organisation of the statutory body. A privately audited subsidiary organisation was defined to mean a subsidiary organisation whose auditor (being the auditor appointed in accordance with the law relating to the appointment of auditors for such organizations) is not the Auditor General. The effect of that was to ensure that a subsidiary organisation did not appoint as its auditor in accordance with the law relating to such appointment a person who was not the Auditor General. As originally enacted s. 638(3) seems to have been intended to ensure that the only auditor of subsidiary organisations was to be Auditor General. It did not address what audits were required in relation to a subsidiary organisation and under what law.
- 3.4 In the second reading speech for the *Public Finance and Audit (Amendment) Bill* 1988 which inserted s. 638, the then Premier said in the Legislative Assembly:

"Second, the Auditor-General has brought to attention two issues which affect his audit of subsidiary companies to statutory bodies. The first issue is that there is a conflict between the Public Finance and Audit Act 1983 and the Companies (New South Wales) Code. Section 35(1) of the Public Finance and Audit Act 1983 provides for the appointment of an auditor to carry out an audit on behalf of the Auditor-General. There is a doubt about the application of this provision to subsidiary companies of a statutory body. Though the Auditor-General is the auditor of the subsidiary companies, under the terms of the Public Finance and Audit Act, he is not automatically the auditor of the companies under the provisions of the Companies (New South Wales) Code. With a view to ensuring full public accountability of statutory bodies in connection with subsidiary operations, the amendment of the Act is now necessary. As a result, the bill will insert a new section 63B and an additional subsection 39 (1) (f) in the principal Act.

In the Legislative Council, the then Minister for Police and Emergency Services repeated this statement but inserted after "Code":

"This leads to confusion, and sometimes to appointment of two auditors,"

- 3.5 It is clear from his statement that the Premier was under the impression that the Auditor-General was the auditor of subsidiary companies of a statutory body "under the terms of" the Act (but did not say in what sense he was the auditor of subsidiary companies) and that s. 63B would ensure he was also the auditor under the provisions of the then *Companies (New South Wales) Code* of subsidiary companies. The *Companies (New South Wales) Code* was an Act of this State.
- 3.6 Section 63B was substituted in its present form in 1992 by the *Public Finance and Audit (Amendment) Act 1992*.

In the Second Reading speech Mr Moore, the then Minister for Environment, stated in the Legislative Assembly:

"Occasionally subsidiary companies and other unincorporated controlled entities such as partnerships, trusts and joint ventures, are set up by departments and statutory bodies as vehicles to assist in pursuing their commercial objectives. Both the Auditor General and the Public Accounts Committee have pointed out that the problem with this trend is that public sector activities may become removed from the normal parliamentary scrutiny and the parliamentary process. Under the existing Public Finance and Audit Act all subsidiary companies and certain types of unincorporated bodies under the control of a statutory body are subject to audit by the Auditor General although a private sector auditor may be appointed, if the Treasurer so approves. However, although the form and content of the annual financial statements of these controlled entities are governed by the Act, the statements are not required to be presented to Parliament. Worse still, controlled entities formed by departments are not caught by the Act at all.

To address these problems the Treasurer in January 1991 issued a memorandum to all Ministers setting out detailed guidelines which deal with the formation, audit and reporting of controlled entities. The auditing and reporting guidelines were issued as an interim measure pending the necessary amendments to the Public Finance and Audit Act and the annual reports legislation. The amendments in the bills are principally directed at giving legislative backing to the Treasurer's guidelines. I will outline the key features of the amendments. First, all controlled entities established by departments and statutory bodies are to be defined with reference to the Corporations Law for the purpose of the Public Finance and Audit Act. Secondly, the form and content of the financial statements of all entities under the control of a department are to be in accordance with the Public Finance and Audit Act. Thirdly, the financial statements of individually controlled entities are to be included in the annual report of the parent entity. Fourthly, all controlled entities are to be subject to audit by the Auditor-General or his agent. Lastly, departments and statutory bodies are to report the creation of all entities which they control to the Auditor-General and the Treasurer." "

- 3.7 Again, Mr Moore seems to have been under the impression that "Under the existing *Public Finance and Audit Act*" all subsidiary companies and certain types of unincorporated bodies under the control of a statutory body are subject to audit by the Auditor General but did not explain in what sense they were subject to audit by the Auditor General,

- 3.8 The Explanatory Note in relation to the 1992 amendments stated:

"Controlled entities

Schedule 1(1)) amends section 39, and Schedule 1(16) substitutes section 638, to change the concept of a "subsidiary organisation" of a statutory body to bring it into line with the "controlled entity" concept in the new Corporations Law.

Schedule 1(16) also extends the new section 638 to Departments. In future, both Departments and statutory bodies will be required to report the creation of entities which they control to the Auditor-General and the Treasurer, and to take immediate steps to ensure those entities are audited by the Auditor-General. (Section 638, as substituted, does not repeat the present provisions for a 3 year period in which those steps may be taken by a statutory body.)

Schedule 1(13) amends section 45A so that Division 4A of Part 3 of the Act will require the accounts - records, financial statements and audit of any Department to cover also the entities which the Department controls. A similarly extended requirement (in Division 3 of Part 3 of the Act) presently applies only to statutory bodies."

The Corporations Law referred to in the Note and by Mr Moore was the Corporations Law of the ACT applied as law of New South Wales by the *Corporations (New South Wales) Act 1990*.

- 3.9 In relation to the intended effect of the new s. 638, the Explanatory Note is unhelpful. Schedule 1(13) was said to require the accounts, records and financial statements and audit of any Department "to cover" also the entities which the Department controls and noted that "a similar extended requirement' presently applies only to statutory bodies. The Explanatory Memorandum did not state that controlled entities of statutory bodies were presently required by the Act to be audited under and for the purposes of the Act by the Auditor-General. Nor did it state that controlled entities of Departments and statutory bodies would be required to be audited under and for the purposes of the Act; rather, accounts etc. and audits "of any Department" would "cover" controlled entities and presumably the same would apply in the case of statutory bodies to which a "similar extended requirement" applied.
- 3.10 On balance, I think that s. 638(3) is intended to require statutory bodies and Departments to ensure that all audits required in relation to a controlled entity, regardless of the source of the requirement for the audit, are done by the Auditor General, with the result an audit under and for the purposes of the *Corporations Act* of a controlled entity which is a company is to be done by the Auditor General. On that view, s. 638(3) is not itself the source of a requirement for an audit.
- 3.11 If it is correct that, as a matter of construction, s. 63B(3) requires a statutory body or Department to ensure that all audits required in relation to controlled entities, including audits of companies under and for the purposes of the *Corporations Act*, are done by the Auditor-General, that would not seem to be inconsistent with the provisions of the *Corporations Act* which provide for the appointment of auditors to conduct such audits. In so providing, s. 638(3) would seem to be an implied conferral on the Auditor-General of the function of doing all such audits including audits required by the *Corporations Act*. That overcomes any uncertainty as to whether other provisions of the Act make it a function of the Auditor General to do audits under and for the purposes of the *Corporations Act*.

- 3.12** If it is asserted that the Act is intended to require the auditing by the Auditor-General of financial reports of controlled entities of statutory bodies and Departments, and in particular a company which is not itself a statutory body within s. 39(1) of the Act, under and for the purposes of the Act, then I consider that it is desirable that the Act be amended to make that clear. In particular, s. 39(1A) in Division 3 of Part 3 should be omitted and its content placed in s. 39(1) and provision should be made for references to "Department Head" in Division 4A of Part 3 in relation to controlled entities to enable the application of that Division in respect of controlled entities. Other amendments may need to be made to those Divisions to make clear their application to controlled entities but that is a matter for the Parliamentary Counsel. The application of Division 4 to controlled entities could also be clarified. I should say that my concerns in relation to the application of Divisions 3 and 4A to controlled entities remain notwithstanding that s. 7(1)(a)(ia) of the *Annual Reports (Statutory Bodies) Act* contemplates a financial report of a controlled entity of a statutory body being prepared in accordance with Division 3 of Part 3 of the Act and the regulations; that under the regulations payments to directors of statutory bodies must be included in their financial reports; and that some companies are prescribed as statutory bodies for the purposes of Division 4.
- 3.13** It would not appear to be inconsistent with the *Corporations Act* for a State Act to provide for ensuring that a controlled entity which is a company be audited under and for the purposes of that State Act, but that is a matter the Parliamentary Counsel would consider in drafting amendments to make clear the application of Divisions 3 and 4A of Part 3 of the Act to controlled entities of Departments and statutory bodies.

Signed

I V Knight
Crown Solicitor

APPENDIX: RELEVANT LEGISLATION

Public Finance and Audit Act 1983

Part 3

Division 3 General audit of statutory bodies

39 Application and interpretation

- (1) A reference in this Division to a statutory body is a reference to:
- a) a person, group of persons or body specified in Schedule 2, and
 - b) a person, group of persons or body (not being a person, group of persons or body specified in Schedule (3) whose funds are held in an account within the Special Deposits Account.
- (1A) A reference in this Division to a statutory body also includes a reference to an entity of which the statutory body has control as defined in Australian Accounting Standards.
- (1B) A reference in this Division to a statutory body does not include a reference to a person, group of persons, body or entity who or which is, by a regulation made for the purposes of this subsection, declared not to be a statutory body for the purposes of this Division.
- (2) A reference in this Division to a Minister, in relation to a statutory body, is a reference to the Minister having the administration of the Act by or under which the statutory body is appointed, constituted or regulated.
- (2A) A reference in this Division to the Auditor-General shall, where, in relation to a statutory body, not being the Audit Office or an entity referred to in subsection (1A), an Act authorizes or enables the appointment by the statutory body of an auditor other than the Auditor-General to be the sole auditor in respect of the statutory body, be read and construed as a reference to that auditor.
- (2B) A reference in this Division to a financial report, in relation to a statutory body, is a reference to the financial report referred to in section 41A.
- (3) The provisions of this Division are in addition to any other statutory provisions relating to the financial report, books, records or audit of a statutory body but, in the event of any inconsistency between the provisions of this Division and any other such statutory provisions, the provisions of this Division shall, to the extent of the inconsistency, prevail.
- (4) Nothing in this Division limits or derogates from the provisions of Division 2.

41A Preparation of financial report

- (1) A statutory body (other than the Audit Office) shall, Within the period of 6 weeks after the end of each financial year of the statutory body, prepare and submit
- (a) to the Minister, and
 - (b) to the Auditor-General, a financial report for the financial year then ended.
- (2) The Auditor-General is, within the period of 6 weeks after the end of each financial year of the Audit Office, to prepare and submit to the auditor appointed under section 47 the Audit Office's financial report for the financial year then ended.

Division 4 Particular audit of statutory bodies, funds and accounts

44 Application and interpretation

- (1) A reference in this Division to a statutory body is a reference to:
 - (a) a person, group of persons or body prescribed for the purposes of this Division, or
 - (b) a person, group of persons or body having the control or management of a fund or account, being a fund or account which is prescribed for the purposes of this Division.
- (2) A reference in this Division to a Minister, in relation to a statutory body, is a reference to the Minister having the administration of the Act by or under which the statutory body is appointed, constituted or regulated.
- (3) Nothing in this Division limits or derogates from the provisions of Division 2,

45 Particular audit

- (1) In accordance with the request of the Treasurer, a Minister or a person prescribed for the purposes of this section in relation to a statutory body, the Auditor-General is to inspect and audit:
 - (a) in the case of a statutory body to which section 44 (1) (a) applies--the financial report of the statutory body and the books and records of financial transactions of or relating to:
 - i. the statutory body, and
 - ii. assets of or in the custody of the body, and
 - (b) In the case of a statutory body to which section 44 (1) (b) applies--the financial report of the statutory body and the books and records of financial transactions of or relating to the fund or account under the control or management of the statutory body.

Division 4A General audit of Departments

45A Application and interpretation

- (1) A reference in this Division to a Department is a reference to a person, group of persons or body specified in Column 1 of Schedule 3.
- (1A) A reference in this Division to a Department also includes a reference to an entity of which the Department (or the Minister responsible for, or an officer of, the Department) has control as defined in Australian Accounting Standards.
- (2)
- (3) A reference in this Division to a Department Head, in relation to a Department, is a reference to the person holding the position specified in Column 2 of Schedule 3 opposite the name or description of the Department.
- (3A) A reference in this Division to a financial report, in relation to a Department, is a reference to the financial report referred to in section 45D.
- (4) The provisions of this Division are in addition to any other statutory provisions relating to the financial report, books, records or audit of a Department but, in the event of any inconsistency between the provisions of this Division and any other such statutory provisions, the provisions of this Division shall, to the extent of the inconsistency, prevail.
- (5) Nothing in this Division limits or derogates from the provisions of Division 2.

45D Preparation of financial reports

- (1) A Department Head shall, within the period of 6 weeks after the end of each financial year of the Department, prepare and submit:
 - (a) to the Minister, and
 - (b) to the Auditor-General,a financial report for the financial year then ended.

Part 5 Miscellaneous

63B Notification of controlled entities

- (1) Within 1 month after an entity becomes an entity referred to in section 45A (1A), the appropriate Department Head must notify the Auditor-General and the Treasurer in writing of that fact.
- (2) Within 1 month after an entity becomes an entity referred to in section 39 (1A), the appropriate statutory body must notify the Auditor-General and the Treasurer in writing of that fact.
- (3) A Department or statutory body must take such steps as are appropriate to ensure that an entity referred to in section 45A (1A) or 39 (1A) which is controlled by the Department or statutory body is audited by the Auditor-General.

Public Finance and Audit Regulation 2005

Part I Preliminary

3 Definitions

- (1) In this Regulation:

Department means a person, group of persons or body specified in Column 1 of Schedule 3 to the Act.

Statutory body means a statutory body referred to in Division 3 of Part 3 of the Act.

Part 4 Miscellaneous

17 Prescribed statutory bodies under Division 4 of Part 3 of the Act .

- (1) For the purposes of section 44 (1) of the Apt, the following persons, groups of persons or bodies are prescribed for the purposes of Division 4 of Part 3 of the Act:
 - (n) UNILINC Limited,
 - (p) Uniprojects Pty Limited,
 - (q) Universities Admissions Centre (NSW and ACT) Pty Limited,
 - (r) Cowra Japanese Garden Maintenance Foundation Limited,
 - (aj) The Australian Institute of Asian Culture and Visual Arts Limited,
 - (ak) State Super Financial Services Ltd,
 - (al) Valley Commerce Pty Ltd,
 - (am) Buroba Pty Ltd,
 - (an) Elsun Pty Limited,
 - (ao) The Brett Whiteley Foundation
 - (ap) Coffs Harbour Technology Park Ltd,
 - (aq) Eif Pty Limited,
 - (ar) Little Bay Joint Venture, being the joint venture relating to property development at Little Bay between Landcom and Little Bay Developments Pty Ltd,
 - (as) NSW Fire Brigades Superannuation Pty Limited,
 - (at) NSW Businesslink Pty Limited,
 - (ay) CCP Holdings Pty Limited,
 - (ba) Cobbora Management Company Pty Limited.

Schedule I Information to be included in financial reports of statutory bodies

(Clauses 7 and 8)

Part I Income and expenditure information

1. The amount of emoluments or other benefits paid or due and payable, directly or indirectly, to members or directors (however described) of the body, but not including amounts paid by way of salary to full-time members or directors of the body.
2. The total amounts paid or becoming payable to consultants engaged by the statutory body (other than the Public Trustee or the Senate or Council of a university) during the financial year.

Part 2 Balance sheet information

3. The description and amount of loans, advances or money otherwise due to the body by members or directors (however described) of the body, or officers or employees of the body holding executive decision-making positions, or relatives of those members, directors, officers or employees, but not including loans, advances or money otherwise due for the purpose of carrying out official duties, such as travelling advances and the like.
4. The description and amount of loans, advances or money otherwise due to the body by a corporation, a director of which is a member or director (however described) of the body, or an officer or employee of the body holding an executive decision-making position.

Annual Reports (Statutory Bodies) Act 1984 No 87

Part 1 Preliminary

3 Definitions

- (1) In this Act, except in so far as the context or subject-matter otherwise indicates or requires: *statutory body* means:
 - (a) a person, group of persons or body to which Division 3 of Part 3 of the *Public Finance and Audit Act 1983* applies, not being an entity referred to in section 39 CIA) of that Act, or
 - (b) a person, group of persons or body who or which is prescribed to be a statutory body for the purposes of this Act.

4 Auditor

- (1) For the purposes of this Act and the regulations, the auditor of a statutory body is:
 - (a) except as provided by paragraphs (b) and (c)—the Auditor-General, or
 - (b) where, in relation to the statutory body (other than the Audit Office), an Act authorises or enables the appointment by the statutory body of an auditor other than the Auditor-General to be the sole auditor in respect of the statutory body—the auditor so appointed, or
 - (c) in relation to the Audit Office—the auditor appointed for the time being under section 47 of the *Public Finance and Audit Act 1983*.

Part 2 Annual reports

7 Annual reports

- (1) The annual report of a statutory body shall comprise:
 - (a) in the case of a statutory body to which paragraph (a) of the definition of **statutory body** in section 3 (1) applies:
 - i. the statutory body's financial report prepared in accordance with Division 3 of Part 3 of the *Public Finance and Audit Act 1983* and the regulations under that Act,
 - ia. the financial report so prepared of each entity referred to in section 39 (IA) of the *Public Finance and Audit Act 1983* which is controlled by the statutory body,
 - ii. the opinion of the auditor given in accordance with Division 3 of Part 3 of that Act as to any financial report referred to in subparagraph (i) or (ia),

AUDITOR-GENERAL'S REPORT

FINANCIAL AUDITS

Volume Four 2010

focusing on Electricity



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 2010 Report.

Pete Achterstrat

November 2010

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Electricity agencies distributed \$1.4 billion to the Government compared to \$1 billion in 2008-09	21

Increase in Debt

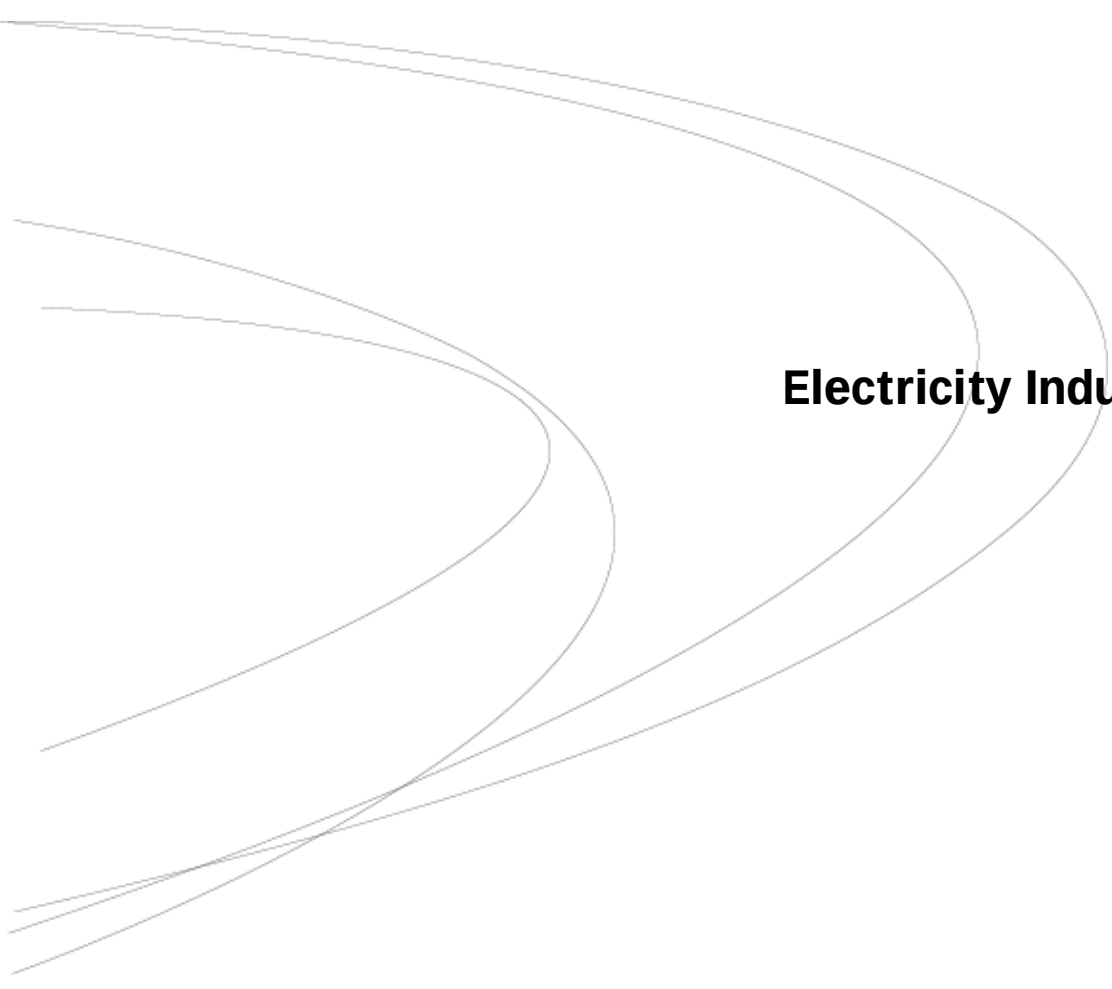
External borrowings by all electricity agencies increased from \$14.7 billion to \$16.6 billion largely to fund capital works programs 21

Delta Electricity

Delta Electricity's subsidiary company, Delta Electricity Australia Pty Ltd, breached its loan covenants during the year and is endeavouring to sell its assets to repay these loans. 29

Delta Electricity is not liable for its subsidiary's debts, but has recognised losses of \$54.5 million relating to its involvement in the Sunshine Electricity Joint Venture.

Section One



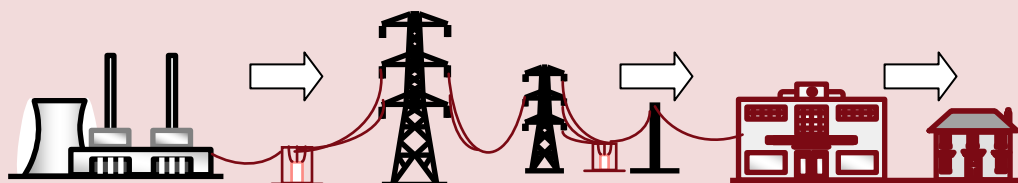
Electricity Industry Overview

Electricity Industry Overview

ELECTRICITY CORPORATIONS AND AUDIT OPINIONS

There are seven State owned corporations involved in the production and distribution of electricity:

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



The audits of these corporations' financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports. The Independent Auditor's Reports for the three generators drew attention to significant uncertainties in assessing the value of power station assets due to the unknown impacts of a carbon reduction scheme and contracting electricity trading rights to the private sector.

KEY ISSUES

Sale of New South Wales Government's electricity retail and trading rights

The final process to sell the New South Wales Government's retail electricity and generator electricity trading rights (Gentrader) transactions commenced in June/July 2010. The Government announced it had received expressions of interest from qualified and capable domestic and international bidders. A data room process for bidders is currently in progress with final bids due by mid November 2010. The Government's advisors continue to finalise the necessary contractual information and legal documentation.

The completion date of the transaction previously envisaged by Government was mid 2010, in its September 2009 Energy Reform Strategy (the Strategy) document. The outcome of the transactions are now expected to be known by the end of this year with formal completion expected in early 2011.

The Government's Strategy is intended to significantly increase private sector investment in new generation capacity for New South Wales and increase competition in the NSW electricity market. Achieving this objective may require some trade-offs between maximising the financial return to the Government and minimising potential ongoing Government liabilities.

The Strategy comprises the following key elements:

- continued Government ownership and operation of existing power stations and all electricity networks (poles and wires) in New South Wales
- contracting the electricity trading rights of power stations to the private sector, commonly referred to as the 'Gentrader' model
- selling the retail arms of EnergyAustralia, Integral Energy Australia and Country Energy
- selling key power station development sites around the State.

There are a number of challenges associated with implementing the Strategy, including:

- the impact and uncertainty of any future carbon reduction scheme that may discount the value Government will achieve today
- the complexity of the Gentrader model
- residual risk that may remain with Government to implement any transitional agreements.

Time line on sale process

Privatising the New South Wales electricity industry has been an ongoing process for twelve years.

Year	Process	Method of sale	Sale proceeds expected
1997	New South Wales Government proposed to devolve itself of all generation, distribution and retail assets including: power stations (generation); poles and wires (distribution networks); and customers (households, commercial and industrial customers).	trade sale	estimated between \$22.0 to \$25.0 billion
2007	Government announced its intention to withdraw from the retail electricity market and lease the operation of power stations to the private sector. The Government's package for restructuring the electricity industry was withdrawn in August 2008.	trade sale/long term lease	Owen Inquiry estimated \$10.0 billion
2009	In September 2009, the Government announced its latest policy position on the restructure of the New South Wales electricity industry when it released the 'New South Wales Energy Reform Strategy: Approach to transaction implementation' (the Strategy) and outlined the framework for the restructure.	trade sale with option for later public offer	Public estimate unavailable
Under each proposal the Government planned to retain ownership of the high voltage transmission network (TransGrid).			

Cobbora Coal Mine Development

I recommend the Government take steps to ensure the timely development of the Cobbora mine if it is to realise its plan to secure an efficiently priced coal supply for the electricity generators.

The State owned generators acquired 25,753 hectares of land in the Cobbora and Laheys Creek area of the Warrumbungle Shire to develop a new low cost coal mine to supply the New South Wales electricity generators.

Expressions of interest were invited from parties interested in building and operating the coalmine. I understand the preferred tenderer recently withdrew from this process, which may delay development of the mine.

Coal Prices

Coal costs vary across the national electricity market depending on the type of coal, quality, location and the nature of the arrangements under which it is supplied. Overall, coal is generally the cheapest fuel source ranging in price from below A\$0.50 per gigajoule (GJ) in Victoria to between A\$1.00 and A\$2.00/GJ in New South Wales, Queensland, and South Australia.

Exports of thermal coal are sold both under long-term contracts (approximately 70 per cent) and on a spot basis (approximately 30 per cent). Spot prices for export ex-Newcastle in June 2010 were US\$98.43 per tonne, or approximately A\$3.94/GJ. Growth in international markets continues to drive prices higher resulting in increased pressure on coal prices for domestic power generation. This is most evident in Queensland and New South Wales as long-term contracts for coal expire and need renegotiation.

Minerals Resource Rent Tax

On 2 July 2010, the Australian Government announced a significant resource taxation reform to apply from 1 July 2012. The resource tax reforms include a new Minerals Resource Rent Tax (MRRT) applying to the mining of iron ore and coal in Australia.

The MRRT may impact coal prices and affect operational and investment decisions.

Electricity Prices

Wholesale prices

Electricity wholesale prices in the National Electricity Market (NEM) increased during 2010. The average spot price for 2010 in New South Wales was \$44.19 per megawatt hour, a rise of 13.7 per cent from the 2009 average of \$38.85.

The wholesale (spot) price of electricity has been subject to volatility since the inception of the NEM in 1997. Despite this volatility, however, the average spot price remained around \$40-\$45 per megawatt hour.

Average annual wholesale spot prices of electricity:

Year ended 30 June	NSW \$/MWh	Vic \$/MWh	Qld \$/MWh	SA \$/MWh	Tas \$/MWh
2010	44.19	36.28	33.30	33.31	29.37
2009	38.85	41.82	34.00	50.98	58.48
2008	41.66	46.79	52.34	73.50	54.68
2007	58.72	54.80	52.14	51.61	49.56
2006	37.24	32.47	28.12	37.76	56.76

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

Factors that have contributed to the increase in New South Wales' average annual wholesale spot prices of electricity include periods of high demand due to extreme weather events, the effect of prolonged drought on generating capacity, the number of planned and unplanned outages and constraints on the flow of electricity into the State from other regions in the NEM.

Under the existing market rules for the NEM, average spot prices can range between a minimum of negative \$1,000 and a maximum of \$12,500 per megawatt hour (the NEM market price cap increased from \$10,000/MWh to \$12,500/MWh on 1 July 2010). The price volatility introduces uncertainty to cash flows and return on investment. In response, market participants manage the impact of price volatility through the use of electricity fixed price contracts (derivative financial instruments).

The highest and lowest electricity prices recorded in New South Wales in the year to 30 June 2010 were:

Financial year ended	Highest/(Lowest) half hour price		
	NSW \$/MWh	Date	Time
2010	9,283.95	20 Nov 2009	1:00 pm
2009	10,000.00	31 Oct 2008	1:30 pm
2010	(264.31)	11 Feb 2010	3:30 pm
2009	(170.76)	18 Jan 2009	5:30 am

Source: Australian Energy Market Operator (AEMO)

Financial year ended	Highest/(Lowest) average daily price	
	NSW \$/MWh	Date
2010	\$1,884.64	7 Dec 2009
2009	\$2,207.11	31 Oct 2008
2010	\$16.80	16 Aug 2009
2009	\$17.06	18 Jan 2009

Source: Australian Energy Market Operator (AEMO)

Electricity Price Outlook

Recent price determinations made by the Australian Energy Regulator (AER) for electricity distribution network charges and the Independent Pricing and Regulatory Tribunal (IPART) of New South Wales (IPART) for regulated retail tariffs will result in increases in the price of electricity in New South Wales over the next few years.

The following analysis by IPART indicates that average annual prices charged by retailers over the next three years are expected to increase. The impact of any future carbon reduction scheme has been excluded from the tables.

Indicative average increase in regulated retail tariffs (nominal per cent)

NSW Standard Retailers	2010-11	2011-12	2012-13	Cumulative total increase
EnergyAustralia	10	11	11	36
Integral Energy	7	10	2	20
Country Energy	13	13	11	42

Source: IPART Fact Sheet 'Regulated electricity retail tariffs for 1 July 2010 to 30 June 2013 - Final Report'

Contribution of cost components to average cumulative price increases from 2010-11 to 2012-13 (nominal per cent)

	EnergyAustralia	Integral Energy	Country Energy
Increase in network charges (as determined by the AER)	31	16	35
Increase in wholesale energy costs	1	1	3
Increase in retail costs and margin	3	2	3
Rounding	1	1	1
Total increases	36	20	42

Source: IPART Fact Sheet 'Regulated electricity retail tariffs for 1 July 2010 to 30 June 2013 - Final Report'

A major factor that will drive increases in retail electricity prices for all New South Wales customers, including regulated customers, will be increases in network charges.

The submissions made to the AER by the three distribution networks indicated 'that higher network prices are necessary to enable higher levels of investment in the State's electricity distribution networks to improve network security and reliability of supply in line with new licence conditions imposed by the New South Wales Government'.

AER data indicates that most of the capital expenditure by the distributor networks is to meet expected growth in energy demand (42 per cent) and replacement and renewal of ageing assets (31 per cent). Expenditure for reliability and quality of service is also a factor (nine per cent).

The AER determination specifically cites the following investment requirements:

- Country Energy - augment its network, particularly in high growth corridors such as the New South Wales north coast and to comply with enhanced licence conditions
- EnergyAustralia - augment its network to meet growing demand in the Sydney CBD, replace ageing and obsolete assets and to comply with enhanced licence conditions
- Integral Energy - build new substations to meet local growth, particularly around the Liverpool, Parramatta and Blacktown areas of Western Sydney. Undertake a major program to replace ageing transmission and zone substation equipment. Comply with enhanced licence conditions.

The Long Run Marginal Cost (LRMC) to generate electricity is used as an indicator of the return that a new entrants require to commit to investing in the NEM. The LRMC comprises:

- capital cost (including connection and other infrastructure)
- other costs including legal and project management costs
- fixed operating and maintenance costs
- variable costs over the life of the station
- tax costs.

A report prepared for the Australian Energy Market Operator (AEMO) by ACIL Tasman in April 2009 'Fuel Resource, New Entry and Generation Costs in the NEM' included the LRMC for new entrants into the NEM in New South Wales. The LRMC (excluding carbon costs) for technologies capable of meeting base load demand were:

- combined cycle gas turbines between \$50.84 and \$65.26 per megawatt hour
- open cycle gas turbines between \$80.17 and \$107.85 per megawatt hour
- nuclear \$101.41 per megawatt hour.

The LRMC for existing generators using primarily black coal is significantly less.

Retail prices are rising to fund capital works while contributions to the Government in the form of tax and dividends increased from \$1.2 billion to \$1.4 billion.

Sustainable Energy

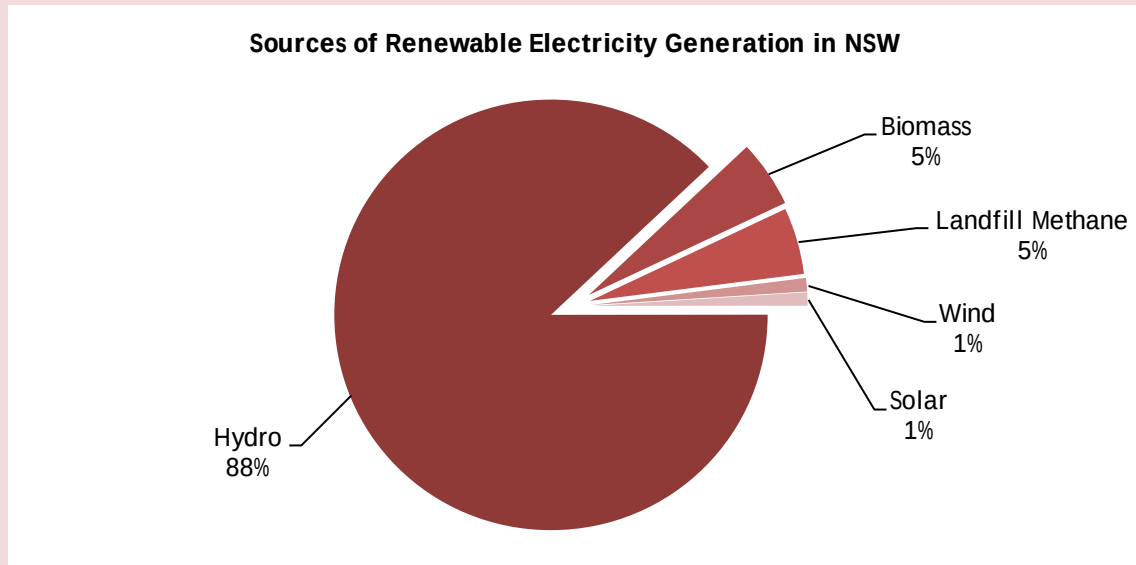
Renewable energy targets and carbon reduction schemes seek to use market forces to encourage investment in renewable and low carbon energy sources. Both State and Australian Governments have progressively introduced renewable energy targets and carbon reduction schemes.

Government initiatives and policies to develop and encourage the growth of sustainable energy sources include:

Renewable Energy

The relatively higher cost of providing renewable generation has been a barrier to any large scale investment in renewable energy. Renewable energy is sourced from alternative sources such as water, biomass, landfill methane, wind, organic matter and the sun.

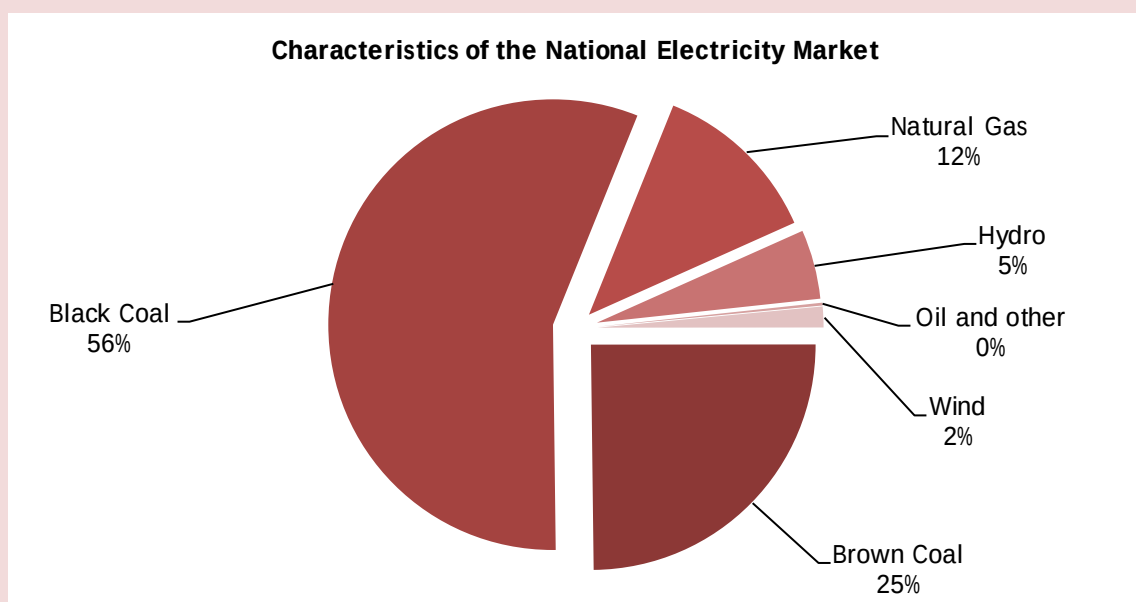
An analysis of data available from the Department of Industry and Investment NSW indicates that approximately six per cent of New South Wales electricity is sourced from renewable energy sources. The New South Wales Government has set a target of 20 per cent renewable energy consumption by 2020 in line with the national Renewable Energy Target scheme.



Source: Department of Industry and Investment NSW – September 2010

Coal continues to be the major source of electricity generation in Australia as shown below.

From July 2009 to July 2010 electricity generation from black and brown coal has reduced by One per cent and wind has increased to two per cent from nil in 2009.



Source: AEMP, An Introduction to Australia's National Electricity Market July 2010

Due to reliance on coal-fired generation, which currently supplies approximately 82 per cent of electricity generation in the NEM, the electricity sector contributes 35 per cent of Australia's greenhouse gas emissions.

While coal is the dominant fuel for electricity generation, Queensland and New South Wales rely primarily on black coal and Victoria relies on brown coal. Electricity generation in South Australia is largely generated from gas and coal, while Tasmania relies on hydroelectricity.

Climate Change Policy

In April 2010, the Australian Government announced a delay in the introduction of a Carbon Pollution Reduction Scheme (CPRS) until after the end of the current commitment period of the Kyoto protocol (end of 2012). In the interim, the Australian Government announced that it will boost existing investments in clean and renewable energy and support greater energy efficiency measures to reduce greenhouse gas emissions in the short term.

The delay in introducing a CPRS and the associated uncertainty are expected to have significant implications for NEM investment. I believe that clear articulation and co-ordinated direction from governments on carbon reduction initiatives and the future of coal would benefit NEM investment. The current, albeit short-term, uncertainty continues to create a challenging investment for generation companies.

In relation to investment in alternative technologies, the AEMO *2010 Electricity Statement of Opportunities* noted that: 'some non-traditional technologies are also emerging as potential suppliers of electricity to the NEM, including solar photovoltaic and geothermal generation. Carbon capture and storage may also become viable. Together, these technologies have the potential to develop further through government funding programs that aim to improve the long-term technological development and commercialisation of low-emissions technology. Various initiatives will also gradually change the nature of demand in the medium-long term. This is due to the potential for new technology, such as smart meters, smart grids and electric vehicles, combined with an increased focus on energy efficiency to alter consumption patterns and reduce growth rates'.

Customer initiatives - GreenPower

GreenPower is a national accreditation program that sets stringent environmental and reporting standards for renewable energy products offered by electricity suppliers to households and businesses across Australia. When customers choose to buy a GreenPower product through their electricity retailer the extra price they pay is invested in renewable energy.

Data sourced from the National GreenPower Accreditation Program shows a decrease in the number of customers opting to purchase green energy, compared to considerable growth in previous years. In New South Wales for the year ending 30 June 2010, GreenPower customers decreased by 56,437 or 23 per cent compared to the previous year.

The decrease in green energy purchases was not spread equally between residential and commercial customers. The table below highlights that residential customers in New South Wales decreased from 239,578 to 182,296 or 23.9 per cent at 30 June 2010, while commercial customer numbers increased from 5,677 to 6,522 or 14.9 per cent for the same period. It should be noted that GreenPower purchases in New South Wales have been impacted by the departure of a major provider of green products (Jackgreen) from participation in the NEM.

	NSW 2010	NSW 2009	Australia 2010	Australia 2009
Residential Green Power:				
Customer numbers	182,296	239,578	802,628	940,560
Sales MWh	242,099	302,301	1,115,735	1,208,745
Commercial Green Power:				
Customer numbers	6,522	5,677	39,300	32,276
Sales MWh	278,616	267,596	1,107,652	935,982
Total Green Power customer numbers	188,818	245,255	841,928	972,836
Total Green Power sales (MWh)	520,715	569,897	2,223,387	2,144,727

Source: data extracted from the National GreenPower Accreditation Program Status Reports for the quarters ended 30 September 2008 to 30 June 2010.

The decline in green energy purchased by residential customers may in part be indicative of the success of the solar feed-in tariff scheme introduced at the start of 2010.

Solar Feed-in Tariff Scheme

The New South Wales Government introduced a Solar Feed-in Tariff Scheme (the Scheme) that commenced on 1 January 2010. The Scheme applies to small scale, grid connected, solar systems and wind turbines. A tariff of 60 cents per kilowatt hour is paid to small customers connected to the grid for electricity produced that is fed back into the electricity grid.

In the period ended 30 June 2010, the Scheme achieved 25,717 customer connections, producing 8.6 megawatts of green electricity at a cost of \$5.1 million to the New South Wales electricity distribution networks.

On 1 July 2010, the Australian Energy Market Commission (AEMC) amended the National Electricity Rules to allow distribution networks to recover the payments they make under eligible jurisdictional schemes such as feed-in schemes and climate change funds. The option to pass through the cost of the Scheme will increase the price of electricity to all customers.

Participants in the Scheme receive 60 cents per kilowatt hour. This is a significant difference to the average price paid for electricity in the New South Wales on the NEM spot market in 2010 of 4.4 cents per kilowatt hour.

The legislation requires the Minister for Energy to review the Scheme in 2012 or when capacity reaches 50 megawatts, whichever come first. The Scheme has now reached the 50 megawatt level and a review has commenced. The review is assessing whether the policy objectives of the Scheme remain valid and whether the terms of the Act remain appropriate to securing those objectives.

Electricity Supply and Demand Outlook

Projected electricity demand in New South Wales, with medium economic growth, is currently expected to exceed supply by 27 megawatts by 2016-17.

The AEMO provides the supply and demand outlook for each State, which includes:

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

Summary Overview of LRC and Reserve Deficit

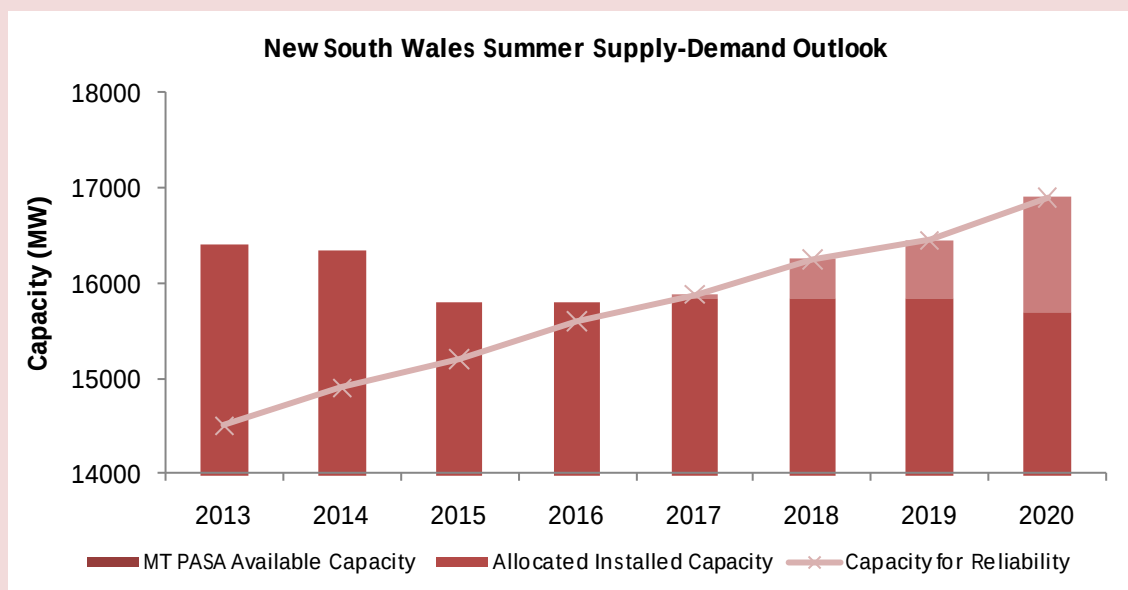
State	2010 LRC Point	2010 Reserve Deficit (MW)	2009 LRC Point	2009 Reserve Deficit (MW)
New South Wales	2016-17	27	2015-16	182
Queensland	2013-14	726	2014-15	34
Victoria	2015-16	249	2013-14	17
South Australia	2015-16	50	2012-13	68
Tasmania	Beyond 2019-20		Beyond 2018-19	

Source: AEMO Electricity Statement of Opportunities 2009 and 2010

In 2010, the LRC point for New South Wales was one year later than the 2009 projection. This is in part due to a 572 megawatts increase in existing generation capacity and the addition of new local generation.

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 commencing in summer 2012-13 for the following eight years is shown in the chart below:



Source: Extracted from AEMO Electricity Statement of Opportunities for the National Electricity Market 2010.

- (a) 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.
- (b) Additional Capacity Required: Represents the difference between the Capacity for Reliability and the Allocated Installed Capacity. This also represents the reserve deficit.
- (c) Capacity for Reliability: represents the capacity that needs to be allocated to meet the minimum reserve level.

The New South Wales LRC occurs in 2017 when the additional capacity required is 27 megawatts. If this additional capacity is not created by this time, supply will fall below minimum reserve levels (as indicated by the solid line), which may necessitate load shedding and periods of blackouts for some customers.

The projected LRC point does not necessarily mean generating capacity will be insufficient to meet expected demand at this time, but it provides investors with an indication of the opportunities that may exist for future investment.

Peak and Average Demand and Energy Growth Rates

The AEMO reported the following average growth rates in energy consumption and peak demand growth rates per year for electricity in New South Wales.

Average Growth rate per year	2010	2009	2008	2007
Peak demand increase/(decrease) (%)	0.5	(1.3)	2.3	2.5
Energy Consumption increase/(decrease) (%)	0.3	(4.3)	0.8	1.6

Source: AEMO Electricity Statement of Opportunities for the National Electricity Market 2009 and 2010, NEMMCO Statement of Opportunities 2007 energy and demand projections for 2008 and 2009.

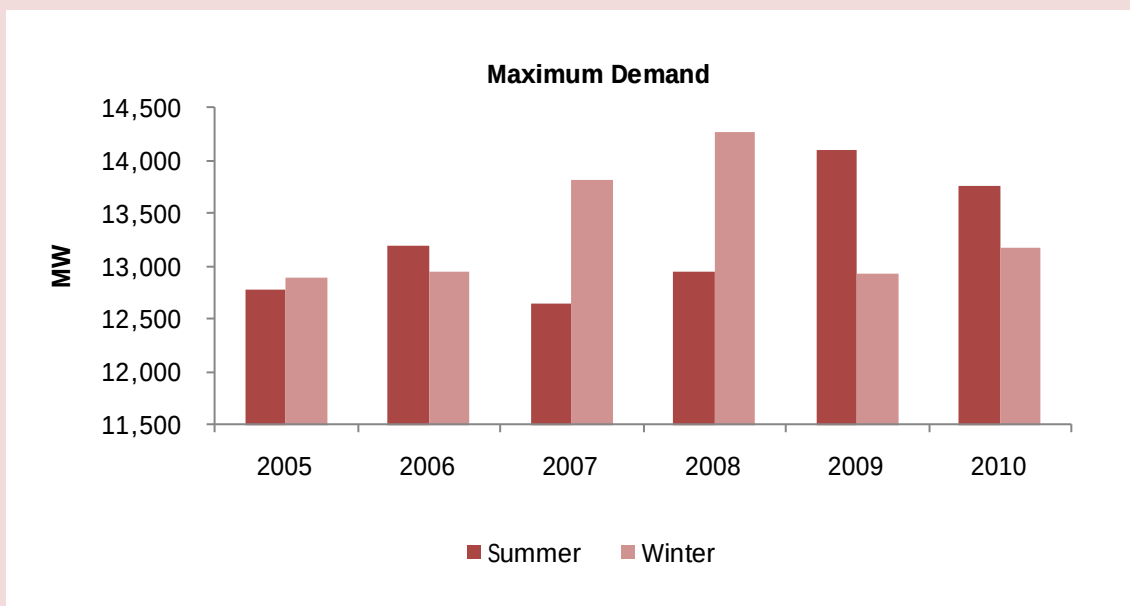
AEMO attributes the increase in peak demand and energy growth rates for 2010 in New South Wales to:

- less severe economic slowdown than previously expected, modelling assumption changes and semi-scheduled and non-scheduled generation capacity revisions
- the postponement of the Australian Government's proposed CPRS, which led to revised energy price projections
- changes to post-modelling adjustments to better account for policy decisions likely to affect energy efficiency, such as the phasing out of greenhouse-intensive water heaters, the introduction of the New South Wales Energy Savings Scheme, and the phasing out of incandescent light bulbs
- allowances for new spot loads, including the desalination plant at Kurnell

Energy Demand

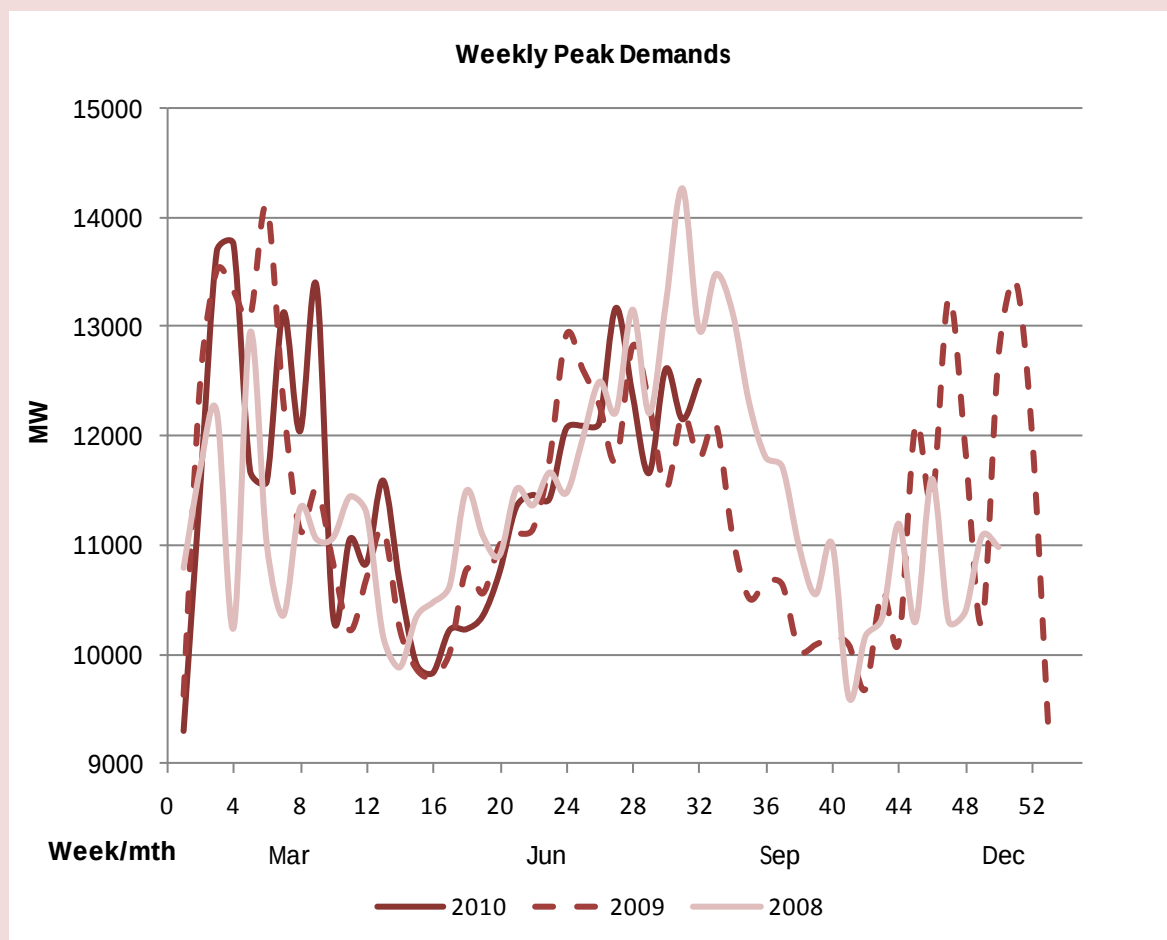
As reported in the AEMO *2010 Electricity Statement of Opportunities*, the pattern of projected energy growth is consistent with strong recent and projected Australian economic growth. Growth in the Australian economy is primarily expected to be driven in the medium term by strong export volumes and prices for resources, growth in the construction sector, and private consumption. The forecasts also show that this will result in high energy growth in regions with strong mining sectors, such as Queensland.

The following graph highlights the maximum demand in megawatts in summer and winter months over the last six calendar years.



Source: TransGrid and AEMO NSW half hour demand data per calendar year. Note that 2010 summer may be higher in December as YTD to August 2010.

The peak demands for 2010 occurred in summer (22 January 2010) and winter (29 June 2010).



Peaks in maximum demand

Year	Summer		Winter	
	MW	Date	MW	Date
2009-10	13,435	17 Dec 2009	13,176	29 Jun 2010
	13,765	22 Jan 2010		
2008-09	14,106	6 Feb 2009	12,922	10 Jun 2009
2007-08	12,954	12 Jan 2008	14,274	28 Jul 2008

MW is equal to one megawatt or million watts.

Demand-side participation

Smart meters and smart grids

In 2007, the Council of Australian Governments committed to roll out smart meters to introduce time-of-day pricing and to enable users to better manage demand for peak power.

The Australian Government established the Smart Grid Smart City initiative, which is aimed at supporting the installation of Australia's first commercial-scale smart grid and announced that an EnergyAustralia-led consortium had been selected to implement a commercial scale smart network trial. The initiative will see up to 50,000 homes and business connected to a smart grid at five sites, Newcastle, Scone, Sydney CBD, Ku-ring-gai and Newington.

The AEMO *2010 Electricity Statement of Opportunities* notes that: 'the prospect of smart grids creates opportunities for consumers to change their energy consumption at short notice in response to a variety of signals that include price. This change in consumption increases the complexity of load forecasting'.

The Ministerial Council on Energy and AEMO are also undertaking other initiatives to support demand side participation.

Transmission network planning implications

The development of new 'greenfield' generation infrastructure in the NEM will need to consider access to the transmission network. In New South Wales the Government has carriage of transmission network planning decisions effected through TransGrid.

In relation to transmission planning I concur with the view expressed in the AEMO *2010 Electricity Statement of Opportunities* noting that: 'a changing generation technology mix, and the changing distribution of generation projects geographically and in the 'merit order' of new generation, will potentially require transmission network adaptation. Where the development of new generation requires transmission network augmentation, factors relevant to the investment decision include the cost of connection (related to the proximity of the project to existing transmission infrastructure) and the extent of transmission network congestion affecting the connection point'.

Connecting remote generation

AEMO has identified a key challenge for the transmission network: 'to adapt network infrastructure that developed around coalfired generation (frequently concentrated near coal mines) to new generation configurations, including increased renewable generation. Some excellent renewable generation resources are located remotely from transmission networks, presenting a significant challenge for existing connection frameworks that place the onus on the proponent for a connection and its costs'.

Existing Capacity in New South Wales

The table below provides a list of major existing New South Wales power stations with an installed capacity equivalent to or larger than 30 megawatts:

Power station	Location	Owner	Technology	Capacity (MW)
Major Existing New South Wales Government Power Stations				
Broadwater	North Coast	Delta Electricity ⁽¹⁾	BaGasse	30
Condong	North Coast	Delta Electricity ⁽¹⁾	BaGasse	30
Colongra	Central Coast	Delta Electricity	OCGT	668
Mount Piper	Central West	Delta Electricity	Steam/Coal	1,400
Munmorah	Central Coast	Delta Electricity	Steam/Coal	600
Vales Point	Central Coast	Delta Electricity	Steam/Coal	1,320
Wallerawang	Central West	Delta Electricity	Steam/Coal	1,000
Eraring	Lower Hunter	Eraring Energy	Steam/Coal	2,640
Shoalhaven	Nowra	Eraring Energy	Hydro	240
Warragamba	Sydney	Eraring Energy	Hydro	50
Bayswater	Hunter	Macquarie Generation	Steam/Coal	2,720
Liddell	Hunter	Macquarie Generation	Steam/Coal	2,080
				12,778
Non New South Wales Government Owned				
Appin Mine	Illawarra	EDL Group	CSM	56
Tower Mine	Illawarra	EDL Group	CSM ^(c)	41
Smithfield	Smithfield	Marubeni	Gas Cogen	160
Cullerin	Upper Lachlan	Origin Energy	Wind	30
Uranquinty	Wagga Wagga	Origin Energy	OCGT ^(b)	648
Redbank	Hunter	Redbank Project	Coal Tailings	145
Capital Wind Farm	Tarago	Renewable Power Ventures	Wind	141
Blowering	Snowy	Snowy Hydro*	Hydro	80
Guthega	Snowy	Snowy Hydro*	Hydro	60
Tumut	Snowy	Snowy Hydro*	Hydro	2,116
Tallawarra	Wollongong	TRUenergy	CCGT ^(a)	435
				3,912
Total - Major existing New South Wales power stations				16,690

Source: Department of Industry and Investment NSW (6 September 2010)

(a) CCGT = Combined Cycle Gas Turbine

(b) OCGT = Open Cycle Gas Turbine

(c) CSM = Coal Seam Methane

* Partly owned by the New South Wales Government.

Committed and Proposed Additional Capacity

Allocated and installed capacity increases as significant, new, committed and scheduled generation capacity enters the NEM. The table below provides a list of major New South Wales power stations that are either under construction or proposed and have an installed capacity of more than 30 megawatts.

The Department of Industry and Investment, New South Wales reported that as at 27 September 2010 new power plants with a capacity of more than 16,000 megawatts (including over 3,800 megawatts from renewable sources) are at various stages of development from concept to construction.

Power station	Location	Owner	Technology	Capacity (MW)
Projects with development approval				
New South Wales Government Owned				
Bamarang Stage 1*	Nowra	Delta Electricity	OCGT	400
Bamarang Stage 2	Nowra	Delta Electricity	Conversion to CCGT	--
Marulan	Marulan	Delta Electricity	OCGT/CCGT	450
Mt Piper Power Station extension	Lithgow	Delta Electricity	CCGT or Ultra supercritical CCGT	2,000
Munmorah Power Station upgrade(**)	Lake Munmorah	Delta Electricity	Coal and/or Gas	100
Eraring Upgrade	Lower Hunter	Eraring Energy	Coal	360
Tomago	Newcastle	Macquarie Generation	OCGT/CCGT	790
Bayswater B	Muswellbrook	Macquarie Generation	OCGT/CCGT	2,000
Marulan	Marulan	EnergyAustralia / International Power	OCGT	350
				6,450
Non New South Wales Government Owned (19 projects by 16 proponents)				3,699
Total - Projects with development approval				10,149
* Amendment being sought for 450MW, subject to transmission connection amendment.				
** Munmorah upgrade and additional 100MW capacity approved by Minister for Planning in October 2010.				
Projects in the planning system				
Non New South Wales Government Owned (20 projects by 13 proponents)				4,931
Total - Projects in the planning system				4,931

Source: Department of Industry and Investment NSW (27 September 2010); a full list of current New South Wales generators registered in the NEM can be found on the AEMO website.

PERFORMANCE INFORMATION

Financial Performance

Revenue for State-owned New South Wales electricity businesses increased by \$1.1 billion to \$12.4 billion for 2010. Expenses, including tax, also increased, resulting in profit after tax of \$1.2 billion for the current year (\$847 million in 2009). Returns on equity and assets have risen from the previous year.

Year ended 30 June	2010	2009	2008
Return on average equity (%) (a)	11.4	8.9	15.6
Return on average assets (%) (b)	8.2	6.5	9.0
Interest cover times (c)	2.4	2.4	3.3
Debt to equity ratio (%) (d)	151.7	157.1	124.1

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 detailed in the comment for each agency elsewhere in this report.

The change in ratios from 2009 to 2010 reflects increased earnings and increases in asset values.

Generators and Distributors

Pre-tax profits of the distributors increased substantially from \$661 million in 2009 to \$965 million in the current year. Pre-tax profits from generators increased from \$307 million to \$465 million for the same period.

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

	Generators			Distributors/Retailers		
	2010	2009	2008	2010	2009	2008
Return on average equity (%) ^(a)	8.1	5.9	29.4	16.5	12.5	11.6
Return on average assets (%) ^(b)	7.2	4.7	11.2	9.1	7.3	7.4
Interest cover times ^(c)	3.1	3.2	8.3	2.1	2.1	2.3
Debt to equity ratio (%) ^(d)	71.8	66.3	47.1	244.0	289.0	219.7
Net assets \$m	3,812	3,867	4,037	4,770	3,518	3,923
Pre-tax net profit \$m	465	326	970	965	657	700

Calculated as:

(a) operating profit after income tax expense divided by average equity expressed as a percentage.

(b) operating profit before tax and interest expense divided by average assets expressed as a percentage.

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

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

Generators

Financial performance improved this year compared to the previous year. The major factor contributing to the improved financial performance was the increased margins earned from the sale of electricity. Generators benefited from an overall increase in the average spot price for electricity.

Overall debt levels for generators increased to finance construction activity. Major projects undertaken include:

- Eraring Energy increasing the nominal capacity of each of the Eraring Power Station's four units from 660 megawatts to 720 megawatts
- Delta Electricity's completion of the 667 megawatt Colongra gas turbine
- Macquarie Generation's completion of a 330 kV to 500 kV transformer upgrade.

Distributors/Retailers

Overall financial performance met or exceeded all financial performance targets, due largely to increased margins from the sale of electricity resulting primarily from increases to the regulated network tariff.

Total assets increased mainly due to increased capital expenditure programs for distribution networks. The increased capital expenditure programs have required increases to the regulated network tariff and increase in debt level to help fund them.

Profits after taxes and dividends paid by the distributors were higher than in the previous year.

Transmission

TransGrid performed well against its targets. It made a profit before tax of \$226 million in 2010 (\$217 million in 2009) enabling it to return contributions to Government totalling \$186 million. These comprised a dividend of \$135 million and taxation of \$50.5 million.

Profit increased as a result of higher transmission income because of increases to the revenue cap approved by the regulator. In November 2009, the Australian Competition Tribunal granted TransGrid an increase in its prescribed revenue for the 2009-10 to 2013-14 regulatory period based on the substantial capital works proposed by TransGrid over the regulatory period.

Capital expenditure decreased significantly from 2009 as a number of major capital projects were completed in 2009, including the Western 500kV Development Project, Wollar-Wellington 330kV Transmission Line projects and the 133 megawatt Capital Wind Farm.

FINANCIAL INFORMATION

Distribution to Government

Electricity entities' accrued and paid distributions to the Government of \$1.4 billion (\$1.2 billion in 2009), comprising \$528 million (\$465 million) in taxation and \$867 million (\$696 million) in dividends.

After the restructure of the electricity industry, dividends and tax equivalents will continue to be received from the Government owned entities.

Dividend Policy

Dividend policies are agreed by the Government with the individual agencies in the Statement of Corporate Intent agreed at the beginning of the financial year:

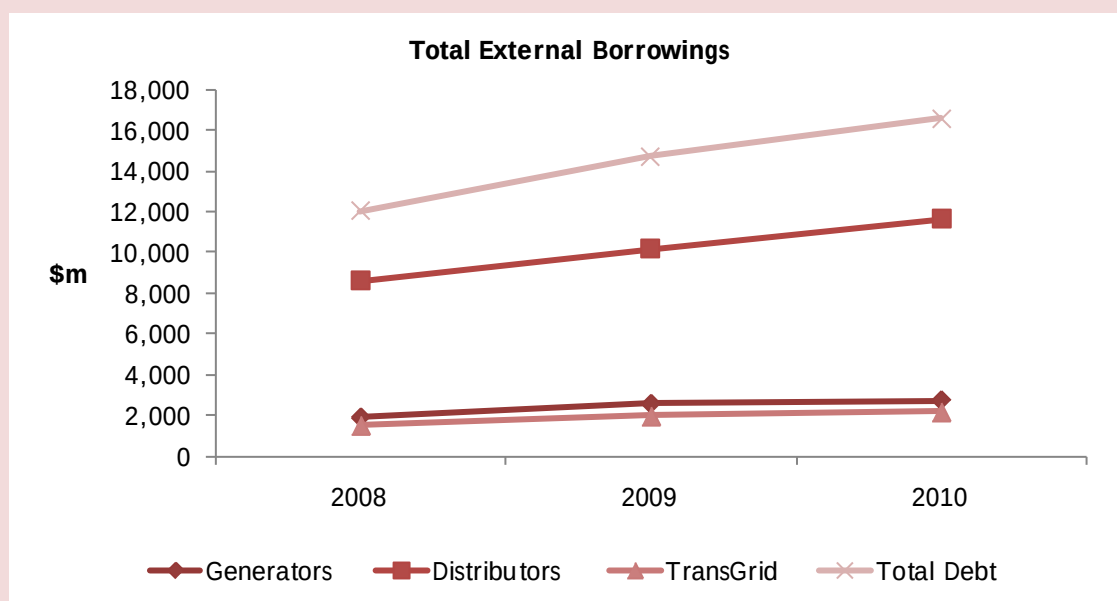
- generators pay 100 per cent of retained earnings after adjusting for fluctuations in superannuation actuarial adjustments and unrealised gains/losses on derivative valuation movements
- distributors, retailers and TransGrid pay between 44 and 80 per cent of retained earnings after adjusting for fluctuations in superannuation actuarial adjustments and unrealised gains/losses on derivative valuation movements.

Industry Borrowings

Borrowings increased by \$4.5 billion or 37.5 per cent over the last three years with annual borrowing costs increased by \$442 million or 55.5 per cent over the last three years.

Borrowing costs (including capitalised interest) for the year were \$1.2 billion compared to \$880 million in the previous year. The industry's borrowings at 30 June 2010 were \$16.6 billion (\$14.7 billion). The table and graph below highlight the trend in borrowings, which have increased in line with the significant capital works projects being undertaken.

	2010 \$m	2009 \$m	2008 \$m
Generators			
Borrowing costs	215	139	132
External debt	2,737	2,562	1,901
Distributors			
Borrowing costs	865	616	562
External debt	11,640	10,170	8,617
TransGrid			
Borrowing costs	160	125	105
External debt	2,194	1,989	1,532
TOTAL BORROWING COSTS	1,240	880	799
TOTAL EXTERNAL DEBT	16,571	14,721	12,050



OTHER INFORMATION

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 2010, the Fund was \$105 million in surplus, (\$48.9 million in 2009). This resulted from lower electricity wholesale prices during the year leading to less reliance on the Fund from retailers.

The Fund's transactions were:

Payments	Generators		Distributors/Retailers	
	2010 \$m	2009 \$m	2010 \$m	2009 \$m
Into the Fund	82	136	409	271
From the Fund	82	197	356	152

I understand that, as part of the restructure of the electricity industry, the Fund will be phased out by 1 July 2011. Cover provided by the Fund will be progressively phased out by 20 per cent in July 2010, October 2010, January 2011, April 2011 and 1 July 2011.

Regulatory Pricing

The AER is the regulator for electricity. On 30 April 2009, it made a five year determination under the National Electricity Rules, which established the revenue requirements for each electricity distributor from 1 July 2009 until 30 June 2014. The determination is estimated to increase the average retail customer's annual electricity bill by \$1.41 to \$1.50 per week.

IPART is responsible for the regulation of electricity prices for small retail customers choosing to remain on a regulated tariff in New South Wales. In March 2010, a new regulated electricity tariff determination was made for the period from 1 July 2010 to 30 June 2013. The determination allows increases of between two per cent and three per cent per annum over the determination period.

Analysis of the combined impact of the AER and IPART determination appears earlier in this report.

The AER is responsible for the regulation of transmission network charges. A determination for TransGrid's transmission services was issued on 28 April 2009, allowing a nominal return of four per cent on the weighted average cost of capital. This determination covers a five year period from 1 July 2009 to 30 June 2014.

The AER regulates the wholesale electricity market and is responsible for the economic regulation of the electricity transmission and distribution networks in the NEM. The AER is also responsible for the economic regulation of gas transmission and distribution networks and enforcing the national gas law and national gas rules in all jurisdictions except Western Australia.

The AEMC is responsible for developing the Rules and providing policy advice on how best to develop energy markets over time in relation to the NEM and elements of natural gas markets.

BACKGROUND

All New South Wales public sector electricity entities are statutory State owned corporations.

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 combined financial statements of parent entities for generators, distributors and TransGrid for 2009-10 and the previous year. Comments on each entity follow this section.

	Generators		Distributors/ Retailers		Transmission (TransGrid)		Total	
	2010 \$m	2009 \$m	2010 \$m	2009 \$m	2010 \$m	2009 \$m	2010 \$m	2009 \$m
Abridged Financial Statements (year ended 30 June)								
Total revenue	2,810.9	2,850.6	8,900.4	7,827.3	695.0	652.8	12,406.3	11,330.7
Profit after income tax	311.8	232.9	685.3	463.9	162.1	150.3	1,159.2	847.1
Contributions to Government -								
dividends	291.1	269.6	440.4	305.7	135.1	120.2	866.6	695.6
income tax paid	207.9	303.0	269.2	119.5	50.5	42.4	527.6	465.0
Total assets	9,360.5	9,248.0	21,975.8	18,211.6	5,939.1	5,170.9	37,275.4	32,630.5
Total liabilities	5,548.5	5,381.2	17,205.9	14,693.2	3,598.6	3,183.4	26,353.0	23,257.8
Net assets	3,812.0	3,866.8	4,769.9	3,518.4	2,340.5	1,987.5	10,922.4	9,372.7
Retained earnings (at 30 June)	138.9	159.5	1,209.8	1,001.9	45.9	49.2	1,394.6	1,210.6
Financial Performance Indicators* (year ended 30 June)								
Return on average equity (%) ^(a)	8.1	5.9	16.5	12.5	7.5	7.5	11.4	8.9
Return on average assets (%) ^(b)	7.2	4.7	9.1	7.3	6.6	6.9	8.2	6.5
Interest cover (times) ^(c)	3.1	3.2	2.1	2.1	2.3	2.6	2.3	2.3
Debt/equity (%) ^(d)	71.8	66.3	244.0	289.0	93.8	100.1	151.7	157.1

Calculated as:

(a) operating profit after income tax expense divided by average equity expressed as a percentage.

(b) operating profit before tax and interest expense divided by average assets expressed as a percentage.

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

(d) external debt divided by equity (net assets) expressed as a percentage.

Section Two



Commentary on Government Agencies

Minister for Energy

Electricity Generators:

Delta Electricity

Eraring Energy

Macquarie Generation

Electricity Distributors:

Country Energy

EnergyAustralia

Integral Energy Australia

TransGrid

Refer to Appendix 1 for:

Cobbora Unincorporated Joint Venture

Cobbora Management Company Pty Limited

Cobbora Coal Unit Trust

CCP Holdings Pty Limited

Delta Electricity

AUDIT OPINION

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

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

Delta Electricity (Parent and Consolidated Entity)

The Independent Auditor's Report for Delta Electricity drew attention to significant uncertainty regarding the effects of electricity industry reforms and the carbon reduction scheme on forecast cash flows which may impact asset values.

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 any future carbon reduction scheme and the New South Wales Government's proposed reforms of the New South Wales electricity industry. 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.

Delta Electricity Australia Pty Ltd

The Independent Auditor's Report for Delta Electricity Australia Pty Ltd drew attention to the preparation of the company's financial statements on a non-going concern (liquidation) basis, and significant uncertainty regarding the valuation of assets included in the disposal group.

KEY ISSUES

Losses Incurred from Participation in the Sunshine Electricity Joint Venture

I recommend that Delta Electricity review and identify the factors that have contributed to the losses incurred by this joint venture so steps can be taken to prevent similar losses occurring in the future. The review should focus on how the robustness of the assumptions used in the original business case was assessed before the decision was made to participate in this project.

Delta Electricity's subsidiary company, Delta Electricity Australia Pty Ltd, is in financial difficulty. The company borrowed \$68.0 million from banks secured over the company's assets, and from Delta Electricity. In November 2009, the company breached its loan covenants with its banks and it is currently endeavouring to sell its assets to repay these loans. The company is also discussing with the banks possible arrangements that could allow a financial restructure of the project.

Delta Electricity has forgiven the company's debt to it, resulting in a \$50.7 million loss, but it is not liable for the company's indebtedness to the banks.

Currently, a significant risk exists that the company may trade while it is insolvent. The company's directors are continually monitoring the company's financial position on a weekly basis and are obtaining expert advice. The directors are satisfied that the company can meet any new debts from its operations over the next few months.

After the company breached the loan covenants, its bankers agreed to temporary forbearance periods to allow the company and its joint venture partner to sell the secured property.

The temporary forbearance arrangements ended on 31 August 2010 and the company is currently negotiating a further forbearance period. As a result, significant uncertainty exists at the date the financial statements were signed regarding the ability of the company to pay its debts as they fall due. This resulted in the financial statements being prepared on a liquidation basis.

The company recognised impairment and fair value losses of \$46.5 million during the year, reducing the carrying value of the assets held for sale to \$50.0 million. This represents Delta Electricity's best estimate of the assets fair value less costs to sell. As noted above, the sale process is ongoing, and current bids suggest the actual proceeds may vary widely around this figure.

In addition to the loan forgiveness of \$50.7 million referred to above, Delta Electricity also wrote off a further \$3.8 million receivable from the Sunshine Electricity Joint Venture.

Background

In 2002, Delta Electricity Australia Pty Ltd, entered into a joint venture to design, construct and operate two 30 megawatt renewable energy electricity co-generation plants at Condong and Broadwater in northern New South Wales. Construction reached practical completion in October and November 2008 for Condong and Broadwater respectively. These plants predominately burn bagasse, the waste material left after crushing sugar cane, to produce electricity to power the adjacent sugar mills and the regional network.

The joint venture has not generated sufficient cash flows to enable Delta Electricity Australia Pty Ltd to meet its share of financing obligations when they fell due. The company attributes the failure of the joint venture project to:

- the commissioning of the plant taking longer than planned
- lower than forecast amounts of fuel (bagasse) for the co-generation plants to burn
- limited availability of alternative fuel supplies, and
- the price of renewable energy certificates being lower than forecast.

Restructure of Electricity Industry

The Government is selling Delta Electricity's electricity trading rights and four development sites to the private sector. See the 'Electricity Industry Overview' section appearing earlier in this report for details on the sale and the Government's final policy position on its 'Energy Reform Strategy' announced in September 2009.

PERFORMANCE INFORMATION

Delta Electricity provided the following information regarding its performance:

Year ended 30 June	Target	Actual			
	2010	2010	2009	2008	2007
Generation of electricity					
– gigawatt hours sent out	24,460	21,999	23,746	24,054	21,952
Plant availability					
– total all stations (%)	89.5	92.0	86.8	77.3	75.5
Thermal efficiency					
– total all stations (%)	34.8	34.6	34.6	35.0	35.2
Earnings before interest and tax (\$m)	189.3	189.7	146.4	212.1	244.9
Return on equity (%) (a)	8.2	6.2	7.5	12.7	64.9
Return on assets (%) (b)	6.4	5.9	4.5	7.7	7.6
Interest cover (times)	2.0	1.7	3.2	4.9	5.6
Debt to equity (%)	158.0	149.8	130.3	86.5	306.2
Total distributions to government (\$m)	96.5	59.2	84.6	180.0	174.7
Capital expenditure (\$m)	117.2	97.1	379.5	251.8	150.4

(a) profit after tax divided by equity.

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

Production of electricity was below target in 2009-10 mainly as a result of the ongoing drought conditions in the water catchments surrounding the Mt Piper and Wallerawang power stations. Adverse water levels resulted in one of the Wallerawang units being placed on reserve for part of the year. Production also decreased due to sustained periods of low spot prices which made production of electricity uneconomical.

Plant availability improved in 2009-10 due to a reduced program of outages compared to 2008-09. Targeted plant availability was exceeded as a result of the maintenance expenditure program focusing on reliability issues.

The production of electricity by Delta Electricity releases carbon dioxide and other greenhouse gases directly into the atmosphere. The most recent information (2008-09) released by the Department of Climate Change and Energy Efficiency lists Delta Electricity as Australia's second largest emitter of greenhouse gases with direct emissions of 22.2 million tonnes.

Thermal efficiency is a performance measure commonly used by power stations. The thermal efficiency percentages above indicate the average percentage of energy contained in the coal used by Delta's Electricity's power stations to produce electricity (i.e. measure the overall fuel conversion efficiency for the electricity generation process). New South Wales government owned coal fired power stations outperform reported worldwide averages for thermal efficiency.

Thermal efficiency is influenced by the design, age and condition of a power plant, as well as by the quality of coal used. A new state of the art power station can expect to achieve a thermal efficiency in excess of 45 per cent.

The return on equity decreased due to lower profit after taxes and finance costs this year.

The return on assets increased due to a \$43.3 million increase in earnings before interest and taxes. This represents higher revenues from energy sales, driven largely by an increase in the average spot price for electricity and a reduction in generation costs, largely due to the decrease in fuel consumption costs as a result of lower energy production.

Interest cover decreased due to higher financing costs. This was largely due to the increased cost of debt after the global financial crisis. This was reflected in a higher government guarantee fee which increased by \$18.2 million to \$29.5 million (\$11.3 million in 2008-09).

Debt to equity continued to increase due to further borrowings to complete construction of the Colongra gas turbine and the decrease in equity largely due to a \$150 million reduction in the value of power station assets.

Distributions to government comprised a dividend of \$36.6 million (\$59.2 million in 2008-09) and taxation of \$22.6 million (\$25.4 million). The reduction in distributions to government was due to the lower profit before tax this year. Profits before tax decreased due to higher financing costs and impairment losses on discontinued operations. As Delta Electricity's retained earnings were reduced to zero in the prior year, its ability to pay dividends is also limited to annual earnings. The government also receives the government guarantee fee referred to above.

Capital expenditure was below target largely due to lower than expected costs associated with the construction of the Colongra gas turbines.

OTHER INFORMATION

Valuation and Remaining Life of Power Station Assets

The carrying value of power stations represents 24.1 per cent of the power stations' gross replacement cost, which indicates on average the power stations have slightly less than one quarter of their service potential remaining.

Delta Electricity's power stations have a gross replacement cost of \$10.3 billion. After deducting accumulated depreciation and impairment of \$7.8 billion, the carrying value of Delta Electricity's power stations was \$2.5 billion.

The remaining lives for most of Delta Electricity's power stations range from 20 to 30 years. Munmorah, which has a generation capacity of 600 megawatts, has an estimated remaining life of three to four years; however approval has recently been granted for a \$500 million upgrade under the Government's revised energy reform strategy.

Major Projects

Colongra Gas Turbine Power Station

The 667 megawatt, \$500 million Colongra gas turbine was completed during the year and officially opened on 21 December 2009. Colongra operates as a peaking plant supplying electricity at short notice during times of high demand. Following commissioning Colongra sent out 43,657 megawatt hours of electricity this year and had an availability factor of 98.1 per cent.

Potential Development Sites

Delta Electricity has identified four sites for new generation capacity. Proposals have been developed for construction of new gas turbines at Marulan (near Goulburn) and Bamarang (near Nowra), the rehabilitation of Munmorah as a gas or coal fired plant, and construction of new generation facilities at Mount Piper using either coal or gas.

The Government's revised energy reform strategy, introduced to help secure the future supply of electricity in New South Wales, has identified these sites as suitable for the sale to the private sector.

Coal Supply

Coal prices have increased significantly in recent years. This has increased the risk for Delta Electricity in securing supplies of coal at competitive prices. To mitigate this risk, Delta Electricity, through its subsidiary Mid West Primary Pty Ltd, has entered into a joint venture with the other State owned generators to develop a coal resource in Central West New South Wales. Further details appear in the Energy Industry Overview earlier in this report.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
TOTAL REVENUE	1,050,047	1,004,587	1,043,549	997,375
PROFIT BEFORE FINANCE COSTS, DEPRECIATION AND TAX	311,835	242,680	305,884	250,955
Finance costs	111,279	45,654	103,722	42,156
Depreciation	122,143	96,308	118,470	93,556
PROFIT BEFORE TAX	78,413	100,718	83,692	115,243
Income tax equivalent expense	22,596	25,369	39,921	29,684
PROFIT AFTER TAX	55,817	75,349	43,771	85,559
OTHER COMPREHENSIVE INCOME				
Gain on cash flow hedges taken to equity	51,640	255,451	53,646	262,454
Cash flow hedges transferred to Statement of Comprehensive Income	(34,476)	(38,480)	(38,264)	(39,028)
Defined benefit superannuation actuarial loss	(27,442)	(93,351)	(27,442)	(93,351)
Loss on revaluation of property	(150,000)	--	(150,000)	--
Income tax on items of other comprehensive income	48,084	(37,086)	48,618	(39,023)
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	(112,194)	86,534	(113,442)	91,052
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	(56,377)	161,883	(69,671)	176,611
Dividend provided	36,608	59,221	36,608	59,221

Total revenue included \$1.0 billion in electricity sales compared to \$976 million in the previous year. While the quantity of electricity sold decreased, the average price for electricity increased by 14 per cent from \$38.85 to \$44.19 per megawatt hour.

Profit before tax decreased due to a \$65.6 million increase in finance costs. This was largely due to higher borrowing costs and an increase in the government guarantee fee. In addition, depreciation expense increased by \$25.8 million largely due to the completion of the Colongra gas turbines. The Consolidated Entity also recognised impairment and fair value write-downs on assets held for sale of \$46.5 million.

Abridged Statement of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	455,777	292,490	403,581	337,332
Non-current assets	2,750,257	2,987,732	2,733,668	2,883,100
TOTAL ASSETS	3,206,034	3,280,222	3,137,249	3,220,432
Current liabilities	354,475	417,094	283,144	407,512
Non-current liabilities	1,944,913	1,863,497	1,944,911	1,797,447
TOTAL LIABILITIES	2,299,388	2,280,591	2,228,055	2,204,959
NET ASSETS	906,646	999,631	909,194	1,015,473

Current assets increased mainly due to a \$74.3 million increase in cash and cash equivalents and the transfer from non-current assets of \$50.0 million due to the intended sale of assets associated with the Sunshine Electricity Joint Venture mentioned earlier.

Non-current assets decreased mainly due to a reduction in the value of power station assets by \$150 million due to impairment.

The movement between current and non-current liabilities was largely due to refinancing of borrowings. Overall borrowings increased by \$56.0 million.

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. The Colongra gas turbine power station was opened in December 2009. Delta Electricity provides around 12.0 per cent of electricity to the National Electricity Market.

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

CONTROLLED ENTITIES**Delta Electricity Australia Pty Ltd**

Year ended 30 June	2010 \$'000	2009 \$'000
Revenue	65,789	10,904
Profit/(Loss) after tax	13,262	(10,304)
Total assets	73,841	109,151
Total liabilities	75,422	125,242
Net liabilities (at 30 June)	1,581	16,091

The company has resolved to sell its interest in the Sunshine Electricity Joint Venture. As at the date of this report, this sale process is ongoing. The reasons for this decision are discussed in more detail under the key issues section above.

Revenue includes \$52.6 million as a result of the parent entity, Delta Electricity, forgiving amounts owed by the company. Revenue from sales of electricity and green certificates was \$12.8 million (\$10.7 million). Expenses included write-downs of \$46.5 million (\$8.2 million) relating to impairment and fair-value write-downs on assets held for sale.

Total assets decreased due to impairment write-downs and depreciation on the co-generation plant. Total liabilities decreased largely due to the parent entity forgiving the interest free advance owed by the company.

Mid West Primary Pty Ltd

Period ended 30 June	2010 \$'000	2009 \$'000
Revenue	20	1
Loss after tax	623	617
Total assets	37,478	22,797
Total liabilities	356	23,414
Net assets/(liabilities) (at 30 June)	37,122	(617)

Mid West Primary Pty Ltd was formed on 7 August 2008. The company is a participant in a joint venture to explore, investigate and operate coal resources in New South Wales. The company has a 38.3 per cent interest in the joint venture and is entitled to 38.3 per cent of the output.

Total assets mainly comprise investments by the company in associated and jointly controlled entities (\$32.7 million) and intangible assets relating to mining exploration and evaluation activities (\$3.9 million). After receiving further advances from the parent entity, the interest free advance payable at 30 June 2009 (\$21.3 million) was converted into contributed equity of \$38.4 million on 30 June 2010. The effect of this was to reduce the company's total liabilities and increase the company's net assets.

Eraring Energy

AUDIT OPINION

The audits of Eraring Energy's and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

The auditor's report included an emphasis of matter paragraph drawing attention to Eraring Energy's power station equipment and buildings valuation. The carrying value of Eraring Energy's power station equipment and buildings is determined using estimated discounted cash flows. These estimations are subject to volatility, particularly from the potential impacts of any future carbon reduction scheme (the scheme) and the New South Wales Government's proposed reforms of the New South Wales electricity industry (the proposed reforms). The ultimate impact of the scheme and proposed reforms cannot presently be determined and this creates a significant uncertainty as to whether the estimated discounted cash flows will be realised.

KEY ISSUES

Restructure of Electricity Industry

The Government is selling Eraring Energy's electricity trading rights to the private sector. See the 'Electricity Industry Overview' section appearing earlier in this report for more information on the sale.

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 14,116 gigawatt hours of electricity in 2009-10.

Generation was lower than the record levels experienced in 2007 and 2008. High generation occurred at Eraring Power Station in those financial years because of the drought conditions. Eraring Power Station uses relatively little water in its electricity production processes, whereas some of its competitors use fresh water for cooling and had to curtail production during the drought. This provided Eraring Power Station with opportunities for increased generation. Generation levels in 2010 were impacted by planned outages at the Eraring Power Station as part of a capacity upgrade project.

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

Year ended 30 June	Target	Actual			
	2010	2010	2009	2008	2007
Generation of electricity (gigawatt hours as generated)					
Thermal coal	14,640	14,116	15,426	17,283	17,530
Hydro	181	123	101	92	114
Wind	26	27	30	24	24
Total	14,847	14,266	15,557	17,399	17,668
Plant availability (%)	82.6	78.7	86.1	92.5	93.0
Thermal efficiency as generated (%)	37.9	37.8	37.8	37.9	37.9

Source: Eraring Energy (unaudited).

Plant availability measures the total time Eraring Power Station's generating units were producing electricity or able to produce electricity over a given period. Plant availability is directly impacted by the amount of time required for maintenance and capital improvements. Eraring's plant availability was impacted by the planned capacity upgrade project in 2010. As a result of the project, Eraring Power Station was running at 75 per cent plant availability for most of the financial year.

Thermal efficiency is a performance measure commonly used by power stations. The thermal efficiency percentages above indicate the percentage of energy contained in the coal used by Eraring Power Station to produce the electricity. That is, a measure of the overall fuel conversion efficiency for the electricity generation process.

Thermal efficiency is influenced by the design, source of cooling water, age and condition of a power plant, as well as by the quality of coal used. New South Wales government owned coal fired power stations outperform reported worldwide averages for thermal efficiency. Eraring Power Station's thermal efficiency compares favourably to other New South Wales government owned coal fired power stations and the upgrade project will further improve thermal efficiency.

The production of electricity by Eraring Energy releases carbon dioxide and other greenhouse gases directly into the atmosphere. The most recent information (2008-09) released by the Department of Climate Change and Energy Efficiency lists Eraring Energy as Australia's seventh largest emitter of greenhouse gases with direct emissions of 13.3 million tonnes. Eraring Energy expects to reduce emissions by 200,000 tonnes as a result of the current upgrade of Eraring Power Station.

Consolidated Financial Performance

	Target	Actual			
	2010	2010	2009	2008	2007
Earnings before interest, tax, and depreciation from normal operations (\$m)(a)	271.2	220.1	220.0	270.2	272.4
Return on equity (%) (b)	16.9	6.7	6.3	8.2	34.6
Return on assets (%) (c)	10.1	6.5	5.9	7.3	6.9
Interest cover (times) (d)	3.7	3.5	4.4	9.1	13.8
Total distributions to government (\$m) (e)	224.9	111.6	94.5	164.2	198.1
Debt/equity (%) (f)	45.5	61.3	52.5	27.9	77.7
Capital expenditure (\$m)	205.3	213.8	189.1	55.0	38.0

(a) 'Normal operations' excludes fair value movements in electricity derivatives, defined benefit superannuation actuarial gains and losses, and insurance provision movements.

(b) Net profit after tax from normal operations divided by total equity.

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

(d) Earnings before interest and tax from normal operations divided by interest costs (excluding capitalised interest)

(e) Includes accrual dividend, tax equivalent, and loan guarantee payments.

(f) Total interest bearing liabilities divided by total equity.

Eraring Energy did not meet agreed financial targets. Electricity prices achieved and generation levels were lower than expected. The lower than expected results and deteriorating debt servicing capacity contributed to the deferral of an \$85.0 million capital repayment previously agreed with Eraring Energy's shareholding Ministers.

Capital expenditure in 2009 and 2010 reflects spending on major projects, some of which are discussed below. Further significant capital expenditure is expected in coming years.

Eraring Energy's 2007 return on equity ratio was impacted by a significant fluctuation in equity levels that particular year. The Corporation's equity levels were adversely impacted by the entity's position on electricity derivatives at year end.

OTHER INFORMATION

Major Project Expenditure

Work continues on the Eraring Power Station capacity upgrade. The project will increase the nominal capacity of each of the Eraring Power Station's four units from 660 megawatts to 720 megawatts. This will increase the Station's capacity to generate electricity and extend its life. As at 30 June 2010, \$369 million has been spent of the project's \$659 million capital expenditure budget.

During the upgrade process, plant availability is reduced because units are out of service. The upgrade is scheduled for completion by December 2012 and the generation target for 2013-14 is 18,050 gigawatt hours (as generated). After the upgrade, Eraring Power Station will have the largest capacity of all New South Wales public sector power stations.

Eraring Energy finished construction of and commissioned an 820 megalitre cooling water reservoir in February 2010. Eraring Power Station uses salt water from Lake Macquarie for cooling. This means that Eraring Power Station consumes very low amounts of fresh water compared to many stations. However, because the water is returned to the lake after use, the exit temperature of the used water is a constraint on production. The cooling water reservoir reduces water exit temperatures, permitting higher levels of generation in hotter months. The final cost of the reservoir exceeded its original budget because of unexpected rock deposits at the reservoir site.

Eraring Energy also completed and commissioned new systems for storing fly ash. The new systems permit more compact storage, which enables longer use of existing storage capacity. Fly ash is a product of the coal combustion process, which can be recycled. Eraring Energy is pursuing a target of 80 per cent recycling of ash by 2015.

Coal Supply

Coal represents the highest operating expenditure category and presents challenges for the organisation to manage future costs. Contracts are in place for a proportion of future years' coal requirements.

As part of its strategy to minimise risks associated with increasing coal costs, Eraring Energy is a participant in the Cobbora Unincorporated Joint Venture with the other State owned power generators, Macquarie Generation and Delta Electricity.

Eraring Energy incurred capital expenditure of \$9.4 million (\$9.9 million in 2008-09) on land purchases for the Cobbora mine through its subsidiary company Rocky Point Holdings Pty Limited.

Further detail on the Cobbora Coal Project appears in the 'Electricity Industry Overview' earlier in this report.

FINANCIAL INFORMATION

The following consolidated financial information is for Eraring Energy and its controlled entity.

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
TOTAL REVENUE	603,613	640,436	603,604	640,436
PROFIT BEFORE BORROWING COSTS, DEPRECIATION AND TAX	223,986	222,402	224,625	225,377
Borrowing costs	38,847	25,845	38,847	25,845
Depreciation	85,011	107,457	85,011	107,457
PROFIT BEFORE TAX	100,128	89,100	100,767	92,075
Income tax equivalent expense	29,789	26,728	29,951	27,584
PROFIT AFTER TAX	70,339	62,372	70,816	64,491
OTHER COMPREHENSIVE INCOME				
Movement in asset revaluation reserve	26,032	(405,407)	26,032	(405,407)
Defined superannuation benefit actuarial loss	(12,279)	(39,326)	(12,279)	(39,326)
Gain on cash flow hedges	33,327	69,305	33,327	69,305
TOTAL OTHER COMPREHENSIVE INCOME(EXPENSE)	47,080	(375,428)	47,080	(375,428)
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	117,419	(313,056)	117,896	(310,937)
Dividend provided	64,678	60,398	64,678	60,398

Lower revenue in 2010 is consistent with lower generation levels. Borrowing costs increased as a result of increased borrowing levels. A further \$12.6 million in borrowing costs were capitalised during the year as part of the upgrade of Eraring Power Station.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	143,169	117,330	142,835	115,420
Non-current assets	1,963,977	1,794,152	1,966,692	1,796,663
TOTAL ASSETS	2,107,146	1,911,482	2,109,527	1,912,083
Current liabilities	358,994	310,505	358,779	308,987
Non-current liabilities	729,382	634,948	729,382	634,948
TOTAL LIABILITIES	1,088,376	945,453	1,088,161	943,935
NET ASSETS	1,018,770	966,029	1,021,366	968,148

The increase in Eraring Energy's non-current assets is attributable mainly to movements in the carrying value of electricity generation assets. The carrying value at 30 June 2010 includes significant expenditure to upgrade Eraring Power Station. Increased borrowings are behind the growth in liabilities in 2010.

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 August 2000 under the *State Owned Corporations Act 1989* and *Energy Services Corporations Act 1995*.

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

CONTROLLED ENTITY**Rocky Point Holdings Pty Limited**

Period ended 30 June	2010 \$'000	2009 \$'000
Revenue	9	--
Expenses	648	2,976
Income tax benefit	162	857
Loss after tax	477	2,119
Total assets	22,562	14,090
Total liabilities	215	16,209
Net assets/(liabilities) (at 30 June)	22,347	(2,119)

Rocky Point Holdings Pty Limited is a wholly owned subsidiary of Eraring Energy that manages Eraring Energy's investment in the Cobbora Coal Project. Rocky Point Holdings Pty Limited is the minor stakeholder in the project, holding 23.32 per cent of the issued units of the Cobbora Coal Unit Trust.

Rocky Point Holdings Pty Limited has reported losses since it was established. This is expected during the initial stages of its operation and the company has the financial support of Eraring Energy.

Borrowings from Eraring Energy were converted to equity during the year, explaining the significant movement in net assets from 2009 to 2010.

Macquarie Generation

AUDIT OPINION

The audits of Macquarie Generation and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

The Independent Auditor's Report for Macquarie Generation drew attention to significant uncertainties regarding the effect of the New South Wales Government's proposed electricity industry reforms and any future carbon reduction scheme on the value of power station assets.

KEY ISSUES

Contracting the Electricity Trading Rights of Power Stations to the Private Sector

The Government is selling Macquarie Generation's electricity trading rights and two of its development sites to the private sector. See the 'Electricity Industry Overview' section appearing earlier in this report for progress on the sale process.

PERFORMANCE INFORMATION

Operational Performance

Year ended 30 June	2010	2009	2008	2007
Generation of electricity (gigawatt hours sent out)				
Bayswater	15,176	15,864	15,430	14,310
Liddell	9,394	11,135	10,851	10,825
Total	24,570	26,999	26,281	25,135
 Plant availability				
Bayswater (%)	91.8	92.3	91.5	89.8
Liddell (%)	72.3	79.4	78.9	85.5
 Thermal efficiency				
Bayswater (%)	35.0	35.2	35.4	34.9
Liddell (%)	32.8	32.5	33.2	33.2
 Equivalent forced outages (%)				
	12.4	6.3	5.4	4.9

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

Plant availability measures the total time generating units were either in service or available for service over a given period. Liddell's plant availability decreased due to a number of unforeseen technical malfunctions during 2009-10.

Thermal efficiency is a performance measure of the percentage of energy contained in the coal used in electricity production. New South Wales government owned coal fired power stations outperform reported worldwide averages for thermal efficiency as reported by the 'World Coal Institute'.

Macquarie Generation's market share of the National Electricity Market was 13 per cent in June 2010 (13 per cent in June 2009).

Financial Performance

Year ended 30 June	Target*	Actual	
	2010	2010	2009
Earnings before interest and tax (\$'m)	308.0	324.6	333.1
Return on equity (%)	13.8	14.4	15.7
Return on assets (%)	7.5	7.8	8.1
Interest cover (times)	6.5	6.0	8.8
Debt to equity (%)	40.8	43.7	43.6
Total distributions to government (\$'m)	258.3	273.4	185.5
Capital expenditure (\$'m)	60.5	40.2	80.0

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

Distributions to government increased by \$87.9 million (47 per cent) over the previous year. Earnings exceeded target because of lower than budgeted fuel costs.

OTHER INFORMATION

Coal Supply

The three New South Wales State owned generators including Macquarie Generation are in a joint venture to develop a new domestic coal resource in the Cobbora and Laheys Creek area of Warrumbungle Shire. The joint venture, Cobbora Coal, is expected to improve coal supply from 2014. See the 'Electricity Industry Overview' section appearing earlier in this report for an update on the joint venture transaction.

Major Projects

Macquarie Generation is undertaking a range of developments aimed at meeting the increasing need for power, environmental improvements and the exploration of renewable energy options.

Bayswater Transformer Upgrade

Macquarie Generation completed the \$43.0 million 500 kV transformer upgrade on a 'connection agreement' between TransGrid and Macquarie Generation. The upgrade from 330 kV to 500 kV enables connection to the New South Wales power grid at a reduced transmission loss.

Tomago Gas-Fired Power Station

Macquarie Generation has a development approval for the construction of a gas-fired power station at Tomago, north of Newcastle. This project is designed to provide open cycle gas generation capacity of 500 megawatts or alternatively, 790 megawatts of combined cycle capacity. The project, once commitment funding is provided, could be completed within 24 months. The project is estimated to cost approximately \$500 million.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
TOTAL REVENUE	1,167,036	1,215,885	1,167,017	1,215,884
PROFIT BEFORE BORROWING COSTS, DEPRECIATION AND TAX	510,650	329,306	511,469	330,159
Borrowing costs	64,079	50,493	64,078	50,493
Depreciation	166,678	161,305	166,678	161,305
PROFIT BEFORE TAX	279,893	117,508	280,713	118,361
Income tax equivalent expense	83,411	35,267	83,608	35,500
PROFIT AFTER TAX	196,482	82,241	197,105	82,861
OTHER COMPREHENSIVE INCOME:				
Change in fair value of cash flow hedges	3,471	199,813	3,471	199,813
Loss on revaluation of land and buildings	--	(175)	--	(175)
Defined benefit superannuation actuarial loss	(12,395)	(46,603)	(12,395)	(46,603)
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	(8,924)	153,035	(8,924)	153,035
TOTAL COMPREHENSIVE INCOME	187,558	235,276	188,181	235,896
Dividend provided	189,800	150,000	189,800	150,000

Profit after tax increased by \$114 million from the previous year because of lower overhead expenses and gains from derivative electricity contracts.

Borrowing costs increased by \$14.0 million mainly due to a \$7.0 million increase in the loan guarantee fee paid to the New South Wales Government resulting from an increase in credit spreads in the AAA band because of the Global Financial Crisis.

Abridged Statement of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	646,310	524,253	645,501	522,924
Non-current assets	3,466,073	3,591,026	3,468,173	3,592,526
TOTAL ASSETS	4,112,383	4,115,279	4,113,674	4,115,450
Current liabilities	441,007	458,199	441,055	457,750
Non-current liabilities	1,791,095	1,774,557	1,791,095	1,774,557
TOTAL LIABILITIES	2,232,102	2,232,756	2,232,150	2,232,307
NET ASSETS	1,880,281	1,882,523	1,881,524	1,883,143

Current assets increased by \$123 million, largely due to an improvement in the cash flow position during 2009-10.

Current liabilities decreased and non-current liabilities increased due to a debt lengthening programme implemented by the New South Wales Treasury Corporation whereby borrowings were reclassified from short term to long term.

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.

CONTROLLED ENTITY**Midwest Development Corporation Pty Limited**

Year ended 30 June	2010 \$'000	2009 \$'000
Revenue	19	1
Expenses	838	854
Income tax benefit	197	233
Loss after tax	622	620
Total assets	37,906	21,671
Total liabilities	356	22,291
Net assets/ (liabilities)	37,550	(620)

Total assets included \$33.0 million invested in the Cobbora Coal Unit Trust (the Trust). The Trust is responsible for managing land properties acquired as part of the Cobbora Coal Project.

On 30 June 2010 loan balances due to the parent entity were converted to equity and an additional 38,792,534 shares were issued to Macquarie Generation.

Corporate Activities

Midwest Development Corporation Pty Limited was incorporated on 13 August 2008 under the *Corporations Act 2001* as a special purpose venture to participate in the Cobbora Project.

Cobbora Joint Venture

Macquarie Generation and Midwest Development Corporation Pty Limited have approval from the New South Wales Treasurer under the *Public Authorities (Financial Arrangements) Act 1987* to participate in the Cobbora Joint Venture. The Cobbora Project is an Unincorporated Joint Venture between the special purpose subsidiaries of the New South Wales State owned electricity generators to source, develop and operate a coal resource in New South Wales.

Country Energy

AUDIT OPINION

The audits of Country Energy and its controlled entities' financial reports for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

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

KEY ISSUES

Restructure of Electricity Industry

The Government is proposing to sell Country Energy's retail operations. See the 'Electricity Industry Overview' section appearing earlier in this report for details on the sale and the Government's final policy position on its 'Energy Reform Strategy' announced in September 2009.

PERFORMANCE INFORMATION

Operational Performance

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

	Target*	Actual			
	2010	2010	2009	2008	2007
System average interruption duration index - customer minutes without supply	324	196	267	225	242
Corporate satisfaction survey - service meeting and exceeding customer expectation	85	88	86	92	88
Lost time injury frequency rate (LTIFR) - lost time injuries per one million hours worked	1.4	3.5	1.7	2.8	5.8

* Targets provided by Country Energy.

The decrease in customer minutes without supply reflects Country Energy's business-wide overhaul of the management of planned supply interruptions during the year. In the previous year, high levels of storm activity impacted performance in this area. The target for 2010 was derived from the targets mandated by New South Wales Government licence conditions imposed on distribution network service providers. Country Energy's performance against this target also reflects the effectiveness of network investment and improvement programs in recent years.

The Corporate Satisfaction Survey index has been relatively stable over the past four years and remains above target.

Country Energy's lost time injury frequency rate increased significantly in 2009-10. This followed four years of steadily improving performance. Country Energy's goal is to achieve 'zero harm' in the work place and in 2010-11 it will undertake a comprehensive behavioural safety program to improve performance in this area.

OTHER INFORMATION

Financial Performance

	Target	Actual	
	2010	2010	2009
Earnings before interest and tax* (\$m)	295.5	498.2	349.2
Return on equity* (%) (a)	9.2	12.5	13.4
Return on assets* (%) (b)	5.8	8.5	7.3
Interest cover** (times)	1.2	1.7	1.8
Debt to equity** (%)	446.5	187.2	350.0
Total distributions to government** (\$m)	108.9	137.7	100.9
Capital expenditure* (\$m)	790.7	739.6	600.6

* Targets provided by Country Energy.

** Calculated from target as agreed with shareholding Ministers.

(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.

The target numbers and commentary provided above reflect a Network/TSA (Transitional Services Arrangement) model as directed by New South Wales Treasury. The model assumed the Retail business would be sold on 1 July 2010. The actual figures reflect a Network/Retail or 'business as usual' business model.

Country Energy's earnings before interest and tax exceeded its target by \$203 million. This was mainly due to a more favourable gross margin, which exceeded budget by \$204 million, and \$53 million lower than budget operating expenses. The improvement in the gross margin was due mainly to more favourable wholesale cost outcomes than budget and better than expected network sales. Capital contributions from developers and customers were \$16.0 million higher than anticipated.

The higher earnings before interest and tax also increased Country Energy's return on assets and its distribution to government. Return on equity was much higher than budget, but declined from the previous year because of the higher value of average equity following the revaluation of system assets in the current year.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
OPERATING REVENUE	2,648,496	2,489,877	2,646,967	2,488,291
OPERATING PROFIT BEFORE BORROWING COSTS, DEPRECIATION, OTHER GAINS AND TAX	683,797	547,180	676,954	537,872
Borrowing costs	244,383	201,038	244,383	201,038
Depreciation	203,287	177,998	198,459	173,488
Operating Profit before other gains and tax	236,127	168,144	234,112	163,346
Fair value losses on financial instruments	2,059	43,133	2,059	43,133
PROFIT BEFORE TAX	234,068	125,011	232,053	120,213
Income tax equivalent expense	71,726	33,983	70,696	32,118
PROFIT AFTER TAX	162,342	91,028	161,357	88,095
OTHER COMPREHENSIVE INCOME				
Gain on revaluation of fixed assets	1,243,750	15,036	1,243,750	15,036
Defined benefit plan actuarial losses	(21,475)	(91,578)	(21,475)	(91,578)
Loss from changes in fair value of cash flow hedges	(46,676)	(190,268)	(46,676)	(190,268)
Income tax (expense)/benefit on other comprehensive income	(352,679)	80,042	(352,679)	80,042
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	822,920	(186,768)	822,920	(186,768)
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	985,262	(95,740)	984,277	(98,673)
Dividend provided	47,600	29,200	47,600	29,200

Operating revenue includes \$2.5 billion (\$2.3 billion) from the sale and delivery of electricity and gas. Borrowing costs increased in 2010 in line with the increase in interest bearing liabilities as at 30 June 2010.

Abridged Statement of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	562,534	629,932	618,840	686,262
Non-current assets	6,150,522	4,344,350	6,078,796	4,271,415
TOTAL ASSETS	6,713,056	4,974,282	6,697,636	4,957,677
Current liabilities	860,535	1,502,013	863,885	1,503,403
Non-current liabilities	4,075,629	2,633,039	4,072,971	2,630,171
TOTAL LIABILITIES	4,936,164	4,135,052	4,936,856	4,133,574
NET ASSETS	1,776,892	839,230	1,760,780	824,103

The significant decrease in current assets was mainly due to a decrease of \$51.5 million in the value of derivative financial instruments based on fair value adjustments.

The \$1.8 billion increase in non-current assets included an increment of \$1.2 billion arising from the revaluation of electricity system assets and a further \$740 million from capital expenditure during the year.

In April 2009, the Australian Electricity Regulator approved Country Energy's plan to invest almost \$4.0 billion in its network over the five year period to 2014. Under this plan, in 2009-10, Country Energy invested \$740 million in its network and \$341 million in maintenance programs.

In 2009-10, total liabilities rose by \$801 million primarily due to an additional \$388 million of debt and an increase of \$345 million in deferred tax liabilities. The total balance of loans outstanding increased to \$3.3 billion (\$2.9 billion).

COUNTRY ENERGY GAS PTY LIMITED

On 26 February 2010, Country Energy announced the sale of the gas network operations in southern New South Wales to the private sector. The sale had not concluded as at 30 June 2010.

Country Energy Gas had total assets of \$102 million (\$103 million) as at 30 June 2010, and in 2009-10 contributed \$1.0 million (\$2.9 million) to the group's profit after tax.

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. The voting shareholders are the Treasurer and the Minister for Finance.

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

CONTROLLED ENTITIES

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

Entity Name

NorthPower Energy Services Pty Limited

EnergyAustralia

AUDIT OPINION

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

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

KEY ISSUES

Sale of the New South Wales Government's Retail Electricity Operations

On 10 September 2009, the New South Wales Government released its Energy Reform Transaction Strategy which included transferring the electricity retailing operation of EnergyAustralia to the private sector.

See the 'Electricity Industry Overview' section appearing earlier in this report for progress on the sale process.

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 numbers.

Year ended 30 June	Target*	Actual				
	2010	2010	2009	2008	2007	2006
Customer satisfaction index (%) (a)	95	96	96	97	94	95
Minutes customers were without supply	103	79	109	100	102	90
Lost time injury frequency – (hours per million hours worked)	3.5	3.5	4.1	3.9	2.9	3.8
Customers at year end (000's)**	--	1,606	1,591	1,581	1,568	1,557

Source: EnergyAustralia Annual Report 2009-10 (unaudited).

* Target agreed with the Statement of Corporate Intent (SCI) 2009-10.

** Customer network connections at 30 June.

(a) Very and extremely satisfied.

EnergyAustralia achieved its target level for customer satisfaction of 'satisfied', 'very satisfied' or 'extremely satisfied'.

Customer minutes without electricity supply were significantly better than target this year due mainly to greater investment in the electricity network and milder weather conditions.

Environmental Performance

EnergyAustralia met its obligations under both the Commonwealth and New South Wales Government's renewable energy schemes for 2010.

In complying with the Commonwealth's Mandatory Renewable Energy Target, EnergyAustralia surrendered certificates representing generation of 1,037,989 megawatt hours of electricity from approved renewable generators.

Under the New South Wales Greenhouse Gas Abatement Scheme, EnergyAustralia delivered 5.9 million tonnes of greenhouse gas savings associated with electricity use.

Smart Meters and Smart Grids

The Commonwealth Government established the Smart Grid Smart City initiative, which is aimed at supporting the installation of Australia's first commercial-scale smart grid. The Commonwealth announced that an EnergyAustralia-led consortium was selected to implement a commercial scale smart network trial. The project will receive up to \$93.0 million in Commonwealth funding. The initiative is expected to connect up to 50,000 homes and business to a smart grid at five sites in Newcastle, Scone, Sydney CBD, Ku-ring-gai and Newington.

The 'smart technologies' will provide households with an instant picture of their energy and water use, including costs, environmental impact and incentives to reduce them.

Solar Feed-in Tariff Scheme

The New South Wales Government commenced a Solar Feed-in Tariff Scheme (the Scheme) on 1 January 2010. The Scheme applies to small scale, grid connected, solar systems and wind turbines. The Government tariff of 60 cents per kilowatt hour is paid to small customers for electricity that is fed back into the electricity network.

EnergyAustralia advised that at 30 June 2010, the Scheme achieved 10,520 customer connections, with a further 7,711 awaiting connection. This represents a total of over 31 megawatts of renewable electricity capacity.

Financial Performance

Year ended 30 June	Target *	Actual				
	2010	2010	2009	2008**	2007	2006
Earnings before interest and tax (\$m)	709.0	913.0	596.0	574.4	594.1	527.2
Return on average equity (%)						
(a)	10.3	19.0	12.4	12.1	12.4	14.4
Return on average assets (%) (b)	--	9.5	7.1	7.5	7.6	8.4
Debt to equity (%)	--	316.0	276.9	207.1	144.6	162.8
Interest cover (times)	--	2.1	2.2	2.5	2.7	2.9
Total distributions to government (\$m) (c)	180.0	386.0	272.0	272.1	277.7	304.0
Capital expenditure (\$m) (excluding capital contribution)	1,360.4	1,319.0	1,291.0	951.1	783.5	603.9

* Target is a combination of the retail and network business plans for 2009-10. The SCI for 2009-10 did not include the retail business.

** From 2008 superannuation actuarial gains and losses are recognised directly in equity.

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

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

(c) Dividend plus income tax expense

EnergyAustralia's results for 2010 exceeded target and the financial performance of the previous year. A significant contribution to the result was from tariff increases from 1 July 2009 and overall lower energy costs gained through a combination of market events and portfolio positioning.

As a result of the current year's financial performance, total distributions to Government were higher than target and better than prior year.

FINANCIAL INFORMATION

Abridged Consolidated Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
TOTAL REVENUE	3,980,400	3,339,200	3,980,400	3,339,200
PROFIT BEFORE FINANCE COSTS, DEPRECIATION AND TAX	1,255,200	889,500	1,255,200	889,500
Finance costs	431,700	265,300	431,700	265,300
Depreciation	342,200	293,500	342,200	293,500
PROFIT BEFORE TAX	481,300	330,700	481,300	330,700
Income tax equivalent expense	136,300	99,400	136,300	97,100
PROFIT AFTER TAX	345,000	231,300	345,000	233,600
OTHER COMPREHENSIVE INCOME				
Decrease in fair value of cash flow hedges	(2,600)	(144,500)	(2,600)	(144,500)
Increase/(decrease) on revaluation of land and buildings	4,300	(4,800)	4,300	(4,800)
Defined benefit superannuation actuarial loss	(33,400)	(152,400)	(33,400)	(152,400)
Income tax credit on other comprehensive income items	8,800	91,800	8,800	91,800
TOTAL OTHER COMPREHENSIVE/EXPENSE	(22,900)	(209,900)	(22,900)	(209,900)
TOTAL COMPREHENSIVE INCOME	322,100	21,400	322,100	23,700
Dividend provided	250,200	172,900	250,200	172,900

Total revenue of \$4.0 billion (\$3.3 billion in 2008-09) includes \$3.8 billion (\$3.2 billion) for the sale and delivery of energy (electricity and gas) to retail customers and public lighting system charges. Revenue from the sale of electricity increased after regulatory network and retail price increases came into effect on 1 July 2009. Costs associated with the distribution of energy totalled \$3.0 billion (\$2.7 billion). The wholesale price of electricity was marginally lower than in the previous year.

Increased finance cost of \$432 million (\$265 million) was due to higher borrowings necessary to fund the Corporation's capital projects; borrowing costs also include \$109 million (\$38.4 million) relating to government loan guarantee fees. Depreciation expense increased to \$283 million (\$256 million) as a result of the increased spending on capital projects.

Profit after tax increased mainly due to the increased margin from the sale of electricity and gas.

Abridged Consolidated Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	1,056,500	747,100	1,056,600	747,200
Non-current assets	9,281,000	8,201,000	9,281,000	8,201,000
TOTAL ASSETS	10,337,500	8,948,100	10,337,600	8,948,200
Current liabilities	1,800,400	2,110,700	1,800,400	2,110,700
Non-current liabilities	6,682,000	5,054,200	6,682,000	5,054,200
TOTAL LIABILITIES	8,482,400	7,164,900	8,482,400	7,164,900
NET ASSETS	1,855,100	1,783,200	1,855,200	1,783,300

The increase in current assets was largely due to an increase in cash and cash equivalents of \$153 million arising from timing differences associated with the drawdown of debt during 2010. Non-current assets increased because of significant expenditure of \$1.1 billion to expand the network, replace ageing assets and comply with additional licence conditions regarding steps to reduce the risk of supply interruptions.

Current liabilities decreased mainly due to a \$561 million reduction in the current portion of borrowings, which was offset by increases in other creditor balances and provisions of \$245 million. The increase in other creditors resulted from \$83.2 million in interest payable and government loan guarantee fees.

Non-current liabilities increased largely due to an increase in borrowings of \$1.5 billion from the previous year. Overall borrowing increased by \$933 million to \$6.0 billion at year end.

ENTITY ACTIVITIES

See the 'Electricity 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
Downtown Utilities Pty Limited

Integral Energy Australia

AUDIT OPINION

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

KEY ISSUES

Restructure of Electricity Industry

On 10 September 2009, the NSW Government released its Energy Reform Transaction Strategy, which included transferring the electricity retail operations to the private sector. See the 'Electricity Industry Overview' section appearing earlier in this report for progress on the sale process.

PERFORMANCE INFORMATION

Operational Performance

Statistics provided by Integral show:

Year ended 30 June	Target	Actual		
	2010	2010	2009	2008
Customer satisfaction index (%)	82-84	80.0	83.0	83.0
Network reliability -average minutes customers were without supply	90	79.4	89.3	97.8
Lost time Incidents	14	15	17	19
Reportable environmental incidents	0	0	2	4
Total network customer connections	860,402	866,767	859,519	853,340

Customer Satisfaction has declined and is now below target. This is the percentage of customers surveyed who rated Integral as 'good' or 'very good' in relation to certain aspects of its performance. Integral advised the decline is due to the adverse impact of the price increases. Integral is supporting customers in financial hardship with customer assistance programs which provide payment plans, energy audits and welfare assistance in order to keep customers connected.

Network reliability improved a further 11.1 per cent over last year. Network reliability measures the number of minutes customers are, on average, without electricity each year. Integral attributed the significant improvement to its capital investment in the network over the last five years, although it also acknowledged that milder weather patterns may have contributed to this result. Integral had targeted an improvement to 80 minutes by 2013-2014, to meet its licence conditions, but achieved this target four years ahead of schedule. There were 3,824 interruptions in 2009-10 (4,145 in 2008-09), including 514 caused by adverse weather, 1,283 caused by defective equipment, and 659 caused by lightning.

Environmental Performance

In 2010, Integral purchased 14.0 per cent (12.0 per cent) of its energy from sources other than coal fired power stations. The energy from these alternative sources is generated by natural gas, land fill gas, methane gas from coal mines, wind and water. However, purchases from some of these sources are not considered to be renewable energy purchases under emission rights schemes.

Financial Performance

Year ended 30 June	Target*	Actual	
	2010	2010	2009
Earnings before interest and tax (\$m)	364.9	439.3	355.7
Return on equity (%) (a)	13.6	17.3	14.6
Return on assets (%) (b)	8.5	9.5	8.7
Debt to equity	3.1	2.1	2.5
Interest cover (times)	1.9	2.3	2.4
Total distributions to Government (\$m)(c)	142.8	215.3	167.1
Capital expenditure (\$m)	508.8	417.4	442.9

* Target is based on the Statement of Corporate Intent (SCI) which reflects financial targets on a network only structure effective 1 July 2009 given the proposed sale of the retail business.

(a) Profit after tax divided by average equity

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

(c) Dividend + income tax expense

Earnings before interest and tax increased due to increases in electricity sales and network use of system income in line with regulatory allowances, operating cost efficiency initiatives, customer mix changes, and increased volume of electricity sold, partly driven by increased customer numbers in Queensland.

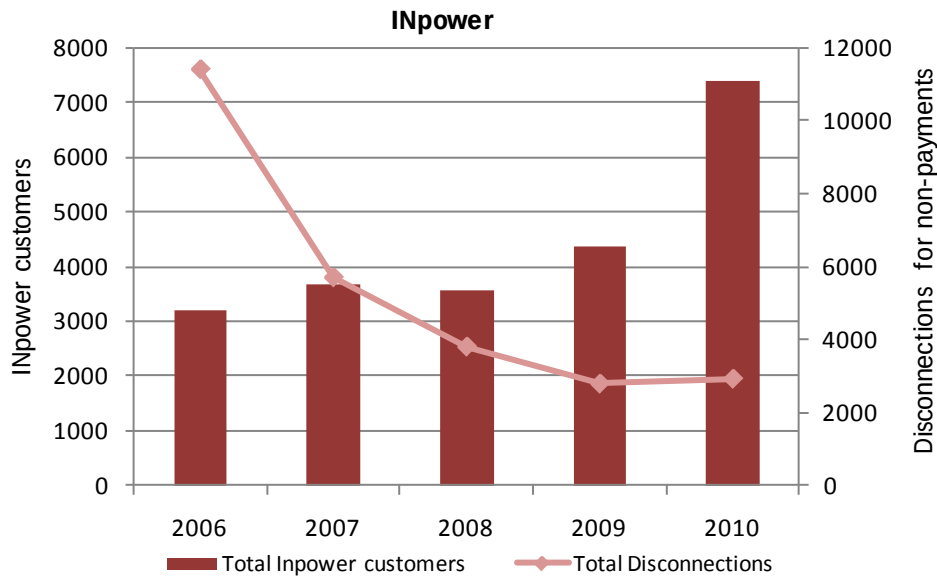
Total distributions to Government were higher than the previous year due to the increased profitability.

Social Performance

Electricity regulation requires all energy retailers to offer assistance to residential customers experiencing financial difficulties. This includes offering customers payment plans designed to give them options for managing their bills during periods of financial difficulty, such as regular instalment payments over an agreed period.

Integral's successful implementation of its INpower program has reduced customer disconnections for non-payment of accounts by more than 74.0 per cent, from 11,401 customers in 2005-06 to 2,912 customers in 2009-10. Over the same period, INpower customers have more than doubled from 3,196 to 7,411. INpower is an Integral program to assist customers facing financial hardship to pay for their electricity consumption.

The graph below illustrates the trend between customers enrolled in the INpower program and total disconnections.



Source: Data obtained from Integral (unaudited)

To strengthen this framework, the NSW Government introduced new requirements from 1 March 2010. These regulatory changes require energy retailers to develop, implement and publish detailed Customer Hardship Charters that identify customers in hardship and provide flexible payment options for such customers. Integral has complied with this requirement and has published a customer hardship charter on its website.

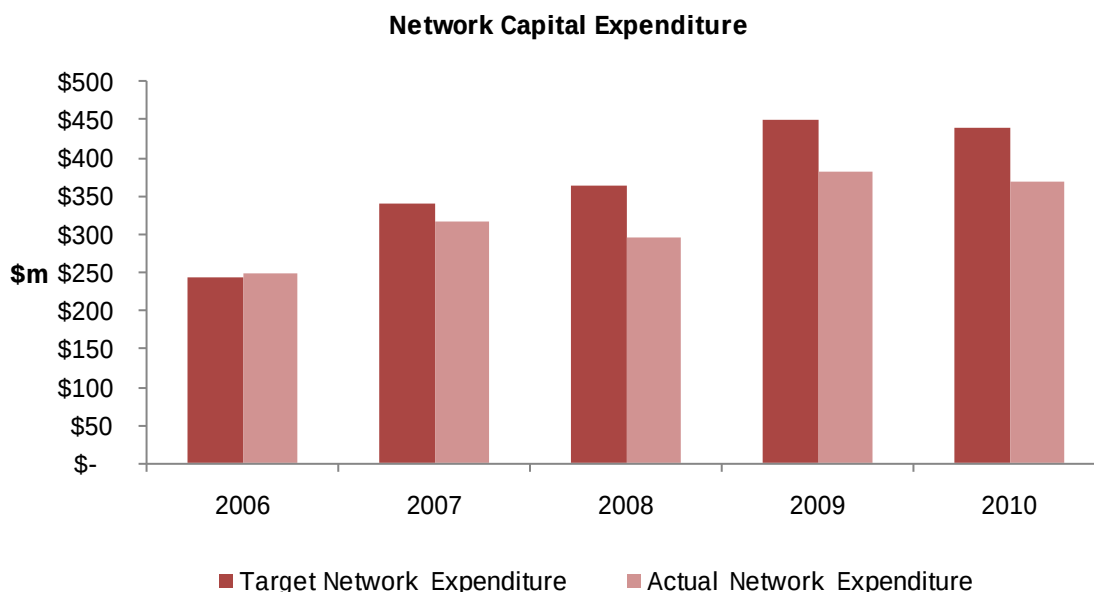
OTHER INFORMATION

Network Capital Expenditure

According to Integral's internal assessment, population in the region is forecast to grow by 6.0 per cent by 2013-14, while maximum demand for electricity is forecast to increase by 33.0 per cent at the same time. To meet this growth forecast, Integral must ensure there is sufficient capacity available in the network to meet load and security requirements in a sustainable and cost effective manner. Integral also needs to meet the NSW Government's licence requirements for improved reliability.

Many of the existing network assets were built in the 1960s and 1970s and are now nearing the end of their useful lives. For example, 45.0 per cent of major power transformers have been in service for 36 years or more. As a result, asset renewal has been a core component of capital expenditure in the last 5 years.

While the capital investment has been significant it fell short of Integral's investment target in four of the last five years.



Source: Information provided by Integral (unaudited)

In 2008-09, Integral reviewed its network capital program processes to improve its capability to deliver an expanded program over the coming five years. It did not achieve its capital expenditure target by 16 per cent in the first year (2009-10) of its expanded program.

The 2009-10 target was not achieved due to continued pressure on suppliers in meeting increased demand from the NSW electricity industry generally and challenges in the recruitment of qualified project management, design and construction staff.

To ensure Integral delivers the substantial increase in necessary network investment over the next four years, Integral is implementing a peak resourcing strategy that will supplement their expanding workforce with external service providers. The peak resources being engaged encompass the project management, design and/or construction phases of Integral's program.

While Integral's network reliability currently exceeds its target, difficulties in fully delivering its capital program may impact its ability to meet growth in maximum demand for energy, to replace ageing assets and to improve network security and reliability as agreed with the Australian Energy Regulator.

FINANCIAL INFORMATION**Abridged Statement of Comprehensive Income**

Year ended 30 June	2010 \$'000	2009 \$'000
TOTAL REVENUE	2,272,145	1,998,374
PROFIT BEFORE BORROWING COSTS, DEPRECIATION, AMORTISATION AND TAX	588,980	492,817
Borrowing costs	187,616	150,075
Depreciation and amortisation	149,718	137,107
PROFIT BEFORE TAX	251,646	205,635
Income tax equivalent expense	72,667	63,445
PROFIT AFTER TAX	178,979	142,190
OTHER COMPREHENSIVE INCOME		
Gain/(loss) on revaluation of fixed assets	330,035	(21,202)
Defined benefit plan actuarial gains/(losses)	(3,566)	(70,901)
Gain/(loss) from changes in fair value of cash flow hedges	(31,467)	(144,826)
Income tax on other comprehensive income	(88,502)	71,080
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	206,500	(165,849)
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	385,479	(23,659)
Dividend provided	142,610	103,619

Total revenue included \$1.6 billion in electricity sales (\$1.5 billion) and \$524 million in network use of system charges (\$382 million).

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	599,973	583,396
Non-current assets	4,340,621	3,722,319
TOTAL ASSETS	4,940,594	4,305,715
Current liabilities	1,190,076	1,159,894
Non-current liabilities	2,596,669	2,234,841
TOTAL LIABILITIES	3,786,745	3,394,735
NET ASSETS	1,153,849	910,980

The increase in total assets is due to Integral's capital expenditure program and revaluation increments. The revaluation increased system assets by \$362 million, while \$287 million (\$361 million) of system assets were added from the capital expenditure program.

Borrowings at 30 June 2010 were \$2.4 billion (\$2.3 billion). The majority of the borrowings are from New South Wales Treasury Corporation. The increase in borrowings helped finance the capital expenditure program.

Total expenditure commitments at 30 June 2010 were \$2.6 billion (\$2.5 billion), the bulk of which relates to an electricity purchase contract, which is due to expire in 2027.

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 statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

PERFORMANCE INFORMATION

TransGrid is responsible for providing accessible, efficient, safe and reliable facilities for transmitting electricity in New South Wales. The following are some of the key indicators it uses to assess its performance.

Operational Performance

Reliability of Transmission Network

The Australian Energy Regulator (AER) monitors the performance of transmission networks against AER targets set for the regulatory period 2009-14. TransGrid's performance for the years ended 31 December 2007 to 2009 was:

Year ended 31 December	Target 2009-14	Actual		
		2009	2008	2007
Transmission line availability (%)	99.26	98.00	98.54	99.38
Transformer availability (%)	98.61	98.26	98.53	97.46
Reactive plant availability (%)	99.12	97.66	99.00	99.23
Frequency of lost supply events greater than 0.05 mins	4	3	2	4
Frequency of lost supply events greater than 0.25 mins	1	1	--	1
Average outage duration (minutes)	824	817	869	788

Source: Australian Energy Regulator and TransGrid.

TransGrid's performance was generally close to its targets. Transmission line and transformer availability were below target due to the longer than planned outage for the reconstruction of the Yass to Wagga 132kV transmission line. The Reactive plant availability was lower than target largely due to some reactive plants reaching the end of their useful lives, for which a replacement project is scheduled.

Energy Maximum Demands

Energy use in New South Wales increased by 1,310 gigawatt hours (GWh) per annum over the past ten years. TransGrid reported the following peak demands:

Year Ended 30 June	Peak Demands (MW)		
	2010	2009	2008
Winter Peak Demand	13,176	14,274	13,813
Summer Peak Demand	13,765	14,106	12,954

Source: Information provided by TransGrid (unaudited)

TransGrid estimates that peak electricity demand in New South Wales will increase on average by 3.8 per cent annually for the next ten years. TransGrid will spend \$2.6 billion on its capital works program over the five year regulatory period from 1 July 2009 to 30 June 2014 to meet increasing electricity demand. TransGrid spent \$429 million in 2009-10 on capital expenditure. This was funded by borrowings of \$205 million, which increased its total debt to \$2.2 billion.

Financial Performance

Year ended 30 June	Target*	Actual		
	2010	2010	2009	2008
Earnings before interest and tax (\$m)	311	362.4	320.5	290.5
Return on equity (%) (a)	7.0	7.5	8.0	7.7
Return on assets (%) (b)	6.2	6.5	6.8	7.1
Dividends to government (\$m)	105	135.1	120.2	105.9
Capital expenditure	468	428.7	619.9	355.0

* Source: TransGrid 30 June 2010 Statement of Corporate Intent (SCI).

(a) net profit after tax divided by average equity.

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

Earnings increased as a result of higher transmission income due to increases to the revenue cap approved by the regulator. In November 2009, the Australian Competition Tribunal granted TransGrid an increase in its prescribed revenue for the 2009-10 to 2013-14 regulatory period.

Contributions to Government for 2009-10 were \$185.5 million, comprising a dividend of \$135 million (\$120 million in 2009) and taxation of \$50.5 million (\$42.4 million in 2009).

Capital expenditure decreased significantly from 2009 as some major capital projects were completed in 2009, including the Western 500kV Development Project, Wollar-Wellington 330kV Transmission Line projects and the 133MW Capital Wind Farm.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
TOTAL REVENUE	695,033	652,797
PROFIT BEFORE BORROWING COSTS, DEPRECIATION, AMORTISATION AND TAX	545,349	475,377
Borrowing costs	138,753	105,072
Depreciation and Amortisation	181,299	152,884
PROFIT BEFORE TAX	225,297	217,421
Income tax equivalent expense	63,224	67,130
PROFIT AFTER TAX	162,073	150,291
OTHER COMPREHENSIVE INCOME		
Net increase/(decrease) in revaluations, including impairments	513,250	414,560
Cash Flow Hedge Reserve: net movement in equity	(3,706)	14,397
Superannuation Actuarial gains /(losses)	(44,034)	(133,287)
Income tax relating to components of other comprehensive income	(139,654)	(88,701)
TOTAL OTHER COMPREHENSIVE INCOME	325,856	206,969
TOTAL COMPREHENSIVE INCOME	487,929	357,260
Dividend provided	135,058	120,233

Total revenue includes \$675 million (\$603 million) from the transmission of electricity, a 12.0 per cent increase. The increase was due to a higher revenue cap set by the regulator and performance incentives. The revenue cap is adjusted each year by indexing for inflation. However, on 25 November 2009, the Australian Competition Tribunal granted TransGrid an increase in its prescribed revenue for the 2009-10 to 2013-14 regulatory period which contributed to the increased revenue cap for 2009-10.

Borrowing costs increased as a result of higher level of debt financing to fund the additional capital works program over the five year regulatory period from 1 July 2009 to 30 June 2014.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	167,120	163,904
Non-current assets	5,772,011	5,006,997
TOTAL ASSETS	5,939,131	5,170,901
Current liabilities	642,727	728,433
Non-current liabilities	2,955,834	2,454,931
TOTAL LIABILITIES	3,598,561	3,183,364
NET ASSETS	2,340,570	1,987,537

Non-current assets increased by \$765 million largely due to a revaluation of network assets and capital expenditure.

Total liabilities increased due to additional borrowings of \$205 million to fund capital projects and an increase in deferred tax liabilities of \$183 million.

CORPORATION ACTIVITIES

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

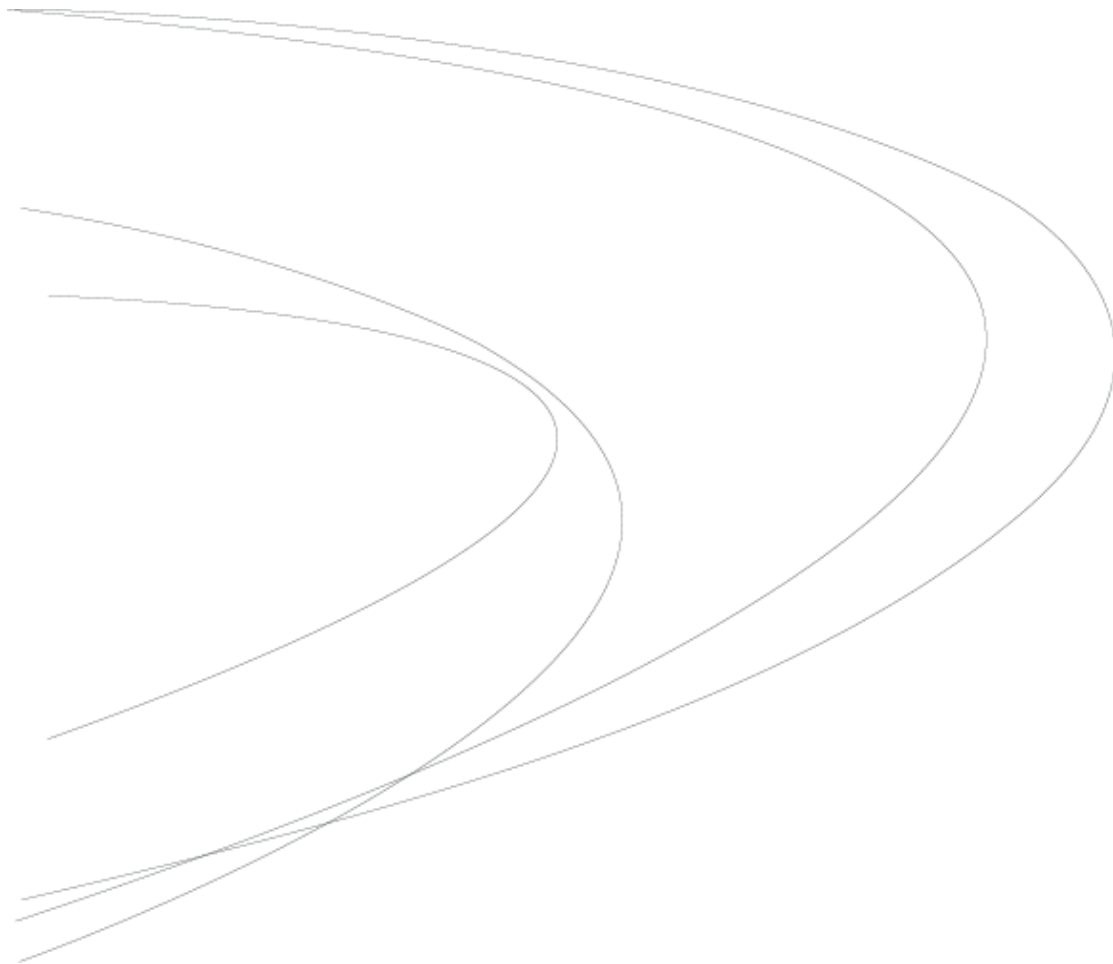
TransGrid principally establishes, maintains and operates facilities to transmit electricity and other forms of energy.

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.transgrid.com.au.

Appendix

Appendix 1 Agencies not reported elsewhere in this Volume



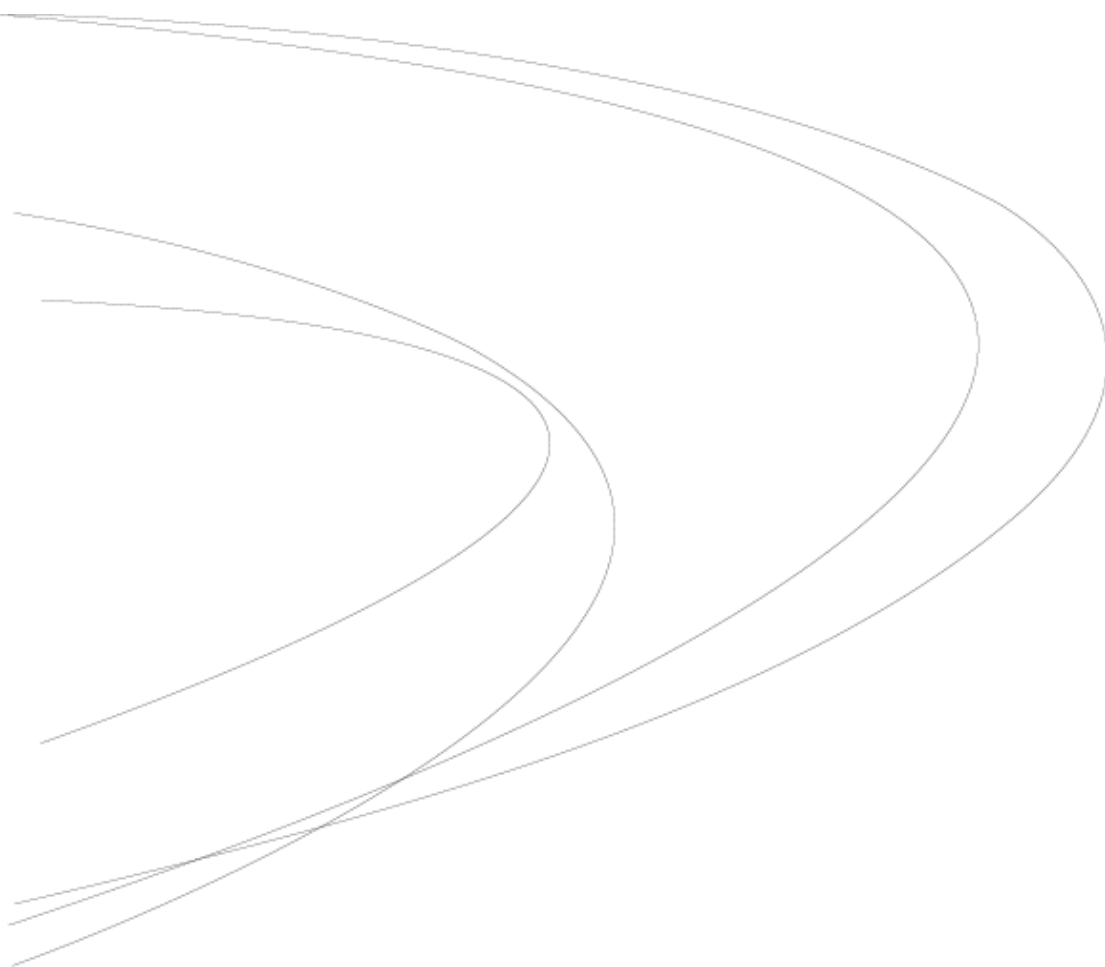
Appendix 1 - Agencies not reported elsewhere in this Volume

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

Entity Name	Website	Period/Year Ended
Cobbora Unincorporated Joint Venture	*	30 June 2010
Cobbora Management Company Pty Limited	*	30 June 2010
Cobbora Coal Unit Trust	*	30 June 2010
CCP Holdings Pty Limited	*	30 June 2010

* This entity does not have a website.

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AUDITOR-GENERAL'S REPORT FINANCIAL AUDITS

Volume Five 2010



The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

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

Peter Achterstraat
Auditor-General

Sydney
November 2010

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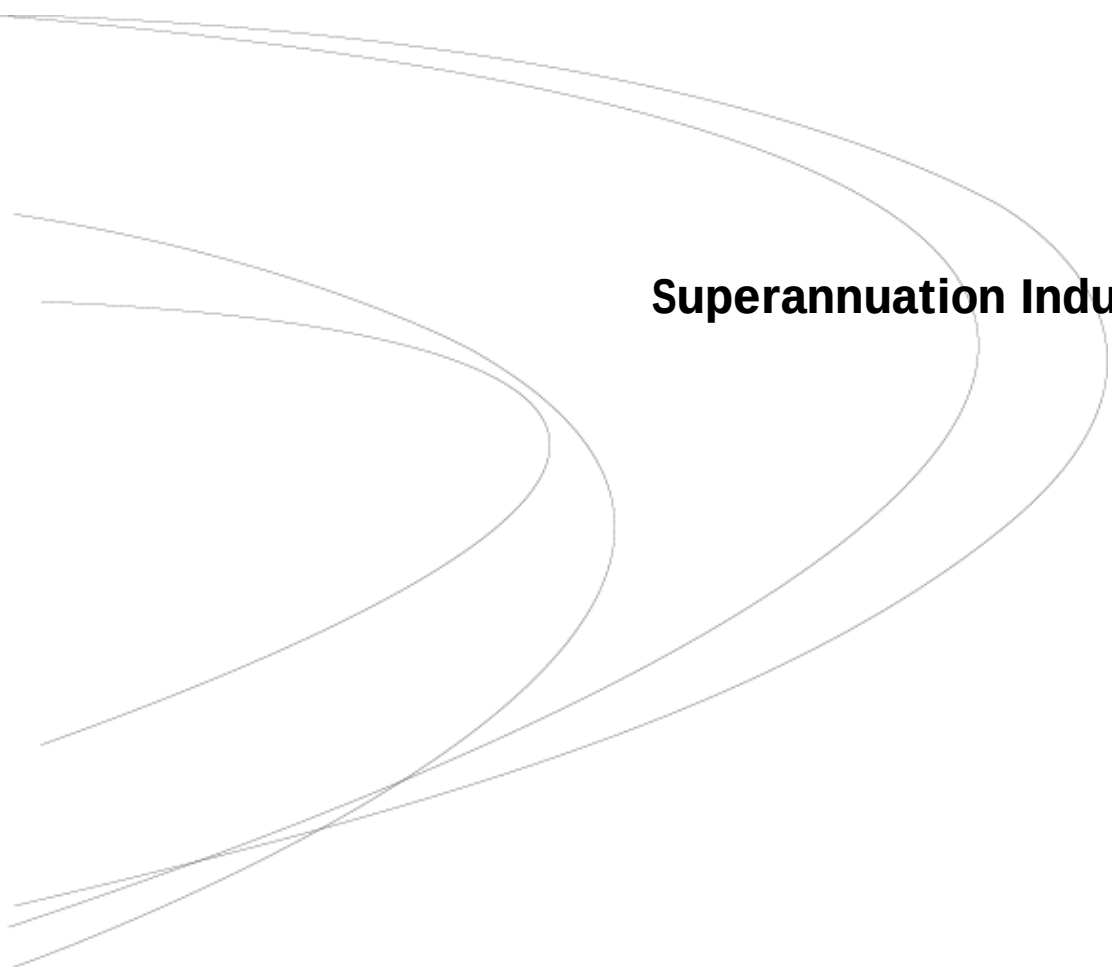
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Significant Items

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New South Wales public sector superannuation funds' investments were \$42.2 billion at 30 June 2010 (\$38.5 billion in 2009).	6
Investment returns reached 14.5 per cent in 2009-10. This is a significant improvement after widespread negative returns during the global financial crisis where negative investment returns of up to 18.4 per cent were recorded.	9
Superannuation unfunded liabilities increased to \$20.3 billion in 2009-10.	10
New South Wales Treasury Corporation	
Despite limited opportunities in non-Australian-dollar markets, TCorp raised \$12.0 billion during the year from debt capital markets. These funds were used to finance a \$5.6 billion net increase in loans to public sector agencies, which totalled \$44.6 billion at 30 June 2010.	56
The Government's 2010-11 Budget Papers project \$62.2 billion of capital spending over the four years to June 2014. TCorp expects its loans to clients to increase by \$18.0 billion over this period.	58
Parliamentary Contributory Superannuation Fund	
Unfunded liabilities increased from \$154 million to \$166 million at 30 June 2010. The Fund was closed to new members following the 2007 New South Wales general election. The Fund, however, continues to provide the superannuation arrangements for those sitting members who remained in Parliament after that election.	67
The Treasurer's target is to maintain net assets available to pay benefits to a level of 80 per cent of its long term funding needs. At 30 June 2010, the funding level was 55.6 per cent compared to 56.4 per cent at 30 June 2009. Government contributions to the Fund were suspended until 30 June 2011.	67
SAS Trustee Corporation – Pooled Fund	
Unfunded superannuation liabilities increased from \$19.4 billion at 30 June 2009 to \$19.8 billion at 30 June 2010. Net assets available to pay benefits increased following improvements in investment market performances.	71
'Hurt on duty' remains the most common way Police Superannuation Scheme members retire. The average age for hurt on duty pensioners was 45 years of age. In 2009-10, a further 176 members received 'hurt on duty' retirement benefits compared to 186 for 2008-09.	73

Section One

Superannuation Industry Overview

An abstract graphic consisting of several thin, curved lines that sweep from the left side of the page towards the right, partially overlapping the 'Superannuation Industry Overview' title.

Superannuation Industry Overview

AUDIT OPINIONS

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

SUPERANNUATION ENTITIES

Government Controlled Entities

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

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

Non-Government Controlled Superannuation Funds

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

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

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

University Superannuation Funds

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

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

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

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

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

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

KEY ISSUES

Government Superannuation Reviews

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

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

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

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

Cooper Review Findings	Implications for New South Wales Superannuation Entities
Investment Governance	Trustees are to take costs, tax and valuation information into account in investment strategies. This may impact investments in higher cost unlisted assets. It is not envisaged that this recommendation will pose any challenges to New South Wales controlled superannuation entities.
Outcomes Transparency	The recommendations should lead to more transparent and consistent reporting of returns, costs, risks and volatility.
Insurance in Superannuation	The recommendations are unlikely to have significant impact for New South Wales superannuation funds as only death, total and permanent disability benefits are provided. The recommendations may have some impact on New South Wales' superannuation administrative services providers in terms of administration they provide for other funds.
Integrity of the System	The Review identified some areas requiring improvement to ensure the integrity, certainty and stability of the industry. These include: ▪ raising the funding requirements for defined benefit funds ▪ including liquidity risk in trustees risk management plans ▪ licensing of administrators ▪ requiring trustees to maintain some form of fund capital or reserve.
Retirement	The Review focuses trustees and the superannuation industry on the needs of members in retirement. The Report highlights the importance of managing longevity risk. The ageing of the Australian population and the impending retirement of the 'Baby Boomer' generation is widely acknowledged, which makes this issue topical. This is further reflected in my comments on the SAS Trustee Corporation Pooled Fund later in this Report.
Self-Managed Super Solutions	The Review made a number of recommendations about compliance, audit, adviser competency and similar measures. The recommendations will not be applicable to New South Wales superannuation entities.
SuperStream	The Review proposed changes to improve the quality of administration in superannuation funds and reduce operating costs by moving to electronic data capture and automated transaction processing. The recommendations may have some impact on New South Wales' superannuation administrative services providers in terms of additional infrastructure investment to comply with the recommendations.
Regulatory settings	The Review focused on the efficiencies which could be gained by aligning and coordinating the various regulators (including the ATO, ASIC, APRA, AUSTRAC) and their requirements.

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

Superannuation Investments

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

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

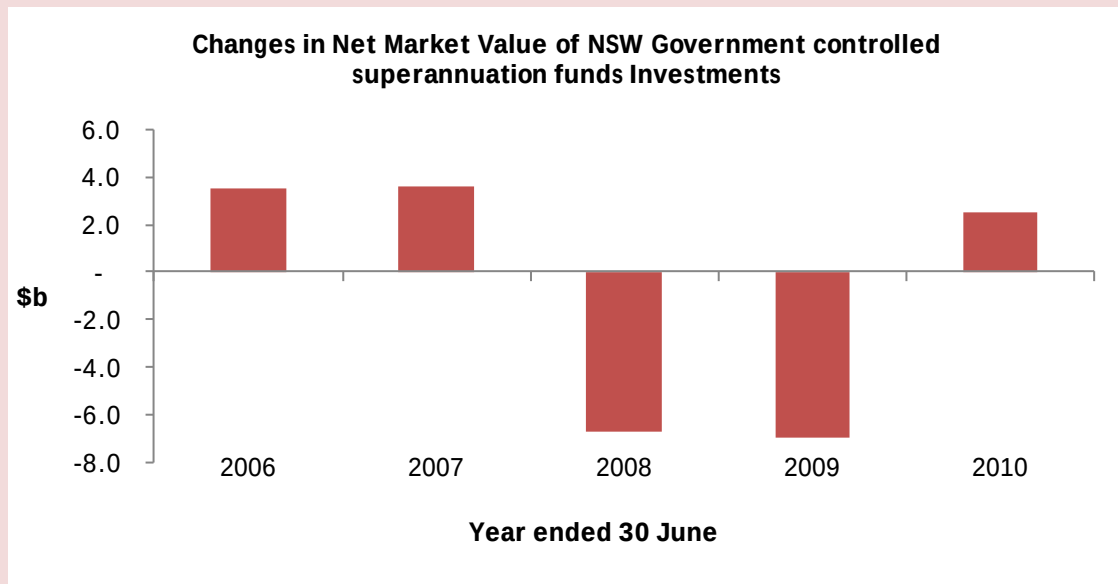
Global Financial Crisis

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

Changes in Investments Net Market Value

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

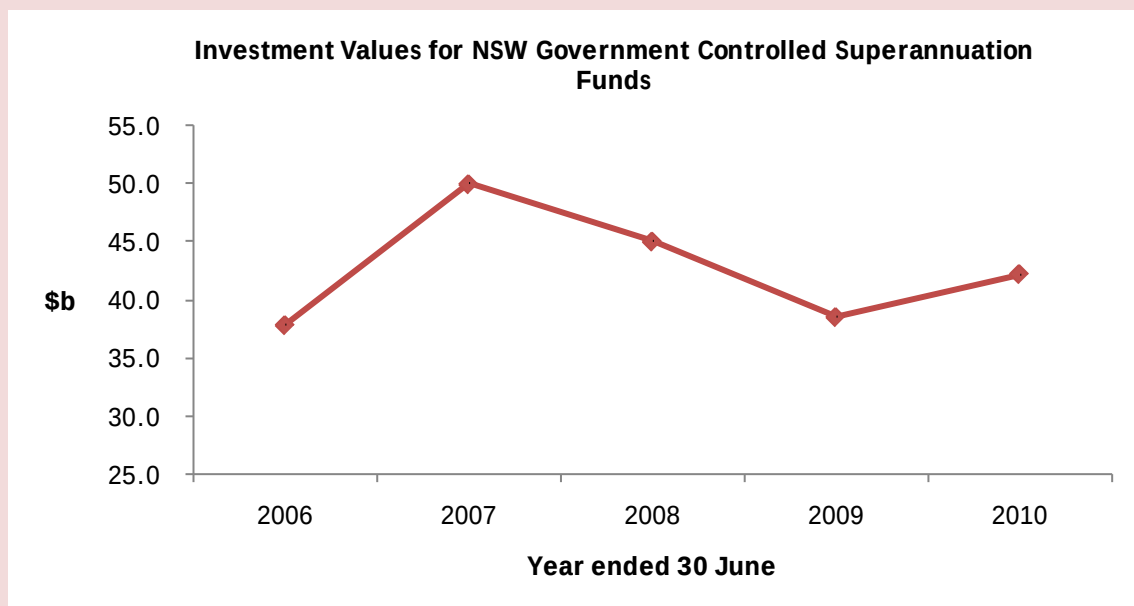
The following graph shows the movement in the market value of all New South Wales superannuation funds' investments over the last five years.



Source: Fund financial statements

Movements in the value of Funds' Investments

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



Source: Fund financial statements

Investment Income

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

Unlisted Assets - Valuation of Alternative and Private Equity Investments

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

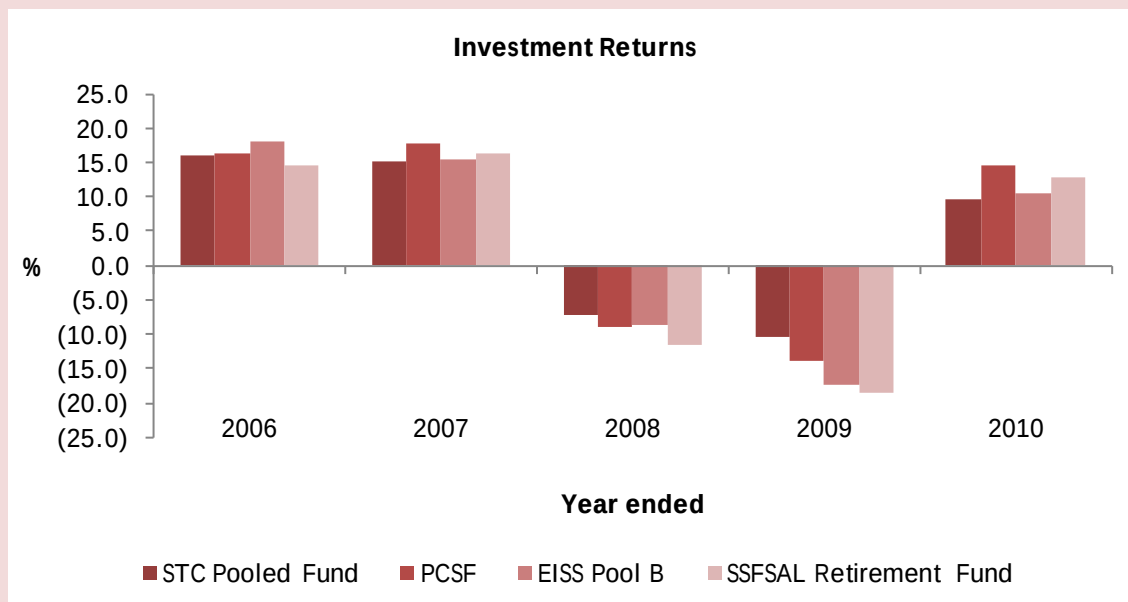
In August 2010, the Australian Prudential Regulation Authority recommended general principles to be used for unlisted asset valuations. There is no formal market for listing, quoting or trading unlisted assets to establish their value. Values are established by adopting various valuation methodologies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

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

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

Performance of New South Wales Government Superannuation Entities

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



Source: Fund Annual Reports and Fund Trustee/Administrators.

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

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

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

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

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

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

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

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

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

Source: Fund Trustee/Administrator

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

(b) Median manager in Super Ratings Pty Ltd

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

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

Triennial Actuarial Valuation

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

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

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

Source: Fund's Triennial Actuarial Reviews

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

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

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

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

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

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

Valuation of defined benefit liabilities under AASB 119 and AAS 25

Defined benefit liabilities are measured using two different approaches:

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

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

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

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

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

Net cash flows of New South Wales Government Superannuation Funds

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

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

Securities Lending

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

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

Outsourcing

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

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

The services provided were:

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

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

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

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

OTHER INFORMATION

Review of AAS 25 financial reporting by superannuation plans

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

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

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

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

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

BACKGROUND

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

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

SUPERANNUATION FUNDS

SAS Trustee Corporation Pooled Fund

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

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

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

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

Energy Industries Superannuation Scheme

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

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

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

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

Parliamentary Contributory Superannuation Fund

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

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

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

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

FINANCIAL PLANNING AND FUND MANAGEMENT SERVICES

State Super Financial Services

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

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

SUPERANNUATION ADMINISTRATION SERVICES

Superannuation Administration Corporation (Pillar Administration)

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

Comment on Pillar Administration is included elsewhere in this Report.

FuturePlus Financial Services Pty Limited (FuturePlus)

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

SUPERANNUATION FUND FINANCIAL TABLES

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

FUNDS (DEFINED BENEFIT FUNDS)

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

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

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

Abridged Statement of Net Assets (at 30 June)

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

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

FUNDS (CONTRIBUTIONS FUNDS)

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

Section Two



Commentary on Government Agencies

Minister for Finance

Lifetime Care and Support Authority of New South Wales

Motor Accidents Authority of New South Wales

**Superannuation Administration Corporation
(trading as Pillar Administration)**

Lifetime Care and Support Authority of New South Wales

AUDIT OPINION

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

PERFORMANCE INFORMATION

Scheme Participants

The Scheme has the following actual and projected participants.

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

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

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

na The Authority does not project participants based on gender.

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

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

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

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

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

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

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

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

FINANCIAL INFORMATION**Abridged Statement of Comprehensive Income**

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

Abridged Statement of Financial Position

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

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

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

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

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

Future Scheme Position

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

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

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

AUTHORITY ACTIVITIES

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

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

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

For further information on the Authority refer to www.lifetimecare.nsw.gov.au.

Motor Accidents Authority of New South Wales

AUDIT OPINION

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

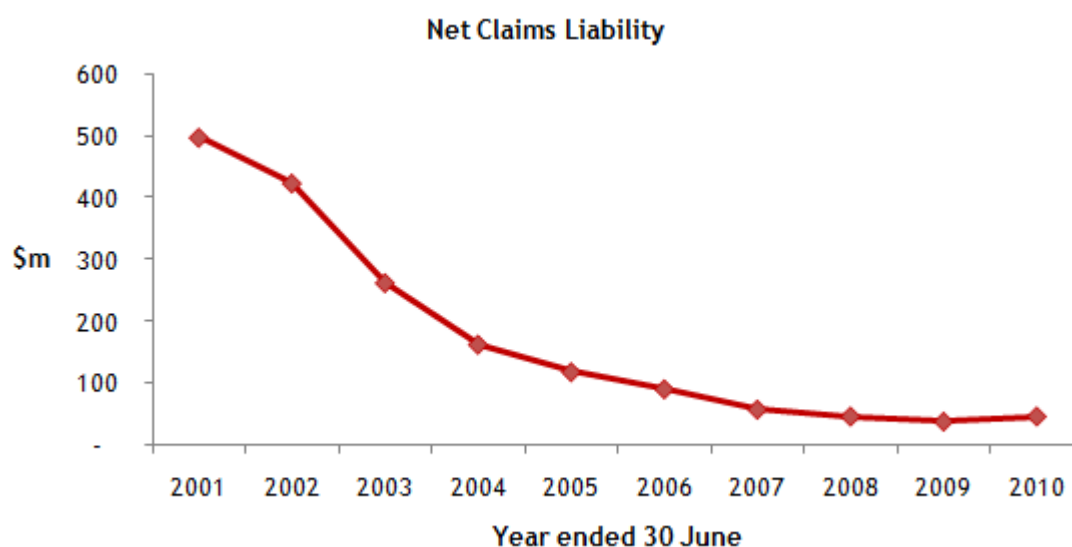
PERFORMANCE INFORMATION

Nominal Defendant

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

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

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



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

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

OTHER INFORMATION

Changes to the CTP Scheme

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

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

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

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

Medical Care and Injury Services Levy

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

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

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

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

FINANCIAL INFORMATION**Abridged Statement of Comprehensive Income**

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

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

Abridged Statement of Financial Position

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

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

AUTHORITY ACTIVITIES

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

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

For further information on the Authority refer to www.maa.nsw.gov.au.

Superannuation Administration Corporation (trading as Pillar Administration)

AUDIT OPINION

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

OTHER INFORMATION

Proposed Sale

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

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

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

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

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

Abridged Statement of Financial Position

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

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

CORPORATION'S ACTIVITIES

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

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

For further information on the Corporation, refer to www.pillar.com.au.

Minister for Gaming and Racing

Greyhound and Harness Racing Regulatory Authority

Greyhound and Harness Racing Regulatory Authority

AUDIT OPINION

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

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

KEY ISSUES

Dissolution of the Greyhound and Harness Racing Regulatory Authority

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

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

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

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

For further information on Harness Racing NSW, refer to www.hrnsw.com.au.

For further information on Greyhound Racing NSW, refer to www.thedogs.com.au.

FINANCIAL INFORMATION

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

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

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

AUTHORITY ACTIVITIES

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

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

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

CONTROLLED ENTITY

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

Entity Name	Website
Greyhound and Harness Racing Regulatory Authority Division	*

* This entity does not have a website.

Minister for Industrial Relations

Building and Construction Industry Long Service Payments Corporation

Refer to Appendix 1 for:

Sporting Industries Committee

Building and Construction Industry Long Service Payments Corporation

AUDIT OPINION

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

KEY ISSUE

Deficit in the Building and Construction Industry Long Service Payments Scheme

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

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

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

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

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

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

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

Abridged Statement of Financial Position

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

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

CORPORATION ACTIVITIES

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

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

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

Treasurer

Crown Entity

Electricity Tariff Equalisation Ministerial Corporation

Energy Industries Superannuation Scheme

New South Wales Treasury Corporation

NSW Self Insurance Corporation

Parliamentary Contributory Superannuation Fund

SAS Trustee Corporation - Pooled Fund

State Super Financial Services Australia Limited

The Treasury

Refer to Appendix 1 for:

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

Liability Management Ministerial Corporation

NSW Fire Brigades Superannuation Pty Limited

State Rail Authority Residual Holding Corporation

Crown Entity

AUDIT OPINION

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

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

KEY ISSUE

Lack of Internal Audit Activity - Follow up in Current Year

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

NSW Lotteries

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

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

The Treasury has accounted for the transaction as:

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

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

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

PERFORMANCE INFORMATION

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

FINANCIAL INFORMATION**Abridged Statements of Comprehensive Income**

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

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

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

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

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

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

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

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

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

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

Abridged Statement of Financial Position

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

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

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

EVENTS SINCE 30 JUNE 2010

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

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

CROWN ENTITY ACTIVITIES

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

Core government activities include:

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

Commercial activities comprise:

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

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

Electricity Tariff Equalisation Ministerial Corporation

AUDIT OPINION

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

KEY ISSUES

Termination of the Fund - Follow up in Current Year

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

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

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

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

Abridged Statement of Financial Position

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

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

CORPORATION ACTIVITIES

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

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

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

Energy Industries Superannuation Scheme

AUDIT OPINION

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

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

PERFORMANCE INFORMATION

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

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

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

Pool A - Accumulation Scheme

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

(a) Source: Trustee.

(b) Source: Super Ratings Pty Ltd.

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

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

Pool B - Defined Benefits Scheme

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

(a) Source: Trustee.

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

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

OTHER INFORMATION

Restructure of Schemes' Administration Provider

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

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

Actuarial Review

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

FINANCIAL INFORMATION

Abridged Operating Statement - Pool A

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

Abridged Balance Sheet - Pool A

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

Statement of Changes in Net Assets - Pool B

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

Statement of Net Assets - Pool B

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

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

SCHEME ACTIVITIES

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

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

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

EISS Pool A is an accumulation plan comprising:

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

EISS Pool B is a defined benefit scheme and comprises:

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

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

For further information, refer to www.eisuper.com.au.

CONTROLLED ENTITY

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

Entity Name	Website
Energy Investment Fund	www.eisuper.com.au

New South Wales Treasury Corporation

AUDIT OPINION

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

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

KEY ISSUES

AAA Credit Rating

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

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

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

PERFORMANCE INFORMATION

Funding the New South Wales Public Sector

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

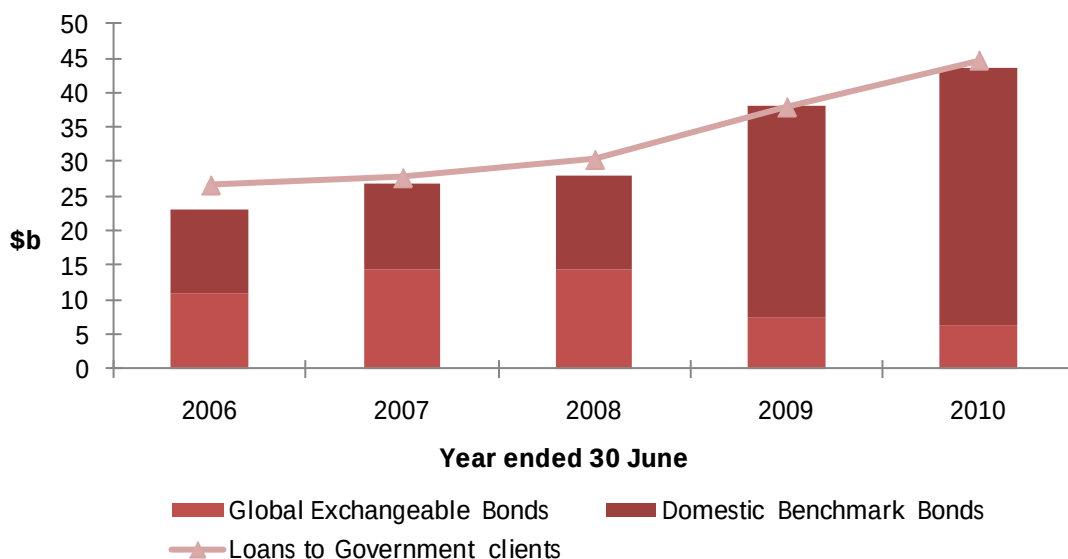
Despite limited opportunities in non-Australian-dollar markets, TCorp raised \$12.0 billion (\$10.9 billion in 2008-09) during the year from debt capital markets. TCorp used these funds to finance the \$5.6 billion (\$6.4 billion) net increase in client loans and to refinance existing liabilities of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

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

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

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

Loans to Clients, Domestic and Global Bonds



Loans to Government Clients

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

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

Management of Client Debt

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

Management of Client Investments

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

Hour-Glass Investment Facilities

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

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

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

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

Source: New South Wales Treasury Corporation.

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

Notes:

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

Discrete Client Funds

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

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

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

OTHER INFORMATION

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

Information Technology Replacement Project

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

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

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

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

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

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

Abridged Consolidated Statement of Financial Position

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

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

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

Derivative Financial Instruments

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

CORPORATION ACTIVITIES

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

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

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

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

For further information on TCorp, refer to www.tcorp.nsw.gov.au.

CONTROLLED ENTITIES

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

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

* This entity does not have a website.

NSW Self Insurance Corporation

AUDIT OPINION

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

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

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

KEY ISSUES

Discount Rate for Claim Liabilities

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

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

OTHER INFORMATION

Tender for Claims Management

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

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

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

Home Warranty Insurance Arrangements

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

Tender for Actuarial and Reinsurance Services

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

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

FINANCIAL INFORMATION

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

Abridged Statement of Comprehensive Income

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

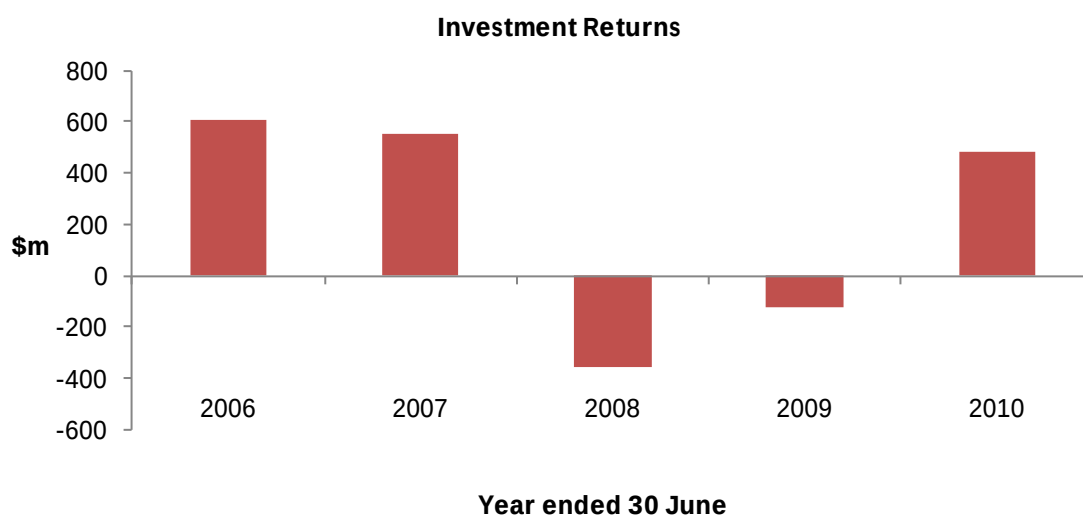
Other revenue decreased significantly from \$183 million to an expense of \$89.0 million in 2009-10 mainly due to a decrease in reinsurance and other recoveries revenue following the reduction in an estimate of a major claim.

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

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

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

The table below shows investment returns from 2005 to 2010:



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

Abridged Statement of Financial Position

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

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

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

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

CORPORATION ACTIVITIES

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

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

Treasury Managed Fund

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

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

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

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

For further information, refer to www.sicorp.nsw.gov.au.

Parliamentary Contributory Superannuation Fund

AUDIT OPINION

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

KEY ISSUES

Unfunded Superannuation Liabilities

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

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

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

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

PERFORMANCE INFORMATION

Investment Returns

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

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

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

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

Source: Fund Administrator.

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

OTHER INFORMATION

Fund Membership

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

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

Source: Fund Administrator.

Notes:

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

FINANCIAL INFORMATION

Abridged Statement of Changes in Net Assets

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

Abridged Statement of Net Assets

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

FUND ACTIVITIES

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

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

Governing Act

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

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

SAS Trustee Corporation - Pooled Fund

AUDIT OPINION

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

KEY ISSUES

Unfunded Superannuation Liabilities

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

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

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

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

Actuarial Review

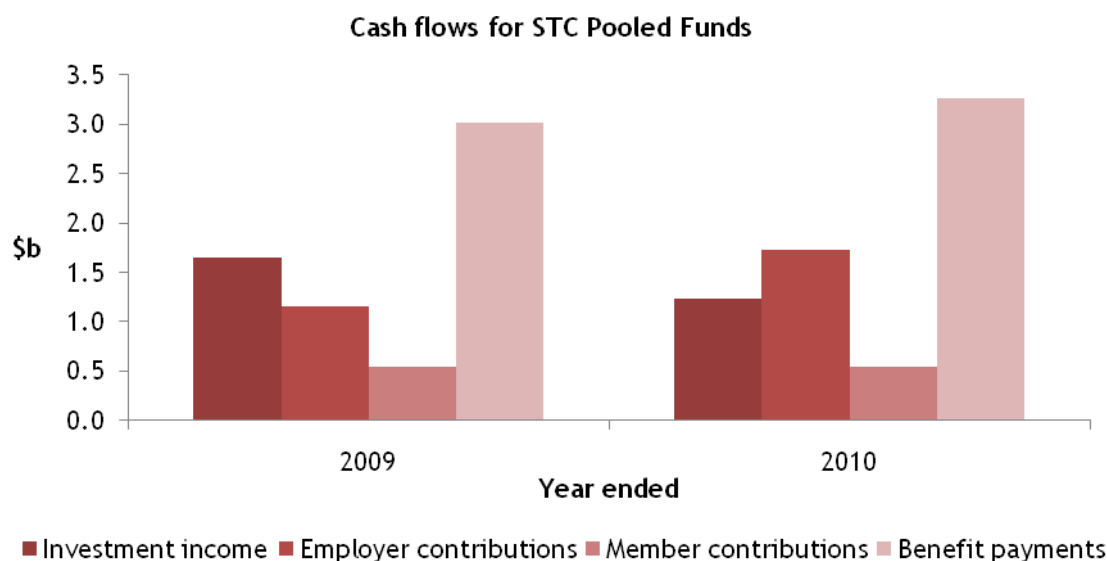
The Fund's legislation requires an actuarial review of the Fund every three years. The last review was completed during 2009-10 in respect of 30 June 2009.

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

Fund's Net Cash Flows

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

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



Source: Fund financial statements

Fund Membership

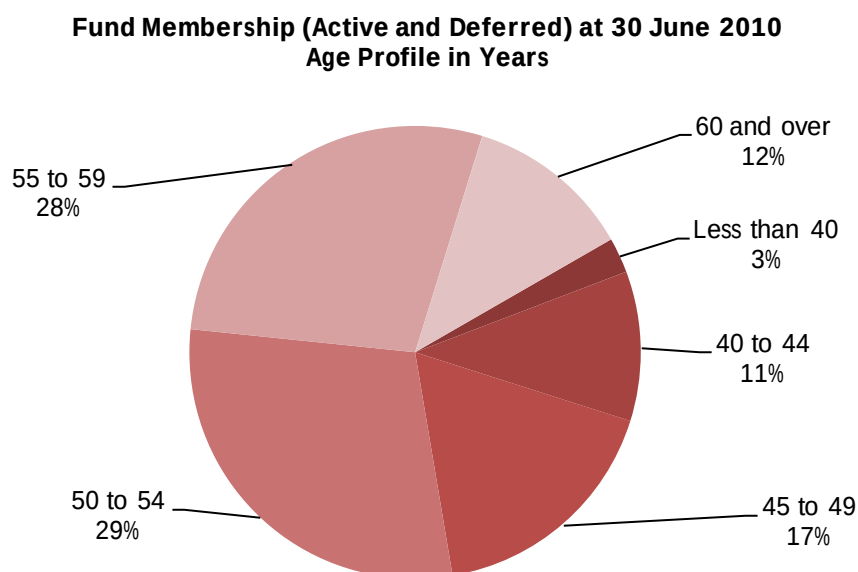
The Fund's schemes are closed to new members and have a declining membership base. The table below summarises the Fund's membership at year-end.

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

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

Ageing Demographics - Active and Deferred Members

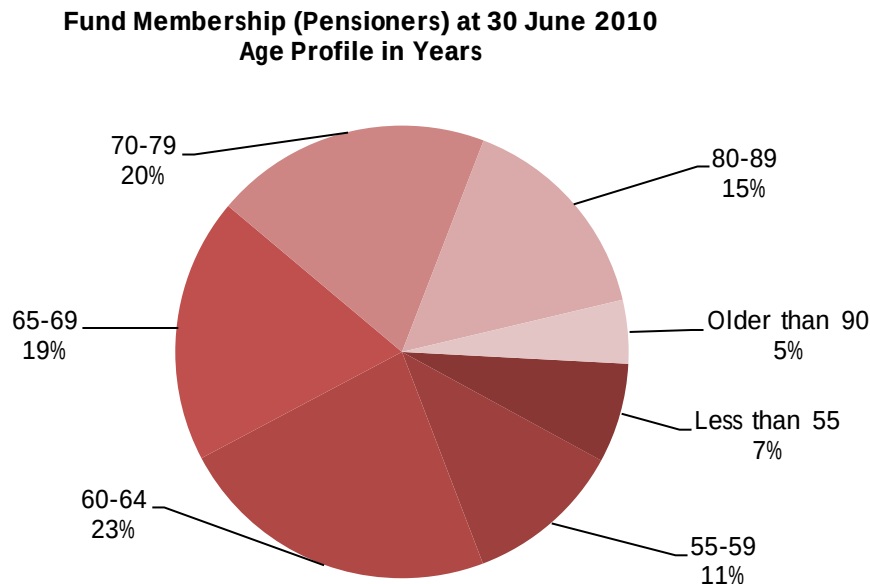
The age profile of the Fund's active and deferred members at year-end was:



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

Ageing Demographics - Pensioners

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



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

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

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

Hurt on Duty Benefit Payments

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

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

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

PERFORMANCE INFORMATION

Investment Returns

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

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

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

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

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

Source: SAS Trustee Corporation (STC).

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

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

Administration and Investment Costs

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

(a) Includes Trustee and administration costs.

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

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

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

FINANCIAL INFORMATION

Abridged Statement of Changes in Net Assets

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

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

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

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

Abridged Statement of Net Assets

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

FUND ACTIVITIES

The Fund reporting entity consists of the following schemes:

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

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

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

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

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

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

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

For further information on the Fund, refer to www.statesuper.nsw.gov.au.

CONTROLLED ENTITIES

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

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

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

* This entity does not have a website.

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

TRUSTEE

SAS Trustee Corporation (the Corporation)

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

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

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

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

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

State Super Financial Services Australia Limited

AUDIT OPINION

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

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

PERFORMANCE INFORMATION

Investment Performance of the Retail Investment Products

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

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

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

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

Source: State Super Financial Services Australia Limited.

Note: losses on investments are shown in brackets (-).

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

Source: State Super Financial Services Australia Limited.

Note: losses on investments are shown in brackets (-).

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

Source: State Super Financial Services Australia Limited.

Note: losses on investments are shown in brackets (-).

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

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

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

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

Abridged Statement of Financial Position

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

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

COMPANY ACTIVITIES

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

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

For further information on the Company, refer to www.ssfs.com.au.

The Treasury

AUDIT OPINION

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

PERFORMANCE INFORMATION

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

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

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

Source: The Treasury (unaudited).

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

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

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

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

ADMINISTERED ACTIVITIES

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

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

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

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

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

Large Duties Transaction

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

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

Fine Write-offs

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

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

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

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

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

Source: The Treasury (unaudited).

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

OTHER INFORMATION

Human Resources

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

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

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

Employment of Contractors

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

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

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

Source: The Treasury (unaudited).

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

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

Source: The Treasury (unaudited).

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

Flex-time

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

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

Annual Leave Balances

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

Overtime

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

Major Projects

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

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

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

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

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

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

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

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

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

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

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

Abridged Statement of Financial Position

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

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

THE TREASURY ACTIVITIES

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

OSR's major functions are:

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

For further information on OFM, refer to www.treasury.nsw.gov.au.

For further information on OSR, refer to www.osr.nsw.gov.au.

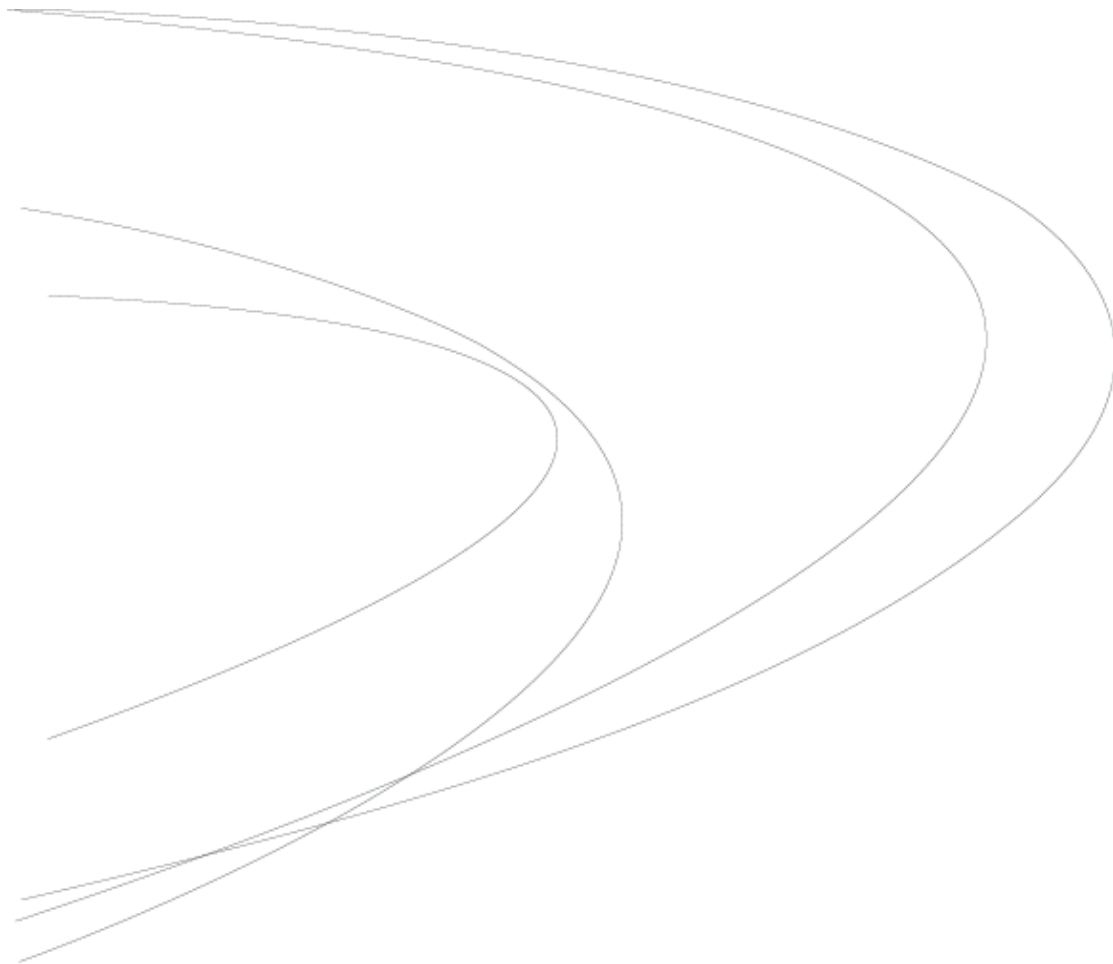
Minister for Education and Training

Refer to Appendix 1 for:

Macquarie University Professorial Superannuation Scheme

Appendix

Appendix 1 Agencies not reported elsewhere in this Volume



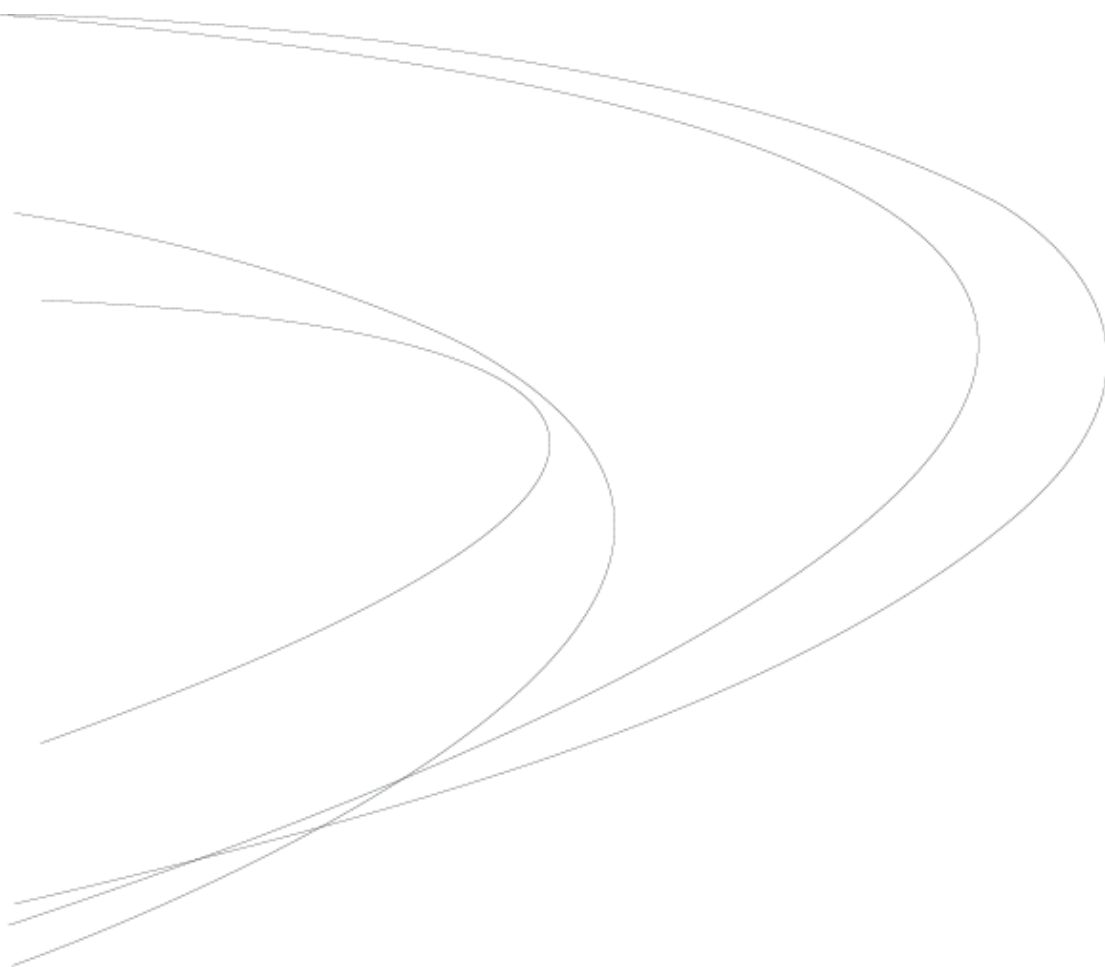
Appendix 1 - Agencies not reported elsewhere in this Volume

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

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Liability Management Ministerial Corporation	www.treasury.nsw.gov.au	30 June 2010
Macquarie University Professorial Superannuation Scheme	*	30 June 2010
NSW Fire Brigades Superannuation Pty Limited	*	30 June 2010
Sporting Injuries Committee	www.sportinginjuries.nsw.gov.au	30 June 2010
State Rail Authority Residual Holding Corporation	www.treasury.nsw.gov.au	30 June 2010

* This entity does not have a website.

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AUDITOR-GENERAL'S REPORT FINANCIAL AUDITS

Volume Six 2010



The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

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

Peter Achterstraat
Auditor-General

Sydney
November 2010

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Significant Items

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New South Wales Aboriginal Land Council	
The Council has developed strategies, supported by the Minister for Aboriginal Affairs, to control expenditure and maintain the capital value of its investment fund. The value of the investment fund increased to \$541 million at 30 June 2010.	5
Two Local Area Land Councils, under administration, were dissolved by the Minister. Their net assets were transferred to the Council, allowing it to extinguish debts of \$9.2 million.	5
The Council's rural properties continue to incur losses (\$599,751 in 2009-10). As a result, it is considering how to mitigate the financial risks associated with farming activities and how to reduce ongoing losses.	7
Home Care Service	
Almost 34 per cent of Home care's employees are aged over 55, and 55 per cent are over 50. Many are likely to retire over the next five to ten years, increasing the risk of loss of corporate knowledge and skills.	17
Total assessments of eligibility for home care services declined by 17.3 per cent; total hours of service provided to clients decreased by 4.8 per cent; and average hours of service per client dropped by 7.0 hours compared to the previous year.	20
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Building Insurer's Guarantee Corporation	
The Corporation has paid \$200 million for home warranty claims under the Government's HIH rescue package and further claims, totalling \$167 million, are expected.	29
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The number of licence records administered by the Government Licence System has increased from 940,000 in 2007 to 3.4 million in July 2010.	33
Twenty five percent of the Department's employees are aged over 55, and 43 per cent are over 50. Many are likely to retire over the next five to ten years, increasing the risk of loss of corporate knowledge and skills.	37
The Department has significantly reduced excessive annual leave balances, with less than five per cent of employees having more than 40 days accrued at 30 June 2010.	37
State Records Authority	
The Authority is unable to archive digital records despite growing reliance on the use of digital records by New South Wales Government agencies.	45

Department of Human Services

Community Services does not have sufficient caseworkers to perform its functions effectively. At 30 June 2010, 20.0 per cent (18.4 per cent at 30 June 2009) of caseworker positions were unfilled. 54

Placement reviews for children in Out-of-Home Care are not always performed at appropriate intervals that meet statutory requirements. 55

There are risks of fraudulent activity occurring within Community Services' service providers. 55

The department wrote off \$5.2 million in relation to a Community Services IT project. 56

Indigenous children continue to be over represented in the child protection system. 59

Out-of-Home Care was provided to 17,400 children at an average cost of \$36,869 per child for the year ended 30 June 2010. 60

Bed blocks in respite care facilities operated by Ageing and Disability reduced significantly in 2009-10. 61

The average daily cost per juvenile in custody was \$589 in 2009-10 (\$543 in 2008-09). 63

NSW Businesslink Pty Ltd

The company had 264 contract employees at 30 June 2010, 34 of whom had been engaged for more than five years and another 53 for more than three years. 75

NSW Land and Housing Corporation

The Government has approved the transfer of up to 7,000 properties to non government community housing providers subject to a number of conditions. 95

Recommendations

	Page
New South Wales Aboriginal Land Council	
I again recommend the Council consider dissolving the remaining Local Aboriginal Land Councils that are underperforming, particularly those under administration.	5
Home Care Service of New South Wales	
I recommend:	
▪ Home Care develop and implement effective policies to address and manage its ageing workforce.	17
▪ Home Care develop mechanisms to centrally review flex time records to ensure excessive flex time is not being accrued and forfeited by staff.	18
▪ Home Care address, as a priority, the matters I have reported for at least the past two years.	18
Building Insurers' Guarantee Corporation	
I recommend the Corporation continue to closely monitor the claims liability.	29
Rental Bond Board	
I recommend the Board continue pursuing appropriate changes to legislation to clarify responsibilities and enable resolution if a shortfall in the Trust Fund eventuates.	43
State Records Authority of New South Wales	
I recommend the Authority address the breach of its enabling legislation by establishing a government digital archiving solution.	45
Department of Human Services	
I recommend:	
▪ the Department make concerted efforts to fill vacant Community Services caseworker positions.	54
▪ the Department adhere to statutory requirements by ensuring Community Services placement reviews for children and young persons in Out-of-Home Care are undertaken at appropriate intervals.	55
▪ the acquittal process for Community Services' grants, which are made to service providers, be re-examined and strengthened. The Department should consider a range of options including:	
□ the need to engage its own independent auditor or specialist audit resources to cyclically audit grants based on a risk rating for service providers	
□ ensuring that training is available and undertaken by service providers in governance and accountability, or requiring them to undertake such training	
□ providing information or training for service providers and Community Services staff on acquittal procedures.	55

▪ the Department implement formal project governance structures and project management procedures for all Community Services' major IT projects. I also recommend the Department conduct benefit realisation reviews when major IT projects are implemented.	56
▪ the Department address, as a priority, matters relating to Community Services and ADHC that I have been reporting for at least the past two years.	56
▪ the Department review the effectiveness of its policies in managing excessive annual leave balances.	67
▪ the Department develop mechanisms to centrally review flex time records to help ensure excessive flex time is not being accrued and forfeited by staff.	68
▪ the Department periodically review the roles and responsibilities of all contract employees to help ensure:	
□ reliance on contractors is not excessive	
□ use of contract employees instead of permanent employees is appropriate	
□ contractors do not become de facto employees by virtue of being with the Department for an extended period of time	
□ use of contract employees continues to represent value for money.	69

NSW Businesslink Pty Ltd

I recommend:

▪ the company periodically review the roles and responsibilities of all contract employees to ensure:	
□ reliance on contractors is not excessive	
□ use of contract employees instead of permanent employees is appropriate	
□ contractors do not become de facto employees by virtue of being with the company for an extended period of time	
□ use of contract employees continues to represent value for money	
□ it does not contravene established policies, tax legislation and industrial relation matters relating to employment arrangements.	75
▪ the company develop mechanisms to centrally review flex time records to ensure excessive flex time is not being accrued and forfeited by staff.	76
▪ that management address, as a priority, the matter of verification of financial delegations that I have reported for at least the past two years.	76
▪ the company implement effective policies to address and manage its ageing workforce.	78

NSW Land and Housing Corporation

I recommend the Corporation periodically review the roles and responsibilities of all its contractors to help ensure:

- its reliance on contractors is not excessive
- use of a contractor instead of a permanent employee is appropriate
- contractors do not become de facto employees by virtue of being with the Corporation for an extended period of time
- use of a contractor continues to represent good value for money.

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Section One



Commentary on Government Agencies

Minister for Aboriginal Affairs

New South Wales Aboriginal Land Council

New South Wales Aboriginal Land Council

AUDIT OPINION

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

KEY ISSUES

Investment balance and expenditure

Last year, I recommended the Council review its ability to maintain its current levels of expenditure. This followed a \$181 million fall in the value of the Council's investments over the two years to 30 June 2009.

Financial conditions were more favourable in 2009-10 and the value of the Council's financial investments increased to \$541 million (\$513 million in 2008-09), including unrealised gains of \$16.3 million (unrealised loss \$89.6 million).

Under legislative requirements, the Council has to maintain its capital value of \$485 million. The Council monitors its return on investments and operating expenditure to maintain its capital value. It has developed two key strategies – a Strategic Asset Allocation and a Drawdown Rule for its capital management. The Minister for Aboriginal Affairs supported the Drawdown Rule developed by the Council and approved the Council's budget which incorporates the key strategies adopted by the Council. These strategies have been implemented and are closely monitored by the Council to maintain the capital value.

Local Aboriginal Land Councils (Repeat Issue)

I again recommend the Council consider dissolving the remaining Local Aboriginal Land Councils that are underperforming, particularly those under administration.

Last year, I recommended that the Council stop funding underperforming Local Aboriginal Land Councils (LALCs). This was due to the escalation in LALC debt to \$23.1 million at 30 June 2009 of which \$17.4 million was impaired.

During 2009-10, two LALCs under administration were dissolved by the Minister and their net assets were transferred to the Council allowing it to extinguish debts of \$9.2 million. The assets mainly comprised freehold land.

Measures adopted by the Council to address the high levels of impaired LALC debt include:

- the development of the LALC Management Support System (LMSS). The Council advised that the LMSS is now used to assess the performance of LALCs so that those that do not meet a minimum threshold are not funded. The Council also has a policy of deducting 30 per cent or more of the LALC's annual funding allocation for repayment of debt
- the intended adoption of a new Debtors Management Policy which is currently subject to Council approval.

For the purpose of financial reporting, each LALC is a separate reporting entity. As I have reported in previous years, some LALCs have failed to comply with the reporting requirements of the *Aboriginal Land Rights Act 1983* (the Act). The number of LALCs that do not submit 30 June 2010 financial statements or submit financial statements that are unsatisfactory is expected to reduce. LALCs are not required to submit their annual audited statements until 30 October each year.

The Council determined LALCs' 2009-10 funding based on the audit results of LALCs' 2008-09 financial statements. An analysis of the audit results for the five years from 2005 to 2009 is:

Financial Reporting by LALCs for Year ended 30 June	2009	2008	2007	2006	2005
Satisfactory	108	93	91	90	93
Unsatisfactory	5	10	14	7	10
Not received	8	18	16	24	18
Total	121	121	121	121	121

The table shows that 11 per cent of LALC's financial reports for 2008-09 (23 per cent in 2007-08) were unsatisfactory or not received. The eight LALCs for which no financial statements were received include four LALCs which are not operating.

Two LALCs were under administration at 30 June 2010, down from seven in the previous year. The reasons for appointment of an administrator vary and include failure to comply with statutory reporting requirements, possible disposal of land without proper approval, possible fraudulent activity and unsatisfactory audit reports.

Water and sewerage services

The Council, in partnership with the New South Wales Government, maintained its commitment to a major program to deliver better water and sewerage services to discrete Aboriginal communities across the State. Together they will invest more than \$200 million over the next 25 years to improve these services. The roll out of the program began in 2008-09.

OTHER INFORMATION

We identified areas for the Council to improve its internal controls which we reported to management. The Council's response was generally favourable and the Council advised that many of our recommendations have either been or are in the process of being implemented.

Rural Properties

Rural properties were transferred to the Council when Regional Aboriginal Land Councils were abolished in 1990. Since 2004, the Council has engaged Riverina F.A.R.M. Pty Limited and Riverina Farm Services Pty Ltd as sub managers, to manage the Council's rural properties. The rural properties managed by Riverina F.A.R.M. are:

Name of Property	Location	Size (ha)
Appin Station	Menindee	31,704
Barooga-Karrai	Euabalong	9,890
Calooma/Nulty Springs	Bourke	35,609
Kaituna-Uno	Coonamble	5,184
Total		82,387

Source: New South Wales Aboriginal Land Council Annual Report

The Council's rural properties incurred losses of \$599,751 in 2009-10 (\$584,000 loss). Council has advised that it is reconsidering its strategy regarding rural properties in order to mitigate the financial risks associated with farming activities and to reduce ongoing losses.

Attempts to lease a number of the rural properties in 2009-10 have met with limited success. The Council is considering disposing of the rural properties and has, as required by the Act, advised the LALC in the area in which the properties are located of this decision. The Council must provide notice and give 28 days for a response from the respective LALC before the final decision can be made. Prior to 31 March 2010, the Council required the approval of the respective LALC before the Council could deal with the land.

Endowment Fund

In 2007-08, the Council established a \$30.0 million Education Endowment Fund, which aims to help fund up to 200 education scholarships a year. The scholarships are available for primary schools, secondary schools, universities, vocational and TAFE courses. No government grants were received for this program. The intention is that the interest earned on the Fund, which is invested in a short-term deposit, will be sufficient to cover the cost of the scholarship program. Council spent \$200,000 (\$1.2 million) on scholarship grants in 2009-10. Applications for scholarship grants are reviewed and paid on an ongoing basis.

In March 2008, the Council retained the services of Charities Australia Foundation (CAF) to help assess applications, make recommendations and administer the scheme on a day to day basis. CAF is an international not-for-profit organisation operating in Australia since 1999.

Human Resources

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

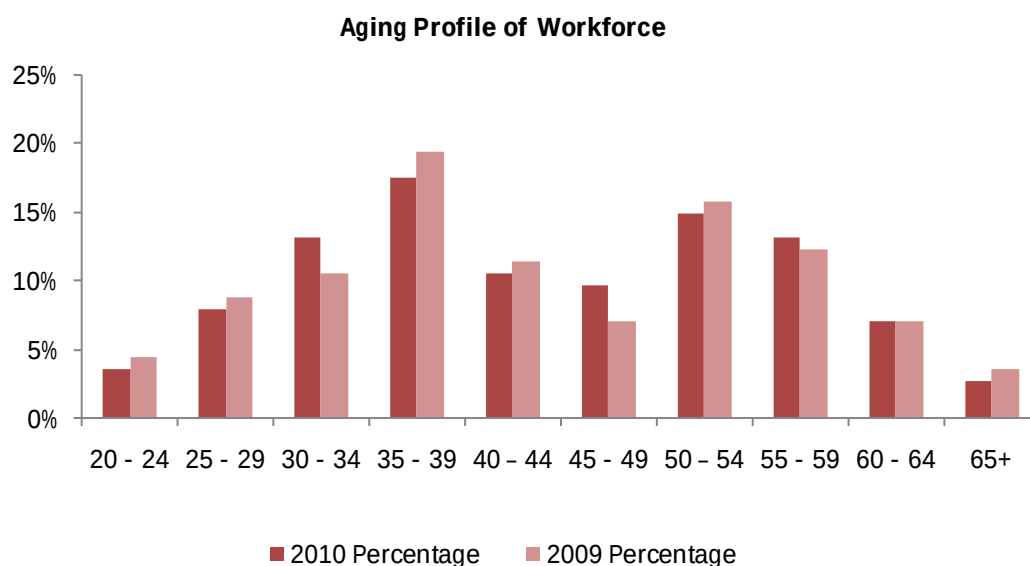
- the employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- the trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- the management of annual leave balances in excess of threshold policies
- the management of excessive flex leave balances
- the extent of overtime
- the extent of use of contract staff.

No significant issues were identified from our review.

Employee Age Profile

Twenty three per cent of the Council's employees are older than 55 years of age and 38 per cent are older than 50. This represents a large number of employees who are likely to retire over the next five to ten years. This potential loss of knowledge and skills may be a risk for the Council.

The age profile of the Council employees is shown below:



At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
Up to 39	48	42	49	43
40-44	12	11	13	11
45-49	11	10	8	7
50-54	17	15	18	16
55-59	15	13	14	12
60-64	8	7	8	7
65+	3	3	4	4
Total	114	100	114	100

Source: Information provided by the Council (unaudited)

To minimise this risk, the Council is:

- streamlining the processes with established policies and procedures, including proper documentation and a record management system to ensure key information is retained and accessible
- continuing the policy of developing employees of both Aboriginal and non Aboriginal origin by providing necessary funding for them to obtain the necessary academic qualification or relevant vocational training. These employees are expected to gradually takeover more responsibilities and obtain necessary job training
- embarking on a process of identifying key positions where succession planning processes would include the transfer of critical and unique knowledge.

The Council also recognises that a key factor in minimising the loss of knowledge is the retention of employees who are approaching retirement. This can be achieved by the provision and accessibility of a range of flexible work practices and conditions. This will allow those employees to have work life balance and transition to retirement. Part-time work, work from home, increased flexible leave arrangements, and purchased leave, are some of the initiatives that will assist in retaining employees who may have considered retirement as their only option.

Long Service Leave Liability

The Council's liability for long service leave entitlements at 30 June 2010 amounted to \$591,000 (\$528,000).

Annual Leave Balances

The Council has actively managed employees with excessive annual leave balances in recent years. The number of employees with annual leave balances in excess of 40 days has declined from 14 employees at 30 June 2009 to 10 employees at 30 June 2010. The Council's strategies have reduced the number of employees with annual leave balances in excess of 40 days to nine per cent (12 per cent) of total employees at 30 June 2010.

The Council advised that all staff are regularly advised of their leave balances and reminded of the need to reduce their entitlements.

Flex Leave

The Council's flex leave policy entitles staff members to one flex leave day per month and a maximum of 10 hours can be carried forward at the end of each month. This policy ensures that employees do not accumulate large balances of flex leave.

Overtime

Overtime payments were made to 12 staff in 2009-10 (six in 2008-09) at a total cost of \$30,592 (\$15,048).

Use of Contract Staff

During 2009-10, the Council used six contract staff (12) with a total cost of \$98,900 (\$367,145). The Council regularly reviews the use of contract staff to ensure it is appropriate and represents value for money.

FINANCIAL INFORMATION**Abridged Statement of Comprehensive Income**

Year ended 30 June	2010 \$'000	2009 \$'000
Investment income	47,335	43,505
Other income	16,031	3,995
OPERATING REVENUE	63,366	47,500
Employee expenses	11,643	10,814
Funding of local Aboriginal Land Councils	13,690	14,317
Net (increment)/decrement on investment revaluation	(16,271)	89,591
Other expenses	19,786	15,602
OPERATING EXPENSES	28,848	130,324
SURPLUS/(DEFICIT)	34,518	(82,824)
OTHER COMPREHENSIVE INCOME		
Net assets transferred from dissolved Local Aboriginal Land Councils	5,856	--
Net increment on revaluation of assets	236	1,377
Other comprehensive loss	(241)	(216)
TOTAL COMPREHENSIVE INCOME (EXPENSE)	40,369	(81,663)

Investment income of \$47.3 million (\$43.5 million) comprises the income distribution from the Council's managed fund of \$36.1 million (\$40.4 million), interest of \$2.5 million (\$3.1 million) and realised investment gains of \$8.8 million (nil).

Other income of \$16.0 million (\$4.0 million) includes Commonwealth Government grants of \$4.3 million (\$400,000) and the reversal of the prior year's LALC receivables impairment provision of \$6.7 million (nil).

The Council received grants from the Australian Government by entering into a Program Funding Agreement with the Department of Families, Housing, Community Services and Indigenous Affairs to undertake a repairs and maintenance project on seventy homes owned by the Walgett Local Aboriginal Land Council.

Other expenses include \$3.8 million (nil) spent on the above-mentioned repairs and maintenance project. The project is expected to be completed in 2010-11.

Grants paid

In addition to the annual allocation of funds to LALCs, the Council provided major grants of \$207,665 (\$1.3 million) and minor grants of \$736,830 (\$941,410) to community organisations and individuals. The grants are included in 'Other expenses' in the previous table, and comprise:

Major Grants (more than \$5000)

Payee	Purpose	Year ended 30 June 2010 \$	Year ended 30 June 2009 \$
University of Newcastle	Education Scholarship Grant	31,365	--
Riverina Crane Services Pty Ltd	Grant for Wagga Wagga LALC to help comply with Environment Planning and Assessment Act 1979	19,950	
Arts Mid North Coast	Sponsorship for Dinner with Elders	10,000	--
CAF AUSTRALIA	Education Scholarship Grant	101,000	1,090,202
Newington College	Education Scholarship Grant	--	6,199
Presbyterian Ladies College	Education Scholarship Grant	5,350	13,600
Australian Indigenous Leadership Centre	Education Scholarship Grant	40,000	90,909
Total Major Grants		207,665	1,315,910

Minor Grants (\$5000 or less)

Category	Year ended 30 June 2010 Number	Year ended 30 June 2010 \$	Year ended 30 June 2009 Number	Year ended 30 June 2009 \$
Education Scholarship Grant	1	3,850	--	--
Discretionary	2	6,000	71	390,812
Funeral	444	726,980	399	550,598
Total	447	736,830	470	941,410

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	551,822	523,181
Non-current assets	49,599	37,692
TOTAL ASSETS	601,421	560,873
Current liabilities	8,648	8,590
Non-current liabilities	309	188
TOTAL LIABILITIES	8,957	8,778
NET ASSETS	592,464	552,095

Non-current assets increased to \$49.6 million at 30 June 2010 primarily because of the transfer of land from dissolved LALCs to the Council of \$14.4 million during 2009-10.

Investment Portfolio

The Council has largely retained the investment strategy adopted in 1998-99 following the cessation of land tax funding. The strategy's objectives are mainly achieved by placing funds with various fund managers to obtain capital growth over the long-term and provide funds for the Council's operations.

The portfolio incurred an average return of 12.1 per cent in 2009-10 (8.3 per cent loss). Investment data for the last four years is summarised below.

Year	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000
Opening balance	513,259	600,061	682,319	622,203	573,066
Closing balance	540,884	513,259	600,061	682,319	622,203
Net (loss)/income	63,606	(46,086)	(43,981)	88,643	74,356
Average fund balance	527,072	556,660	641,190	652,261	597,635
Average (loss)/earning (%)	12.07	(8.28)	(6.86)	13.59	12.44

When considering the investment performance, it must be noted that Council draws down on its investments each year to meet operational requirements. The Council drew down \$38.5 million in 2009-10.

The net investment income in 2009-10 of \$63.6 million (loss of \$46.1 million) comprises investment income of \$47.3 million (\$43.5 million) and a gain in the fair value of investments held for trading of \$16.3 million (loss of \$89.6 million).

COUNCIL ACTIVITIES

The Council was constituted under the *Aboriginal Land Rights Act 1983* (the Act), which was amended in 2007 to substantially increase the scope and range of responsibilities and functions of the Council. The Council comprises nine members, each elected by voting members of the LALCs within the nine regions of New South Wales. The functions of the Council include the following:

- administering the New South Wales Aboriginal Land Council Account and the Mining Royalties Account established under the Act
- acquiring and managing land on its own behalf, on behalf of, or to be vested in a LALC
- making claims to Crown lands, either on its own behalf, or on behalf of a LALC if requested
- purchasing, leasing or holding any property, or acquiring property by gift, devise or bequest
- exploring for and exploiting mineral or other natural resources
- considering applications from LALCs to purchase, sell, exchange, mortgage or otherwise dispose of land
- paying rating authorities in certain situations where rates are unpaid by LALCs
- compiling and maintaining a register of all land held by LALCs
- managing the affairs of a LALC, with the agreement of that LALC
- advising the Minister on matters relating to Aboriginal Land Rights
- preparing and implementing policies relating to its functions under the Act and the functions of LALCs
- exercising certain functions conferred or imposed by the *Commonwealth Native Title Act 1994*
- protecting and promoting Aboriginal culture and heritage
- preparing and implementing policies relating to the community, land and business plans required to be adopted by LALCs
- managing the investment of any assets of the Council
- granting funds for the payment of costs and expenses of LALCs
- providing community benefits under relevant schemes, and approving and supervising those of LALCs (including social housing schemes)
- making grants, lending money to, or investing money for or on behalf of Aboriginal persons
- providing, acquiring, constructing, upgrading, or extending residential accommodation for Aboriginal persons in the State
- increasing the total number of voting members of LALCs in the State by not less than three per cent per annum for the five year period commencing 1 July 2007.

For further information on the Council, refer to www.alc.org.au.

Minister for Ageing

Home Care Service of New South Wales

Home Care Service of New South Wales

AUDIT OPINION

The audits of Home Care Service of New South Wales (Home Care) and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

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

KEY ISSUES

Ageing of Staff

I recommend Home Care develop and implement effective policies to address and manage its ageing workforce.

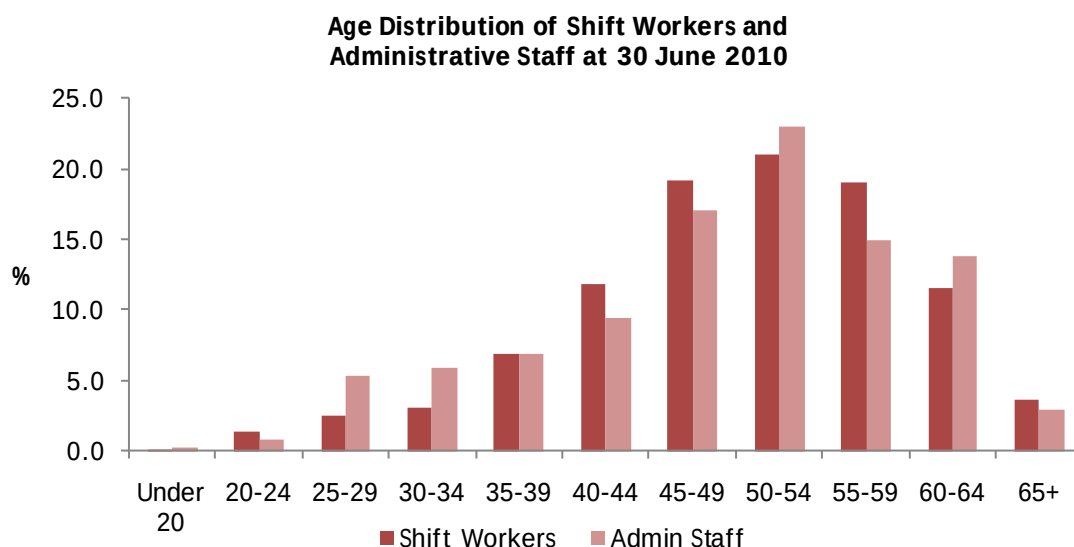
Home Care has 33.8 per cent of its employees over 55 years of age, and 55.1 per cent are over 50. Many are likely to retire over the next five to ten years, increasing the risk of loss of knowledge and skills unless an appropriate plan is developed to address the risk.

At 30 June Age Group	2010			
	No. of Shift Workers*	%	No. of Administration Staff*	%
Up to 39	339	13.9	94	19.0
40 - 44	290	11.9	47	9.5
45 - 49	467	19.1	84	17.0
50 - 54	513	21.0	113	22.9
55 - 59	465	19.0	74	15.0
60 - 64	282	11.5	68	13.8
65+	89	3.6	14	2.8
Total	2,445	100	494	100

Source: Home Care Service (unaudited)

* The number of shift workers and administration staff are Full Time Equivalent (FTE) numbers.

The age profile of Home Care's employees, split between administration staff and shift workers is shown below:



Source: Home Care Service (unaudited).

For shift workers, 34.1 per cent are over 55 years of age, and 55.2 per cent are over 50.

To ensure an adequate supply of staff in the future, it is essential for Home Care to monitor its workforce age profile and ensure strategies are in place to develop, attract and retain staff whose skills are aligned with the strategic direction of Home Care. Home Care advised it is addressing this issue.

Flex Time Balances

I recommend Home Care develop mechanisms to centrally review flex time records to ensure excessive flex time is not being accrued and forfeited by staff.

Home Care does not know the extent to which flex time is being accrued and forfeited by staff, as it does not keep central records of flex time. If not effectively managed, employees may be accruing and/or forfeiting large amounts of flex time. Records are manually maintained by each business unit.

Home Care advised that flex time is only available to admin staff, who represent 20.0 per cent of its workforce, and provisions exist for employees to meet with their supervisors if there is potential for flex time to be forfeited.

Repeat Management Letter Issues

I recommend Home Care address, as a priority, the matters I have reported for at least the past two years.

Purchase Order Details

Manual purchase orders raised in branch offices continue to lack sufficient appropriate details. This issue has been reported for the past five years. Management advised that branch offices are now using the Smartbuy online ordering system. Home Care management and its service provider continue to progress the implementation of the SAP purchase order system for subcontracting services, which represent the majority of purchase orders raised. Home Care reinforced this matter to Regional Management in August 2010.

Service Agreements with Clients

Home Care's policies and procedures require new client service agreements be prepared for clients whose service duration, service type, etc change. We found this process is not always being followed. In addition, some clients were billed at rates which differed to those specified in their service agreements. In one instance a client was billed a monthly fee of \$40 despite there being a cap of \$20 per month. Home Care advised that resources are being applied to improve controls in this area.

Review of Aged Debtors

Aged debtor reports are not always produced and reviewed at branch offices in a timely manner. This suggests some branches may not be actively following up outstanding debtors. Management advised that although it regularly communicates with regional and branch staff the requirement to comply, some exceptions continue to be experienced. Home Care again communicated this issue to regional management during September 2010.

Customer Master File Changes

Changes made to customer details in the Client Information System are not always supported by an authorised written request. In most instances notifications received are verbal and changes are not reviewed by a second officer to ensure accuracy and validity. Management advised that corrective actions have been delayed as system changes required to enable production of relevant audit reports were not completed until April 2010. We understand management has now issued instructions on the use of the audit report and recording of customer detail changes.

Historical Edits

Adjustments can be made in the Workforce Management and Client Information Systems to service hours already billed to clients. The adjustments are not, in most instances, approved by management prior to being made, nor are they reviewed by a second officer to ensure accuracy and validity. Home Care advised that an audit report which allows the review of changes has been developed and instructions communicated to staff for its use.

Review of Customer Master File

Customer master file data in SAP is not periodically reviewed by management for accuracy and ongoing pertinence. Management advised this is due to relevant reports not being in a usable format. Management is working with the service provider to resolve this issue.

Workforce Management System Disaster Recovery Plan

The Workforce Management (WFM) System is currently at tier one of a seven tier disaster recovery model. A tier one system has its system backups kept off site, but does not have a specific formal disaster recovery plan or dedicated recovery hardware. The length of time for recovery is currently more than a week. Management should reassess the disaster recovery requirements for WFM in conjunction with its service provider, to ensure it meets business needs and recovery timeframes in a disaster situation. We understand Home Care's service provider plans to bring WFM to an acceptable disaster recovery level by the end of December 2010.

PERFORMANCE INFORMATION

Home Care did not meet most of its performance targets in 2010, as detailed in the table below.

Year ended 30 June	Target	Actual				
	2010	2010	2009	2008	2007	2006
Total number of assessments*	16,600	12,987	15,703	20,760	17,693	17,906
Total hours of service provided ('000s)	3,950	3,853	4,048	3,903	3,872	3,626
Total number of clients serviced ('000s)	52	52	50	55	54	53
Average hours per client per annum	76	74	81	71	71	69
Direct average staffing (FTE)	3,000	2,939	3,038	2,972	2,937	2,862

Source: Home Care (unaudited)

* An assessment involves ascertaining a client's eligibility based on: program guidelines, the client's support needs, and developing a care plan.

In 2009-10, the total number of actual assessments undertaken by Home Care declined by 17.3 per cent; total hours of service provided to clients decreased by 4.8 per cent; and the average hours per client dropped by 7.0 hours when compared to the previous year.

Home Care advised that the decline in hours of service provided and average hours per client in 2009-10 when compared to 2008-09 was primarily due to an over-delivery of 113,000 service hours in 2008-09. This led to fewer service vacancies in early 2009-10, which in turn triggered fewer assessments.

High Needs Pool

The High Needs Pool sets aside funds for clients requiring more than 15 hours per week of personal care. The guidelines for the pool include a cap on services of 140 hours per four-week period, and intake being determined by priority rather than in chronological order. The table below summarises High Needs information for the past five years.

Year ended 30 June	Actual				
	2010	2009	2008	2007	2006
Funds set aside for High Needs Pool (\$'000)	23,187	22,643	21,920	21,200	20,500
Number of clients waiting for High Needs services	362	273	517	409	470
Number of new clients approved	174	36	121	105	90
Number of clients receiving more than 60 hours of personal care and assistance per four-week period	482	390	475	472	428

Source: Home Care (unaudited).

In 2009-10, both the number of clients waiting for, and those approved for High Needs services, increased by 32.6 per cent and 383.3 per cent respectively when compared to 2008-09. Home Care advised that the significant increase in clients waiting for High Needs services reflects the number of clients who have applied, been assessed as eligible and then registered for assistance. The increase in the number of clients approved for service is due to the direct replacement of clients who have exited the High Needs Pool program to more appropriate programs.

OTHER INFORMATION

Human Resources

Home Care does not have any employees. It receives personnel services from its controlled entity, the Home Care Service Division (the Division). Management of the Division's staff, however, is the responsibility of Home Care. This year we reviewed the following areas relating to human resources:

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of flex balances
- extent of use of contract staff
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies
- extent of overtime.

Issues identified from our review will be reported in a management letter to Home Care. A summary of the results of the employee age profile and flex balances review were reported earlier under the 'Key Issues' section. A summary of the results of our review of contract staff, long service leave liabilities, annual leave balances and overtime follows.

Employment of Contract Employees

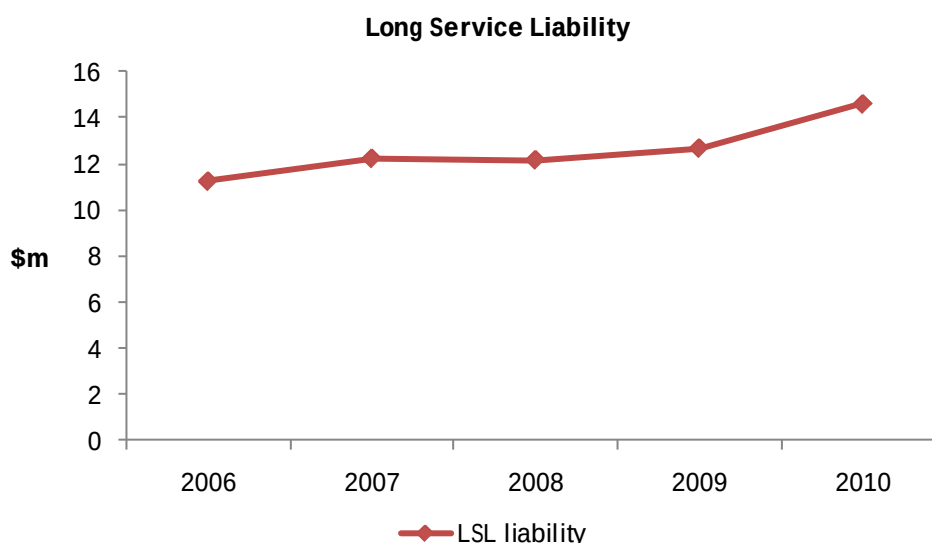
Home Care did not maintain a register of hired contractors and was unable to provide the number of contractors it employed at 30 June 2010, or the duration of their employment contracts.

Home Care advised that:

- there is a practical issue with maintaining a central register of contract employees, because most contracted services are frontline and delivered through a range of contracted agencies
- the appropriateness of the use of contractors is monitored through expenditure on contractors by business area, and that data is centrally available
- in 2009-10, expenditure on contracted employees was less than 1.0 per cent of total employee related costs
- for the provision of in-home care services, contracts are with organisations registered on an approved panel of agencies and not with individual contracted employees
- non-frontline staff are subject to a recruitment freeze on permanent appointments. The recruitment of contractors in these roles, or the extension of their contracts, requires a business case approved by the Chief Executive.†

Long Service Leave Liability

Home Care's liability for long service leave (LSL) entitlements at 30 June 2010 amounted to \$14.6 million (\$12.7 million). This liability has increased by 30.1 per cent since 2006.



Source: Home Care Service financial statements (audited)

In 2010, LSL liabilities were recognised for all staff, as opposed to only those staff with five or more years of service. This explains the increase in the LSL liability in 2010 when compared to 2009.

Home Care will need to ensure it has an adequate plan to fund these liabilities, which generally increase over time with increases in employee remuneration levels. This will be compounded as other liabilities increase with the retirement of a significant portion of the ageing workforce.

Excessive Annual Leave Balances

At 30 June 2010, 81 staff (127 staff) or 2.1 per cent (3.2 per cent) of all staff had an annual leave balance in excess of 40 days. The highest annual leave balance was 95 days (116 days), with the next highest being 74 days (75 days).

Home Care advised it has active procedures in place for managing annual leave including:

- monthly monitoring and reporting to the Executive
- periodically contacting staff with annual leave balances over 30 days and asking them to make arrangements to take leave. Staff with more than 40 days are asked to put leave plans in place to reduce their leave balances
- the human resources system has recently been modified so that automated reminders are sent to staff asking them to review and reduce their annual leave balances. The system also automatically advises the employees' line manager of the need to develop leave plans for staff with more than 40 days accrued leave.

Overtime

Overtime payments in 2009-10 amounted to \$578,000 (\$801,000) which was less than 1.0 per cent (less than 1.0 per cent) of base salary expenses for the year.

Vacant Permanent Staff FTE Positions

Year Ended	Shift Workers		Administration Staff	
	2010	2009	2010	2009
Average number of vacant FTE positions	329	449	61	81
Average number of available FTE positions	2,359	2,359	598	628

Source: Home Care (unaudited).

Improvements have been made in filling vacant positions in 2009-10. For shift workers, 13.9 per cent (19.0 per cent) of available FTE positions were vacant, and for administrative staff, 10.2 per cent (12.9 per cent) were vacant.

FINANCIAL INFORMATION**Abridged Statements of Comprehensive Income**

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Government grants and contributions	185,124	179,877	185,124	179,877
Other revenue	48,113	40,501	33,299	34,271
OPERATING REVENUE	233,237	220,378	218,423	214,148
Employee related	158,675	158,573	--	--
Personnel services	--	--	147,223	158,939
Other expenses	54,972	59,980	54,972	59,980
OPERATING EXPENSES	213,647	218,553	202,195	218,919
Other gains/ (losses)	704	(566)	818	(566)
SURPLUS/(DEFICIT)	20,294	1,259	17,046	(5,337)
OTHER COMPREHENSIVE INCOME				
Superannuation actuarial losses	(3,248)	(6,596)	--	--
Other income	--	161	--	161
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	(3,248)	(6,435)	--	161
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	17,046	(5,176)	17,046	(5,176)

The rise in other revenue was mainly due to a workers' compensation hindsight premium adjustment refund of \$14.8 million (excluding GST). In 2008-09, the refund was \$6.2 million.

Home Care reported a \$3.2 million loss in the defined benefit superannuation scheme during the year, based on an actuarial assessment (\$6.6 million loss).

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	60,868	42,537	60,470	41,938
Non-current assets	22,061	20,788	22,061	20,788
TOTAL ASSETS	82,929	63,325	82,531	62,726
Current liabilities	34,261	34,785	33,863	34,186
Non-current liabilities	11,942	8,860	11,942	8,860
TOTAL LIABILITIES	46,203	43,645	45,805	43,046
NET ASSETS	36,726	19,680	36,726	19,680

Total assets increased primarily due to:

- the workers' compensation hindsight premium adjustment refund, as mentioned above, being recognised as a receivable by Home Care at 30 June 2010.
- the global financial crisis' \$875,000 negative impact on the value of Home Care's investments in 2008-09. This year, Home Care's investments increased in value by \$1.4 million as economic conditions improved.

The superannuation liability for defined benefit plans increased from \$7.2 million in 2008-09 to \$9.4 million in 2009-10.

HOME CARE ACTIVITIES

The *Home Care Service Act 1988* established Home Care as a Statutory Authority. Home Care provides housekeeping, personal care and a range of ancillary services for individuals and families within their own homes. Its operations are conducted through state wide branches and service outlets.

For further information on Home Care, refer to www.humanservices.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
Home Care Service Division *

* This entity does not have a website.

Minister for Commerce

Australian Centre for Advanced Computing and Communications Pty Limited

Department of Services, Technology and Administration

State Records Authority of New South Wales

Teacher Housing Authority of New South Wales

Minister for Commerce and Minister for Fair Trading

Building Insurers' Guarantee Corporation

Rental Bond Board

Refer to Appendix 1 for:

Fair Trading Administration Corporation

Motor Vehicle Repair Industry Authority

NSW Architects Registration Board

Australian Centre for Advanced Computing and Communications Pty Limited

AUDIT OPINION

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

KEY ISSUES

Accumulated losses

Last year, I recommended the Board continue to closely monitor future budgets and cash flow projections to ensure the Company's viability is maintained. Monitoring has continued.

The Company's financial performance has improved significantly over the past four years with a profit after income tax expense of \$146,000 for 2009-10. Prior to 2006-07, the Company had recorded losses each year since its incorporation.

At 30 June 2010, accumulated losses were \$12.4 million, remaining capital was \$2.5 million and the Company showed positive working capital. The Company has budgeted for a profit of \$445,000 in 2010-11.

Approval for finance lease credit facility

Last year, I recommended the Company obtain the necessary approval under the *Public Authorities (Financial Arrangements) Act 1987* (PAFA Act) for its finance lease credit facility. The Company obtained this approval during the year. Under the PAFA Act, New South Wales Government agencies require approval to borrow funds.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
TOTAL REVENUE	11,408	9,107
Employee benefits	4,626	3,915
Depreciation	1,320	970
Other	5,370	4,159
TOTAL EXPENSES	11,316	9,044
PROFIT BEFORE TAX	92	63
Income tax benefit	54	50
PROFIT	146	113
TOTAL COMPREHENSIVE INCOME	146	113

The Company is subject to income tax, but has never paid income tax due to losses incurred in previous years.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	3,911	3,419
Non-current assets	4,976	3,271
TOTAL ASSETS	8,887	6,690
Current liabilities	3,288	2,342
Non-current liabilities	3,120	2,015
TOTAL LIABILITIES	6,408	4,357
Issued capital	14,920	14,920
Accumulated losses	12,441	12,587
NET ASSETS	2,479	2,333

Notwithstanding the accumulated losses, the Company has positive working capital at 30 June 2010.

The Company has \$11.7 million of income tax losses. These are not reflected within the financial position figures above.

COMPANY ACTIVITIES

The Company provides professional management of computers for other organisations, including New South Wales Government agencies, universities and private sector companies. The Company aims to make a profit.

The Company was registered in 2000 as a proprietary company limited by shares under the *Corporations Act 2001*. The Government and eight New South Wales universities financed the establishment of the Company. The Government provided \$12.0 million giving it a 57 per cent shareholding. The universities hold the remaining shares and provided cash and in kind contributions. The New South Wales Government Telecommunications Authority holds the Government's investment.

For further information on the Company refer to www.ac3.com.au.

Building Insurers' Guarantee Corporation

AUDIT OPINION

The audit of the Corporation's financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report. However, the Independent Auditor's Report drew attention to significant uncertainty in the valuation of the Corporation's outstanding claims liability.

The Corporation administers one of the Government's rescue packages created in response to the collapse of the HIH Insurance Group (HIH). The Corporation recognises a liability in respect of home warranty insurance claims on policies issued by HIH. The Treasury provides funding to the Corporation for all approved claim payments.

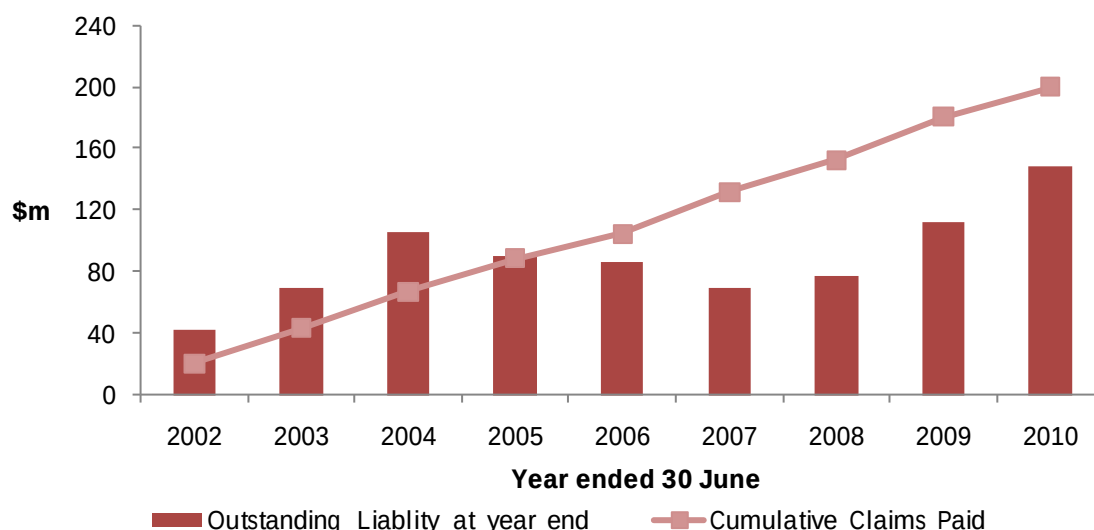
The liability is expected to reduce over time as claims are settled. However, the estimated liability has increased significantly in 2010 due to variability of claims costs during the period. This indicates a significant uncertainty exists with the estimation of the liability at 30 June 2010.

KEY ISSUE

I recommend the Corporation continue to closely monitor the claims liability.

The Corporation has paid a total of \$200 million for claims made against HIH insurance policies up to 30 June 2010. Offsetting this, the Authority has received a total of \$91.1 million in recoveries from the HIH liquidators and reinsurers.

On top of the \$200 million paid to date, a further \$167 million in claims payments are expected.



After initial growth in the estimate of claims, the claims liability was expected to decrease as claims were settled. However, the estimated claims liability has significantly increased in 2009 and 2010.

The increase in the liability is mainly due to a significant deterioration in claim estimates. Payments made in recent years for open and settled claims were significantly higher than expected. The expected cost of the claims remaining has increased based on this experience.

In 2009, I recommended that the Corporation closely monitor the claims liability and take any practicable steps to obtain better data on claims to help improve the accuracy of claims liability estimates. Since then, the Corporation has made changes to its estimation processes and implemented regular monitoring practices.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Government contributions	22,400	33,900
Other	375	126
TOTAL REVENUE	22,775	34,026
Net insurance claims and provisions	54,255	62,755
Administrative services	3,007	3,418
Other operating expenses	2,152	3,966
TOTAL EXPENSES	59,414	70,139
DEFICIT	36,639	36,113
TOTAL COMPREHENSIVE INCOME	36,639	36,113

Government contributions are payments from The Treasury to meet claims on the home insurance policies of insolvent insurers and other costs of the Corporation. The amount of contribution received each year is largely dependent upon the amount of claims paid during the period.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
TOTAL ASSETS	1,372	1,791
TOTAL LIABILITIES	148,031	111,811
NET LIABILITIES	146,659	110,020

The estimated outstanding claims liability increased to \$148 million (\$112 million). This creates a net liability position of \$147 million (\$110 million) at 30 June 2010. The Corporation relies on payments from The Treasury from the Building Insurer's Guarantee Fund to meet claims costs and administration expenses.

CORPORATION ACTIVITIES

The Corporation's principal role is to administer the Building Insurers' Guarantee Fund. The Fund is established under the *Home Building Act 1989* as a consequence of the collapse of the HIH Insurance Group in March 2001. This collapse created a range of serious home warranty insurance difficulties for consumers, builders and developers in New South Wales. The Fund provides indemnity for homeowners to the same extent that would have applied under home warranty policies issued by the HIH Insurance Group.

The Corporation is managed and controlled by the Minister for Commerce jointly with the Minister for Fair Trading.

Department of Services, Technology and Administration

AUDIT OPINION

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

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

PERFORMANCE INFORMATION

People First - New South Wales Government ICT Strategic Plan

People First - New South Wales Government ICT Strategic Plan was released in July 2006 and covered the period to June 2010. It set priorities for government spending on ICT resources.

A key outcome of People First is anticipated savings and benefits of \$565 million over four years to July 2010. I previously reported that an independent review commissioned by the Department confirmed savings and economic benefits of \$176 million up to 30 June 2008 could be validated and that \$565 million was achievable by July 2010. The Department advises that a further independent review of the final outcome is in progress.

A process to develop a new Government ICT strategy is underway.

Electronic Information Security

In 2010, I conducted a performance audit that examined the extent to which the Government can provide credible assurance that it is safeguarding its holdings of sensitive personal information. In October 2010, I concluded that Government could not provide this assurance. My findings included that the GCIO does not have current and reliable information on how well individual agencies are safeguarding private information.

The Government's current policy on electronic information security is within 'Ministerial Memorandum 2007-04 Security of Electronic Information'. This policy, among other things, requires that agencies report their security status at least annually to the Government Chief Information Office (GCIO).

Whilst the recommendations coming out of my performance audit were to the Department of Premier and Cabinet, implementing these recommendations may impact the GCIO. The report is available on our website www.audit.nsw.gov.au.

The GCIO has a leadership role in developing and driving information and communications technology whole-of-government initiatives.

Government Licensing Project

In 2009, I conducted a performance audit on the Government Licensing Project and found that it was running late and over budget and was expected to produce less savings than originally planned. My report included recommendations to the Department and these are supported by management.

The Government Licensing Project is an information technology project that crosses over a number of New South Wales licensing agencies. The outcome of the Project is a Government Licensing System (GLS) intended to standardise and simplify the licensing processes of all licensing agencies except for the Roads and Traffic Authority. The project started in 2001 and was expected to be running in all relevant agencies by 2005.

The number of licences administered by the GLS in recent years appears in the table below.

Year ended	Target	Actual			
	2010	2010	2009*	2008*	2007*
Government licences administered through the GLS ('000s)	2,400	2,100	1,600	1,160	940

Source: Department of Services, Technology and Administration (unaudited).

* Responsibility of the former Department of Commerce

In July 2010, further licence records were transferred to the GLS. The Department advises the GLS currently administers 3.4 million records across 80 licence types. The Department expects full implementation by 2014.

The performance audit report is available on our website www.audit.nsw.gov.au.

Government Services

The Government Services Division was created in December 2009 and brought together previously discrete business units that focused on providing whole-of-government services. The division comprises NSW Procurement, ServiceFirst and StateFleet.

NSW Procurement

The State Contracts Control Board (SCCB) is responsible for arranging the supply of goods and services to New South Wales Government agencies. The Board was restructured during the year and now comprises a Chair independent of the Department and five members, all appointed by the Minister for Commerce. NSW Procurement supports the Board.

State contracts are standing offers by suppliers, which apply for a specific time. Premier's Memorandum 2006-11 'Procurement Reforms' requires all agencies, except State Owned Corporations, to use SCCB contracts. Expenditure through SCCB contracts in recent years, and estimated cost savings from their use, appears in the table below.

Year ended	Target	Actual				
	2010	2010	2009*	2008*	2007*	2006*
SCCB contracts (\$m)	3,900	3,675	3,578	3,640	3,600	3,410
Aggregated procurement cost savings from whole-of-government contracts (not including duplication avoidance savings) (\$m)	335	322.5	360	330	**	**

Source: Department of Services, Technology and Administration (unaudited).

* Responsibility of the former Department of Commerce

** No comparative available due to changes in savings assessment

Premier's Memorandum 2006-11 'Procurement Reforms' required all major agencies to participate in the electronic marketplace by June 2007. At 30 June 2010, eight of the fourteen major agencies had implemented smartbuy® (seven at 30 June 2009). smartbuy® is an electronic procurement system for government agencies. Some of the performance indicators used by the Department to evaluate smartbuy® are included in the following table.

Year ended 30 June	Target	Actual				
	2010	2010	2009*	2008*	2007*	2006*
Value of purchase orders (\$m)	600	2,011	455	359	224	109
Number of purchase orders ('000s)	134	404	109	67	44	23

Source: Department of Services, Technology and Administration (unaudited).

* Responsibility of the former Department of Commerce

The significant increase in utilisation of smartbuy® in 2010 occurred due to its adoption by NSW Health and the Department of Education for Building the Education Revolution purposes.

eTendering is an electronic tendering system for government agencies. One of the performance indicators used by the Department to evaluate eTendering is in the following table.

Year ended 30 June	Target	Actual			
	2010	2010	2009*	2008*	2007*
Number of Government tenders published on the eTendering system	3,000	2,216	3,083	3,281	1,841

Source: Department of Services, Technology and Administration (unaudited).

* Responsibility of the former Department of Commerce

From 1 April 2009, the threshold over which agencies must seek tenders increased from \$150,000 to \$250,000 contributing to a reduction in the number of tenders in recent years. However, suppliers have increased their use of eTendering in 2009-10, with the Department reporting 71 per cent (46 per cent) of tender responses were lodged electronically.

All 46 agencies required to adopt eTendering by June 2007, under Premier's Memorandum 2006-11, have implemented the eTendering website (six agencies were outstanding in 2008-09).

I have previously recommended the Department of the Premier and Cabinet implement a review mechanism to ensure agencies comply with the Government's procurement reforms within Premier's Memorandum 2006-11. I support the restructure of the SCCB and its 2010-13 business plan, which includes a review of compliance mechanisms. I am currently reviewing compliance with the aspects of Premier's Memorandum at a selection of agencies and will report the results of that review later in 2010.

NSW FAIR TRADING

NSW Fair Trading promotes a fair marketplace for consumers and traders. Some of the performance indicators used by the Department to evaluate the division are included in the following table.

Year ended 30 June	Target	Actual				
	2010	2010	2009*	2008*	2007*	2006*
Fair marketplace						
Customers satisfied with service (%)	90	91	85	85	90	90
Successful prosecutions (%)	90	90	96	92	95	86

Source: Department of Services, Technology and Administration (unaudited).

* Responsibility of the former Department of Commerce

The Department advises it has around seven million instances of contact with the public annually including 1.19 million telephone enquiries through its information centre.

NSW Industrial Relations

NSW Industrial Relations communicates and enforces workplace regulation to ensure the rights of workers and employers are protected and obligations met. Some of the performance indicators used by the Department to evaluate the division are included in the following table.

Year ended 30 June	Target	Actual				
	2010	2010	2009*	2008*	2007*	2006*
Fair and productive workplaces						
Enquiries and complaints satisfactorily resolved within targeted time frames (%)	85	89	87	89	92	90
Non-compliant employers who complied or were prosecuted within six months of notification (%)	85	91	88	87	87	87

Source: Department of Services, Technology and Administration (unaudited).

* Responsibility of the former Department of Commerce

The Department advises it received in excess of 96,000 telephone enquiries and in excess of 4,000 email enquiries during the year, and that its website had 2.83 million visits. This level of activity is down from 2009. From 1 January 2010, many New South Wales employers and employees moved into the national workplace relations system administered by the federal government and this has impacted on the role of NSW Industrial Relations.

NSW Public Works

NSW Public Works helps other New South Wales Government agencies and local government plan, design, deliver and maintain building and infrastructure projects. NSW Public Works provides professional engineering, architectural and project management services.

The Department advises that it manages around \$1.0 billion of capital works and asset maintenance projects each year. Some of the performance indicators used by the Department to evaluate the division include:

Year ended 30 June	Target	Actual				
	2010	2010	2009*	2008*	2007*	2006*
Projects managed - completed on time (%)	85	92	93	92	89	93
Projects managed - completed within budget (%)	85	92	87	90	92	95
Satisfaction with asset solutions developed for clients (%)	80	83	85	89	88	83

Source: Department of Services, Technology and Administration (unaudited).

* Responsibility of the former Department of Commerce.

During the year, the Department provided services to the Department of Education and Training that were funded under the Building the Education Revolution program. These services were provided on a cost recovery basis.

Strategic Communications and Government Advertising

This division is responsible for the co-ordination and management of Government's advertising activity. The Department estimates savings to Government from the use of central placement contracts at \$65.5 million in 2009-10 (\$44.0 million).

OTHER INFORMATION

Shared Corporate Services

The Department provides corporate services to other government agencies via ServiceFirst. ServiceFirst was formed within the Department of Commerce in 2008 bringing together three separate shared service providers.

Our audit engagements to report on internal controls operating within ServiceFirst during the 2010 financial year resulted in unqualified independent auditors' reports.

Human Resources

This year I reviewed the following areas relating to the Department's human resources:

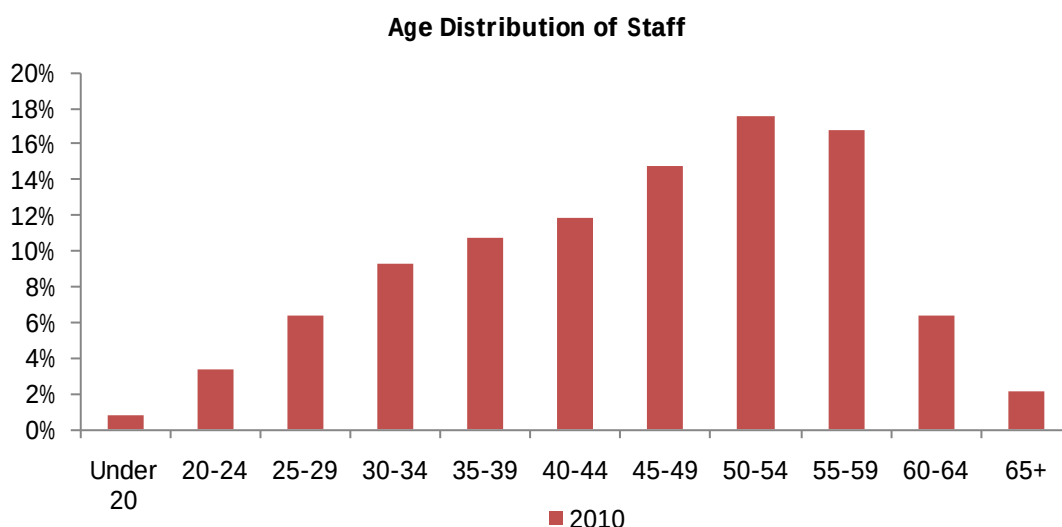
- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- extent of overtime
- management of annual leave balances in excess of threshold policies
- extent of contract staff.

Employee Age Profile

Twenty five per cent of the Department's employees are over 55 years of age and 43 per cent are over 50. This represents a large number of employees who are likely to retire over the next five to ten years. This potential loss of knowledge and skills is a risk for the Department.

To ensure an adequate supply of staff in the future and address the associated risks, the Department needs to monitor its workforce age profile and ensure strategies are in place to attract, develop and retain staff. The Department advises that it is developing a mature workforce strategy including better monitoring of employment policies for employees older than 50 years and more flexible approaches to training, working and retiring.

The age profile of the Department's employees is shown below:



Source: Information provided by Department of Services, Technology and Administration (unaudited)

Overtime

Overtime payments of \$2.9 million during the year represent less than one per cent of total employee related expenditure. Overtime was paid to approximately 25 per cent of all staff and most of these staff did not work significant quantities of overtime. However, there are isolated incidences of apparent excessive overtime that the Department needs to monitor:

- 19 employees worked more than 300 hours overtime and two of these worked more than 500 hours
- 24 employees earned in excess of \$20,000 in overtime payments, which represented between 19.2 per cent and 58.5 per cent of their base earnings.

Overtime expenditure is monitored monthly using the Department's dashboard reporting processes.

Annual Leave Balances

The Department has made significant progress in reducing excessive annual leave balances. At 30 June 2007, over 600 staff within the former Department of Commerce had in excess of 40 days annual leave accrued. At 30 June 2010, the Department of Services, Technology and Administration had 137 employees with in excess of 40 days accrued, which represents approximately four per cent of total employees.

The Department has set a target for all employees to have no more than 30 days annual leave accrued by 30 June 2011. Annual leave balances are monitored monthly using the Department's dashboard reporting processes.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

Contract Staff

The Department uses contract, temporary and casual staff to meet resourcing requirements. In 2010, the Department spent \$20.9 million on 388 contractors, which represents approximately six per cent of total staff costs.

The Department's approved full time positions exceed 3,500. The Department monitors the percentage of positions not filled by permanent employees on monthly basis using its dashboard reporting processes. The Department advises that all contractor appointments and extensions are approved by the Director-General. There are limited incidences of long term use of contractors. The Department needs to monitor total contract terms and costs.

Independent Commission Against Corruption Investigation

The Independent Commission Against Corruption (ICAC) is currently investigating allegations of corrupt conduct within Sydney Water Corporation's Plumbing Inspection and Assurance Service (PIAS). The PIAS is transferring to NSW Fair Trading and the Department is monitoring the ICAC investigation.

FINANCIAL INFORMATION**Abridged Statement of Comprehensive Income**

Year ended 30 June	Consolidated	Department
	2010 \$'000	2010 \$'000
Employee related expenses	350,155	345,529
Depreciation and amortisation	190,335	189,015
Other operating expenses	179,593	174,449
Book value of motor vehicles sold	127,805	127,805
Finance costs	37,481	37,255
Government Radio Network expenses	23,124	23,124
OPERATING EXPENSES	908,493	897,177
Motor vehicle leasing	215,584	215,584
Project and asset management services	208,414	208,414
Other services	170,330	158,976
Proceeds from sales of motor vehicles	155,553	155,553
Retained taxes, fees and fines	44,979	44,979
Investment and other revenue	26,707	26,653
OPERATING REVENUES	821,567	810,159
Other losses	3,528	3,528
NET COST OF SERVICES	90,454	90,546
Government contributions	85,491	85,491
DEFICIT BEFORE TAX	4,963	5,055
Deferred tax benefit	54	--
DEFICIT FOR THE YEAR	4,909	5,055
Outside equity interest	63	--
OTHER COMPREHENSIVE INCOME		
Superannuation actuarial losses	49,136	49,136
TOTAL COMPREHENSIVE EXPENSE	54,108	54,191

Abridged Statement of Financial Position

At 30 June	Consolidated	Department
	2010 \$'000	2010 \$'000
Current assets	745,941	792,030
Non-current assets	713,413	708,437
TOTAL ASSETS	1,509,354	1,500,467
Current liabilities	689,148	317,818
Non-current liabilities	448,989	445,869
TOTAL LIABILITIES	1,138,137	1,131,729
NET ASSETS	371,217	368,738

Cash held by the Department at 30 June 2010 includes \$44.9 million (\$57.8 million) held in the Motor Vehicle Reserve account. This account is maintained to quarantine and manage risk arising from the Government's motor vehicle fleet operations (StateFleet). In December 2009, the balance had increased to over \$75.0 million and the Treasurer approved withdrawal of \$56.3 million by the Department in lieu of funding appropriations. At the end of September 2010, the balance of the account was \$50.8 million.

The Department has borrowings of \$541 million from New South Wales Treasury Corporation to fund StateFleet operations. These borrowings comprise current and non-current portions. The total available facility is \$650 million. StateFleet motor vehicles are included in non-current assets.

Provisions comprise mainly employee entitlements. Other liabilities include an amount owing to the Consolidated Fund of \$21.0 million with the balance being mainly unfunded superannuation obligations.

ABRIDGED SERVICE GROUP INFORMATION

The Department's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services		Net Assets
	2010 Budget \$'000	2010 Actual \$'000	2010 Actual \$'000
Fair Trading	54,880	68,660	147,820
Industrial Relations	22,415	22,082	(186)
Procurement	(32,905)	(49,922)	65,240
Public Works and Services	22	(15,067)	90,374
Communications and Advertising	6,490	4,697	(1,889)
Government Chief Information Office	47,022	49,142	60,588
Corporate Services	33,212	10,954	(2,810)
Not attributable	--	--	9,601
Total all service groups	131,136	90,546	368,738

The Department advises that the favourable variance from budgeted net cost of services was mainly attributable to better than expected profits from disposal of StateFleet motor vehicles at the end of lease terms and variances in superannuation.

DEPARTMENT'S ACTIVITIES

The Department was formed effective 1 July 2009 via the 'Public Sector Employment and Management (Departmental Amalgamations) Order 2009'. This Order abolished the Department of Commerce and transferred all branches of the Department of Commerce to the Department of Services, Technology and Administration. In addition, the restructure included transfer of:

- staff of the Teacher Housing Authority and Internal Audit Bureau to the Department
- staff of NSWBusinesslink Pty Limited from the former Department of Commerce to the Department of Human Services
- the Retail Tenancy Unit to the Department from the former Department of State and Regional Development.

The Department's main role is to provide services to New South Wales Government agencies. These services are provided via the following divisions:

- Government Chief Information Office
- Government Services (comprising NSW Procurement, ServiceFirst, and StateFleet)
- NSW Fair Trading
- NSW Industrial Relations
- NSW Public Works
- Strategic Communications and Government Advertising.

The Department has five major goals:

- maximise value for government agencies in delivering services to clients, customers and the community
- simplify processes for dealing with government
- promote a fair marketplace for consumers and traders
- promote fair and productive workplaces
- contribute to a credible, efficient and effective organisation.

For further information on the Department, refer to www.services.nsw.gov.au.

CONTROLLED ENTITIES

The Department of Services, Technology and Administration has two controlled entities.

The New South Wales Government Telecommunications Authority is a dormant entity that is controlled by the Department for accounting purposes. In October 2010, Government decided to transfer the Government Radio Network to the Authority. Details of the transfer and implications for the Authority are expected to be finalised during the 2011 financial year. The purpose of the Network is to provide a state wide whole-of-government radio network. The Network supports over 40 government agencies including emergency services.

Comment on Australian Centre for Advanced Computing and Communications Pty Limited appears elsewhere in this Volume.

Rental Bond Board

AUDIT OPINION

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

KEY ISSUES

Trust Funds

I recommend the Board continue pursuing appropriate changes to legislation to clarify responsibilities and enable resolution if a shortfall in the Trust Fund eventuates.

The Board holds residential bonds in trust. It invests these funds and at 30 June 2010, the market value of the investments exceeded the value of residential bonds held in trust by \$15.9 million.

At 30 June	2010 \$'000	2009 \$'000	2008 \$'000
Amounts owing to bond depositors	845,779	800,214	744,419
Market value of rental bond investments	861,668	799,763	714,184
Excess/(shortfall)	15,889	(451)	(30,235)

The *Landlord and Tenant (Rental Bonds) Act 1977* does not explicitly address the circumstances of a shortfall as occurred in 2008. Legal opinion indicates the Board would be liable for any shortfall. However, current legislation does not allow payments from the Board's funds to make good shortfalls. The Board is seeking amendment of the *Landlord and Tenant (Rental Bonds) Act 1977* to allow the Board to make payments to fund any shortfall.

The Board is closely monitoring the difference between amounts owed to bond depositors and the value of trust fund investments.

PERFORMANCE INFORMATION

Rental Bonds

The Board holds 648,000 bonds at 30 June 2010 (644,000 at 30 June 2009). The increase of 0.7 per cent is the lowest recorded in the last decade and significantly lower than the ten year average of 2.4 per cent. At 30 June 2014, the Board expects to hold approximately 660,000 bonds with a value in excess of \$1 billion.

During 2010, the Board processed a total of 518,000 (520,000) rental bond lodgements and disbursements.

OTHER INFORMATION

Major Projects

The Department of Services, Technology and Administration provides support services to the Board on a cost recovery basis. The Department's project to upgrade the computer systems supporting rental bond operations is expected to be operational in November 2010. The project's cost is approximately \$5.0 million.

FINANCIAL INFORMATION

Summary financial information

Year ended 30 June	2010 \$'000	2009 \$'000
TOTAL REVENUE	51,258	49,202
Administrative services	22,464	24,281
Tenancy function of Consumer, Trader and Tenancy Tribunal	11,919	10,756
Grants	8,626	6,283
Tenancy services	195	386
Interest on rental bonds	109	104
Other operating expenses	800	798
OPERATING EXPENSES	44,113	42,608
SURPLUS	7,145	6,594
NET ASSETS	40,130	32,985

The Board receives income from the investment of rental bonds lodged by tenants. Revenue is mainly influenced by the level of investment returns.

Actuarial reviews indicate that the Board needs a net asset position of \$40.0 to \$50.0 million to give confidence that the Board's solvency is maintained. The Board regularly monitors its overall financial position to ensure sufficient funds are available to meet expenses.

The rate of interest payable on rental bonds is prescribed in clause 10 of the Landlord and Tenant (Rental Bonds) Regulation 2003 and is equivalent to the rate payable by the Commonwealth Bank of Australia on a Streamline Account Balance of \$1,000.

BOARD ACTIVITIES

The Board is constituted by the *Landlord and Tenant (Rental Bonds) Act 1977*. The Board is an independent and impartial guardian of rental bonds on private residential tenancies in New South Wales. The Board also provides access to tenancy information to help uphold the rights and responsibilities of tenants and landlords.

The Board is controlled by the Minister for Commerce jointly with the Minister for Fair Trading.

For further information on the Board, refer to the Office of Fair Trading's website www.fairtrading.nsw.gov.au.

State Records Authority of New South Wales

AUDIT OPINION

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

KEY ISSUES

Digital Archiving

I recommend the Authority address the breach of its enabling legislation by establishing a government digital archiving solution.

Ministerial Memorandum 2009-11 'Standard on Digital Recordkeeping' acknowledged the increasing reliance upon digital records by New South Wales public sector agencies. The Memorandum also noted the benefits of a standardised approach to digital record keeping.

The Authority's 'Future Proof' strategy aims to help government agencies manage digital records. A key aspect of the strategy is to implement a digital archiving facility for New South Wales government. Currently, the Authority declines digital records that an agency wishes to transfer for archiving because it does not have the infrastructure to access the information in the record.

The Crown Solicitor has advised that if the Authority holds public records that are not accessible, the Authority is in breach of its enabling legislation. Notwithstanding its current policy of declining records, the Authority holds some inaccessible records and is in breach.

PERFORMANCE INFORMATION

The Authority provided the following information regarding its performance:

Year ended 30 June	Target	Actual			
	2010	2010	2009	2008	2007
Records in storage (metres)	425,000	434,232	413,320	395,477	373,737
Number of file retrieval operations	320,000	316,037	327,122	313,920	321,216
Number of catalogued record items discoverable online	300,000	306,393	269,832	239,876	205,460
Number of website visits	1,100,000	1,594,946	1,598,503	1,553,894	976,382

Source: State Records Authority of New South Wales (unaudited).

OTHER INFORMATION

Storage capacity

The Authority will run out of storage space in 2010-11. The Board has endorsed expansion of the Authority's record centre. Construction is not expected to commence until the 2012 financial year.

Until the new building is constructed, the Authority will expand its storage capacity through leasing additional off-site storage as required. While the Authority can lease off-site warehousing cheaply, the Authority reports that these sites are of a lower standard and less efficient to service than purpose built facilities.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Sale of goods and services	11,923	11,591
Grants and contributions	5,934	6,068
Other	97	111
TOTAL REVENUE	17,954	17,770
Personnel services	10,772	10,673
Other	5,988	6,138
TOTAL EXPENSES	16,760	16,811
SURPLUS	1,194	959
TOTAL COMPREHENSIVE INCOME	1,194	959

Personnel services to the Authority are provided by the Department of Services, Technology and Administration.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	7,342	6,107
Non-current assets	53,907	55,546
TOTAL ASSETS	61,249	61,653
Current liabilities	4,987	2,751
Non-current liabilities	1,978	5,812
TOTAL LIABILITIES	6,965	8,563
NET ASSETS	54,284	53,090

Non-current assets comprise mainly the Authority's records centre in Western Sydney.

State Archives

Whilst the Authority is the custodian of State archival collections, these collections are not included in net assets. Due to the unique and irreplaceable nature of the collections and no legal market for them, the Authority cannot reliably measure these items for inclusion in its assets.

Records are considered worthy of being retained permanently as State archives because of their administrative or legal value, or their value for historical or other research. They include records created by current and past New South Wales government agencies relating to subjects such as convicts, shipping, land settlement, Aboriginal people, public works, court cases and hotel licences.

The Authority reports that the quantity of State archives is currently around 67.2 linear kilometres (65.9 in 2008-09).

AUTHORITY ACTIVITIES

The Authority is established under the *State Records Act 1998*. It is responsible for managing the New South Wales State archives collection, setting the rules and providing guidance on the management of official records. The Authority also provides records storage services to the New South Wales public sector and other public sector entities, such as universities and local government.

The Authority is subject to the control and direction of the Minister for Commerce.

For further information on the Authority, refer to www.records.nsw.gov.au.

Teacher Housing Authority of New South Wales

AUDIT OPINION

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

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Rental income	9,782	9,602
State Government contribution	5,370	5,265
Other	541	422
TOTAL REVENUE	15,693	15,289
Depreciation	2,939	2,793
Personnel expenses	2,204	2,345
Property expenses	8,693	8,549
Other	2,624	1,989
TOTAL EXPENSES	16,460	15,676
DEFICIT	767	387
OTHER COMPREHENSIVE INCOME		
Gain on revaluation of property, plant and equipment	1,666	3,701
TOTAL OTHER COMPREHENSIVE INCOME	1,666	3,701
TOTAL COMPREHENSIVE INCOME	899	3,314

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	7,330	7,464
Non-current assets	146,082	145,258
TOTAL ASSETS	153,412	152,722
Current liabilities	4,026	4,449
Non-current liabilities	514	300
TOTAL LIABILITIES	4,540	4,749
NET ASSETS	148,872	147,973

OTHER INFORMATION

At 30 June 2010, the Authority's property portfolio comprised 1,307 properties (1,296 in 2008-09), comprising 545 (540) houses, 718 (714) villa units and 44 (42) vacant allotments. In addition, the Authority manages 215 (235) school residences on behalf of the Department of Education and Training.

The Authority is one of the lead agencies reviewing government employee accommodation. A number of other government agencies are also participating in the project which is due for completion in December 2010.

The 'Public Sector Employment and Management (Department Amalgamations) Order 2009' transferred the staff performing the functions for the Authority from the Department of Education and Training to the Department of Services, Technology and Administration, effective July 2009.

AUTHORITY ACTIVITIES

The Authority's principal function is to provide and maintain suitable and adequate housing accommodation for teachers.

The Authority is a statutory body under the *Teacher Housing Authority Act 1975*.

As at 30 June 2010 the Authority operated under the control and direction of the Minister for Commerce.

For further information on the Authority, refer to www.tha.nsw.gov.au.

Minister for Community Services
Minister for Aboriginal Affairs
Minister for Ageing

Department of Human Services NSW

NSW Businesslink Pty Ltd

Department of Human Services NSW

AUDIT OPINION

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

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

KEY ISSUES

Transfer of functions to the Department of Human Services

The Department of Human Services was created in July 2009 through the amalgamation of five agencies:

- Aboriginal Affairs NSW
- Ageing, Disability and Home Care
- Community Services
- Housing NSW
- Juvenile Justice.

Special Commission of Inquiry into Child Protection Services (the Wood Commission)

The Wood Commission Report into child protection services in New South Wales was released in November 2008, and contained 111 recommendations. 'Keep Them Safe: A shared approach to child wellbeing (2009-2014)' (KTS) was the Government's response to each of the recommendations. Priority rankings were assigned to each recommendation to determine when implementation was expected to substantially commence:

- Immediate = substantially commenced within 6 months
- Short Term = substantially commenced within 12-18 months
- Long Term = substantially commenced within 2-3 years.

Community Services provided us with the following information:

- of the 70 Community Services led or joint led recommendations, 28 have been completed and three are almost complete. Of those completed, all but one was completed within the timeframe. The recommendation regarding the Managers' Casework qualifications was delayed to allow for negotiations with the Public Service Association (a public sector union) over transitional arrangements
- all 22 immediate recommendations have either been substantially commenced (7) and are therefore on track, or have been completed, or are almost complete (15)
- of the 34 short term recommendations, 16 are complete or almost complete. The remainder have commenced
- work has commenced on most of the remaining long term recommendations.

Community Services advised that delays in commencing recommendations are generally due to competing priorities and limited staff and/or fiscal resources.

Whilst Community Services plays a major role in the implementation of KTS, the Department of Premier and Cabinet (DPC) oversees the KTS action plan and works with the relevant agencies to ensure its implementation. The status of all recommendations is monitored by the KTS Senior Officers Group led by DPC, which reports regularly to the Justice and Human Services Chief Executive Officers Group. The DPC KTS Implementation Unit monitors compliance with all Wood Commission recommendations via monthly reports from Community Services and other lead agencies.

The Child Protection Advisory Group (CPAG) which is chaired by the Minister for Community Services meets bimonthly to discuss key issues arising in the development and implementation of KTS, including any unintended consequences arising as KTS is rolled out. The CPAG comprises representatives from key peak organisations in the non-government community services sector.

Internally, the implementation status of Community Services' lead recommendations is monitored by the Major Change Program Unit. Monthly progress reports are provided to the Community Services Senior Executive Forum which is chaired by the Chief Executive.

Out-of-Home Care Accreditation

In 2003, Community Services received interim accreditation for the provision of Out-of-Home Care (OOHC) services until June 2013. Community Services is currently participating in the Children's Guardian's Quality Improvement Program, which requires it to meet OOHC standards by June 2013 to achieve full accreditation. Community Services advised that it is working towards accreditation and has identified a significant risk for on-going service delivery if accreditation cannot be maintained.

Caseworker Workload

I recommend the Department of Human Services make concerted efforts to fill vacant Community Services caseworker positions.

In my view, the following data indicates that Community Services does not have sufficient caseworkers to perform its functions effectively.

Year Ended 30 June	2010	2009****
Average number of vacant caseworker positions*	497	450
Average number of total caseworker positions available	2,481	2,440
Average total caseworker hours available ('000)**	4,480	4,554
Average actual caseworker hours ('000)***	3,597	3,680

Source: Department of Human Services (unaudited)

* Vacant positions are those substantively vacant (no holder and no occupant) and those temporarily vacant (position has a holder but on unpaid leave, or the holder is acting in another position).

** Calculated by multiplying the average position full time equivalent (FTE) by total hours available in each working financial year (1,820 hours)

*** Calculated by multiplying the average employee FTE by total hours available in each working financial year (1,820 hours)

****Responsibility of the former Department of Community Services.

At 30 June 2010, 20.0 per cent (18.4 per cent at 30 June 2009) of caseworker positions were unfilled.

The Department advised that:

- Community Services' caseworker to child ratio is currently 1 to 29, more than double the KTS recommendation that there be one caseworker to 12 children and young persons
- Community Services currently has one of its highest recruitment rates in over five years. On average approximately 9.0 per cent of full and part time caseworker positions are actually unfilled. The nature of its workforce means that over 11.0 per cent of positions, while permanently filled may be temporarily vacant due to such things as maternity leave and secondments.
- the Government in its KTS response did not agree to fund Community Services to reduce the ratio to the recommended level. Instead the Government said 'reducing caseworker ratios will take some time, given the projected increases in the out-of-home care population in the coming years. The Government will develop a strategy to reduce caseworker ratios and is currently considering options'. The Government is proceeding with this work.

Out-of-Home Care Placement Reviews (Repeat Issue)

I recommend the Department of Human Services adhere to statutory requirements by ensuring Community Services placement reviews for children and young persons in Out-of-Home Care are undertaken at appropriate intervals.

Placement reviews for children in OOHC are not always performed at appropriate intervals that meet statutory requirements. Section 150 of the *Children and Young Persons (Care & Protection) Act 1998* requires the placement of the child or young person to be reviewed at least every 12 months. We have reported this matter for several years. Management advised this issue is being addressed through a project to transfer an increasing number of OOHC placements to the Non-Government Organisation (NGO) sector, and as part of the work towards obtaining full accreditation from the Children's Guardian. Community Services advised it has also completed a review of caseworker caseloads.

Grants Acquittals

I recommend the acquittal process for Community Services' grants, which are made to service providers, be re-examined and strengthened. The Department of Human Services should consider a range of options including:

- the need to engage its own independent auditor or specialist audit resources to cyclically audit grants based on a risk rating for service providers
- ensuring that training is available and undertaken by service providers in governance and accountability, or requiring them to undertake such training
- providing information or training for service providers and Community Services staff on acquittal procedures.

There are risks of fraudulent activity occurring within Community Services' service providers. In one instance, Community Services identified that a service provider had been falsifying its audited financial statements since 2002-03, using a letterhead of a previous auditor to signify that audits had been performed. Total funding provided to the service provider since 2002 was \$469,015 of which \$18,920 may not have been properly acquitted. The exact amount of any misappropriation will not be known until police enquiries have been finalised. Other instances of fraud have been identified by Community Services. Since 2005-06, there have been 31 alleged service provider frauds, of which seven have been substantiated, 23 not substantiated and one matter that is still under investigation.

The Department advised that in 2009-10, some \$974 million was paid out by Community Services to more than 3,200 separate funded initiatives, and to around 1,600 organisations.

At 30 June 2010 there was a backlog of some 42 acquittals relating to the 2008-09 financial year within Ageing, Disability and Home Care (ADHC). Of these, 15 acquittals have not been received by ADHC from service providers and 27 have been received but are still subject to regional reviews.

Write off of the Electronic Records Data Management System

I recommend the Department of Human Services implement formal project governance structures and project management procedures for all Community Services' major IT projects. I also recommend the Department conduct benefit realisation reviews when major IT projects are implemented.

In June 2010, the Department wrote off \$5.2 million in relation to a Community Services IT project, the Electronic Records Data Management (ERDM) System. Whilst staged work on the project commenced in 2006, further work was suspended in July 2008 pending clarification of funding issues, establishment of a more robust project governance structure, and development of clearer aims and objectives between Community Services and the lead agency, NSW Businesslink Pty Ltd. Only minor benefits were realised from the project.

Management advised that it discontinued the project, and subsequently wrote off the expenditure against the project. This was in response to the Wood Commission recommendations, which amongst other things recommended Community Services move towards electronic client records. Its previous strategy focused on non-client records.

Management is of the view that it has appropriate governance structures in place for all projects.

Repeat Management Letter Issues

I recommend the Department of Human Services address, as a priority, matters relating to Community Services and ADHC that I have been reporting for at least the past two years.

The slow response to my management letter recommendations could result in the Department being exposed to additional and unmitigated business risks. The outstanding matters relate to:

Community Services

- Restriction of user access to computer systems
- Review of computer vendor master file records
- Financial delegations.

Management advised that it continues to work with its service provider to resolve two of the three issues (master file records and financial delegations). Restriction of user access will be addressed as part of the KiDS Core Design upgrade.

ADHC

- Salary overpayments
- Property transfers from the former Department of Community Services
- Assets under construction
- Workforce management system disaster recovery plan.

PERFORMANCE INFORMATION

Services Provided by Community Services

Community Services' primary role is to promote and enhance the safety and wellbeing of children, young people and their families and to provide services that support and strengthen the community. In 2009-10, Community Services delivered its role under four service groups, namely: Community Services (\$195 million); Prevention and Early Intervention (\$314 million); Statutory Child Protection (\$402 million); and Out-of-Home Care (\$642 million).

Community Services

The Community Services program provides, amongst other things, general community support, including disaster welfare assistance and transitional support and accommodation services to children, young people and adults who are homeless or at risk of homelessness. Some services are provided by Community Services while others are provided in collaboration with NGOs and other government agencies.

The Supported Accommodation Assistance Program (SAAP) is a joint State/Commonwealth program that provides accommodation and support services to adults and unaccompanied children who are homeless or at risk of becoming homeless. In 2008-09, the number of clients including accompanying children assisted by SAAP services was 56,000, an increase of 83.6 per cent since 2004-05. Community Services advised this reflects enhanced reporting and a move towards prevention, early intervention and post crisis support.

Prevention and Early Intervention Services

This program provides funds towards the delivery of early childhood services, including licensing and monitoring of child care services.

Statutory Child Protection

Responsibilities under this program include:

- responding to reports of harm or risk to children
- assessing and investigating reports of child abuse
- developing case plans
- initiating and supporting court action
- working with other agencies to ensure that the safety, welfare and wellbeing of children are assured.

The table below provides some statistics relating to child protection.

Year ended 30 June	2010	2009*	2008*	2007*	2006*
Total child protection reports/child concern reports	256,088	309,676	303,121	286,033	241,003
Rate per 1,000 children and young people 0-17 years who were subject of a report referred for further assessment	55.4	71.1	65.7	65.1	54.8
Number of reports referred for further assessment	163,200	226,946	209,015	201,208	160,842
Number of JIRT** referrals accepted	3,877	3,436	3,180	3,023	3,338
Volume of Helpline calls entered	174,597	188,580	170,818	148,658	123,823
Volume of Helpline calls answered	151,303	166,228	152,037	132,433	109,340
Average waiting time (minutes)	2:58	2:51	2:56	2:59	3:49

Source: Department of Human Services (unaudited).

* Responsibility of the former Department of Community Services.

** refers to joint investigation response team referrals of child abuse which might be of a criminal nature.

Management advised the significant decreases in the first three items reflected changes in legislation effective from 24 January 2010. The changes included raising the reporting threshold from 'risk of harm' to the new 'risk of significant harm'.

Over the last five years, the volume of Helpline calls answered increased by 38.4 per cent. In 2009-10, the average waiting time per call was two minutes and 58 seconds. This was below the average time the Helpline is required to answer calls (three minutes), but seven seconds more than in 2009.

Real Recurrent Expenditure on Child Protection Services

The 'Productivity Commission Report on Government Services 2010' shows expenditure varies greatly between the States and Territories on child protection services 'per notification', 'per investigation', and 'per substantiation'.

New South Wales expenditure on child protection services per notification decreased from \$1,516 in 2007-08 to \$1,219 in 2008-09. Queensland had the highest expenditure (\$9,477) per notification in 2008-09, while the lowest was \$1,132 for the Australian Capital Territory.

Expenditure per investigation continues to decline in New South Wales and the Northern Territory. Since 2004-05, expenditure per investigation in New South Wales has decreased by 54.8 per cent. In 2008-09, New South Wales' expenditure of \$1,722 was by far the lowest of all states. The highest expenditure, \$12,255 was in Western Australia.

For the past four years expenditure per substantiation has been highest in Western Australia (\$33,491 in 2008-09) and lowest in New South Wales (7,642).

The Department advised that the data needs to be interpreted with care. This data is based on total expenditure on child protection activities, and does not represent and cannot be interpreted as unit costs for notifications, investigations or substantiations. The data cannot be reliably compared across jurisdictions because no two jurisdictions use the same expenditure criteria.

The Department also advised that New South Wales, of all jurisdictions, had the widest definition of the term 'notification' throughout the reporting period.

Children Aged 0-16 Years in Protection Notifications, Finalised Investigations and Substantiations

Indigenous children continue to be over represented in the child protection system.

Year ended 30 June	NSW 2009*	National Average 2009*	NSW 2008**	National Average 2008**	NSW 2007***	National Average 2007***
Children Aged 0-16 years in notifications (rates per 1,000 children)						
Indigenous (i)	260.9	152.2	256.2	143.8	221.0	124.8
Non-indigenous	63.7	37.8	59.1	36.5	58.4	36.3
All children	72.2	43.1	67.0	41.3	64.9	40.2
Children Aged 0-16 Years in finalised investigations as a proportion of children in notifications (ii)						
Indigenous %	71.1	61.8	70.0	61.8	63.3	56.3
Non-indigenous %	53.5	46.9	52.1	45.7	44.2	39.0
All children %	56.3	49.3	54.9	48.2	46.9	41.4
Children Aged 0-16 Years in substantiations as a proportion of children in finalised investigations						
Indigenous %	30.7	39.2	29.6	39.7	38.2	42.7
Non-indigenous %	20.5	30.4	21.9	33.0	27.7	36.1
All children %	22.5	32.2	23.5	34.3	29.6	37.4

Source: * Productivity Commission Report on Government Services 2010.

** Productivity Commission Report on Government Services 2009.

*** Productivity Commission Report on Government Services 2008.

- (i) Data on the number of notifications by Indigenous status should be interpreted with care. These data are collected very early in the child protection process and often before the agency has full knowledge of the child's family circumstances. As a result of this lack of full knowledge and the other inherent difficulties in identifying Indigenous status, these data are not considered to have a high level of reliability.
- (ii) In 2006-07, national data on finalised investigations for indigenous, non-indigenous and all children does not include Queensland.

In 2008-09, the number of indigenous children in notifications per 1,000 children aged 0-16 in New South Wales was 108.7 higher than the national average. This is an increase from 96.2 in 2006-07. For the three years 2007 to 2009, New South Wales' rate of notifications per 1,000 children aged 0-16 was significantly higher than the national average for both indigenous and non-indigenous children.

In 2008-09, 62,095 New South Wales' children aged 0-16 years were the subject of finalised investigations, an increase of 25.6 per cent since 2006-07. Of these investigations, 22.5 per cent were substantiated. If an investigation results in substantiation, intervention by Community Services may be needed to protect the child.

Out-of-Home Care (OOHC)

This program seeks to provide children and young people with a safe, stable, culturally appropriate environment in which they can develop optimally when they cannot live at home. It provides a range of OOHC options, including:

- foster care and kinship care for children separated from their parents
- monitoring and reviewing of placements
- recruiting and supporting carers
- supporting young people who have exited care.

The table below provides some statistics relating to OOHC.

Year ended 30 June	2010	2009*	2008*	2007*	2006*
Annual actual OOHC expenditure (\$'000)	641,519	552,449	463,890	364,688	295,938
Number of children and young people in OOHC	17,400	16,524	14,667	12,712	10,623
Cost per child (\$)	36,869	33,433	31,628	28,688	27,858

Source: Department of Human Services (unaudited).

* Responsibility of the former Department of Community Services.

Note: The figures are not adjusted for inflation to real dollars.

Community Services advised the increases in the 2009-10 figures reflect a revised methodology applied to New South Wales Government expenditure on protection and support services. This has resulted in more accurate alignment of expenditure, which focuses on key measures of service delivery performance. As a result, data for 2009-10 are not directly comparable to data for previous years.

Services Provided by ADHC

ADHC's primary role is to assist older people, and people with a disability and their carers to participate in community life. It is both a purchaser and provider of services, and shares responsibility for clients with a number of other Government agencies that deliver services in areas such as health care, transport, family and children's services and housing. It delivers its services under three service groups (programs), namely Supported Accommodation, Ongoing Community Support and Short Term Interventions.

Supported Accommodation

This program provides accommodation to people with a disability to assist them to live in suitable accommodation and to participate in the community. Accommodation includes large residences, group homes and hostels. Services are provided directly by ADHC or through NGOs it funds.

The table below provides statistics for the past five years relating to clients in supported accommodation places.

Year ended 30 June	2010	2009*	2008*	2007*	2006*
Number of supported accommodation places	9,283	8,766	7,560	7,496	7,579
Number of supported accommodation places provided by ADHC	2,666	2,711	2,642	2,671	2,621
Number of supported accommodation places provided by NGOs	6,617	6,055	4,918	4,825	4,958
Total expenditure incurred on supported accommodation (\$'000)	1,105,600	1,006,356	938,096	921,182	751,064

Source: Department of Human Services (unaudited).

* Responsibility of the former Department of Ageing, Disability and Home Care.

The total number of supported accommodation places increased by 517 in 2009-10, mainly due to an increase of 562 places provided by NGOs. There was a slight decrease in the number of places provided by ADHC.

Bed Block in Respite Care Facilities

A client is considered to be blocking a bed when their stay in a respite facility extends beyond the period of planned respite without an extension being granted. This means that allocated respite care beds may need to be rescheduled with high priority clients accommodated in the first instance.

The table below provides some statistics on bed block in ADHC operated respite care facilities.

Year Ended 30 June	2010	2009*
Annual average number of clients blocking a bed	7.3	20.4
Annual average number of beds blocked**	7.5	23.7
Average number of available beds	235	233

Source: Department of Human Services (unaudited).

* Responsibility of the former Department of Ageing, Disability and Home Care.

** ADHC advised that the actual number of unavailable beds may be higher than the number of clients blocking a bed. That is because the needs of some individuals are complex, resulting in a greater reduction in capacity than the one bed the person occupies.

In 2009-10, there was a significant reduction in the number of clients blocking a bed, as well as the number of beds that were blocked in ADHC operated respite care facilities.

ADHC advised it does not collect data on high priority clients who cannot get a bed in sufficient time. ADHC centre based respite is allocated to prioritised clients who request centre based respite during a given quarter. If respite beds become unavailable due to crises or unexpected breakdowns in support arrangements, ADHC works with families to find alternative support arrangements.

Ongoing Community Support

This program provides a range of services to older people and people with a disability including community services, respite, skills development and day programs, and a wide range of personal assistance services.

The following table shows information for the past three years relating to Ongoing Community Support services.

Year ended 30 June	2010	2009*	2008*
Number of Home and Community Care (HACC) services	1,818	1,767	1,785
Number of disability services	4,552	4,295	**
Number of people accessing disability and HACC services	290,000	280,000	265,000
Number of people receiving respite services	57,000	51,100	48,600
Number of people receiving personal assistance	207,000	191,000	183,000
Total expenses incurred on Ongoing Community Support (\$'000)**	872,400	817,052	709,346

Source: Department of Human Services (unaudited).

* Responsibility of the former Department of Ageing, Disability and Home Care.

** No comparative data available.

Between 2008 and 2010, the number of people receiving respite services has increased by 17.3 per cent and the number of people receiving personal assistance rose by 13.1 per cent.

ADHC advised that under the National Health and Hospitals Network Agreement there will be a split of responsibilities for aged care and disability programs at age 65 (age 50 for Indigenous Australians), with the Australian Government to assume full responsibility for aged care services under the HACC Program from 1 July 2012.

Short Term Interventions

Services provided under this program include family support programs in home settings, therapy services, case management and other assistance to older people and people with a disability to develop skills and abilities to live in the community with minimal support.

The table below shows some statistics relating to the level of service provided under this program.

Year ended 30 June	2010	2009*	2008*	2007*	2006*
Number of families and children receiving support	9,000	8,600	7,500	6,570	6,220
Number of people receiving therapy and interventions	78,000	75,000	67,400	63,330	59,680

Source: Department of Human Services (unaudited).

* Responsibility of the former Department of Ageing, Disability and Home Care.

The number of families and children receiving short term support as well as the number of people receiving therapy and intervention services continued to rise. In 2009-10, total expenditure incurred on short term intervention was \$300 million, some \$23.2 million less than in 2008-09.

Juvenile Justice

The Juvenile Justice division of the Department deals with young offenders who have been charged with, or found guilty of an offence committed between the ages 10 and 17. It delivers its services under three service groups (programs), namely Youth Justice Conferencing, Community Based Services and Custodial Services.

The following table shows the number of youth justice conferences facilitated, admissions of young people remanded in custody and community based orders supervised by Juvenile Justice.

Year ended 30 June	2010#	2009*	2008*	2007*	2006*
Total number of youth justice conferences facilitated	1,698	1,449	1,160	1,118	1,032
Total number of community based supervision orders commenced	4,521	4,615	3,889	3,101	2,824
Total number of remand admissions in custody	4,439	4,000	4,527	3,785	3,203
Total number of control admissions in custody	634	712	667	601	521
Percentage of young people in contact with Juvenile Justice throughout the year who are indigenous:					
Attending a youth justice conference (%)	21.6	22.3	26.0	27.2	27.4
Remanded in custody (%)	38.8	36.4	39.6	37.9	37.3
Under community based supervision (%)	40.1	38.6	39.9	41.9	38.7
On control orders (%)	49.8	49.9	51.6	56.3	50.8

Source: Department of Human Services (unaudited)

Juvenile Justice introduced a new corporate information reporting system during 2009-10. The system provides a more sophisticated analysis of data. As the system differs from that used in previous years, some changes to trend data have occurred.

* Responsibility of the former Department of Juvenile Justice.

The table suggests that young indigenous people are over-represented in the juvenile justice system. Juvenile Justice advised it has specific programs in place to assist young indigenous people. These include the Intensive Supervision Program, Dthina Yuwali (a drug and alcohol program) and the Our Journey to Respect program, which is designed to reduce the incidence of intergenerational violence among indigenous young males. Juvenile Justice also has an Aboriginal Strategic Plan and it works closely with other government agencies to address the over-representation of young indigenous people.

Costs

The following table shows the average daily cost for supervising and caring for young offenders. Juvenile Justice advised the increase in the average daily cost per juvenile in custody was due to higher number of offenders remanded in custody. Offenders remanded in custody increased by 11 per cent to 4,439 in 2009-10.

Year ended 30 June	2010	2009*	2008*
	\$	\$	\$
Average daily cost per juvenile in custody	589	543	541
Average daily cost per juvenile in community based services	13	15	16
Average daily cost per juvenile in Youth Justice Conferencing	6	7	10

Source: Department of Human Services (unaudited).

* Responsibility of the former Department of Juvenile Justice.

Despite the number of community based services increasing by 23.0 per cent from last year, Juvenile Justice was able to reduce the average cost of this service to \$13.33 (\$15.40). Juvenile Justice advised that it achieved this by containing employee related costs.

Crowding in Juvenile Justice Centres

The average daily number of young offenders in custody increased from 390 in 2007-08 to 434 in 2009-10. This increase is affecting Juvenile Justice's ability to accommodate young offenders in its centres, though the increase of 27 beds in 2009-10 eased the pressure. Juvenile Justice advised that its occupancy rate for 2009-10 was 90 per cent, which whilst high, is within its optimal operating level. The table below shows the number of offenders at each centre at 30 June.

At 30 June Juvenile Justice Centre	Offenders in custody 2010	Capacity 2010*	Offenders in custody 2009*	Capacity 2009*
Acmena	27	30	34	30
Frank Baxter	119	120	124	120
Broken Hill Shelter	--	8	5	8
Cobham	70	85	69	80
Emu Plains	36	40	41	45
Juniperina	31	46	27	46
Orana	41	45	32	30
Reiby	49	57	59	57
Riverina	46	45	36	33
Bronte Adolescent Mental Health Unit**	9	na	--	na
Total	428	476	427	449

Source: Department of Human Services (unaudited).

* Responsibility of the former Department of Juvenile Justice.

** The Bronte Adolescent Mental Health Unit facility is administered by Justice Health. The facility's capacity is not administered by Juvenile Justice and is therefore not applicable (na).

Only one centre (Riverina) had more offenders in custody than available beds at 30 June 2010. This compares favourably against the prior year when five of nine centres had more detainees than available beds.

To meet the increased demand for beds, Juvenile Justice has installed bunk beds in two centres (which has resulted in offenders sharing rooms) and it has built and opened a new 15 bed unit at Orana Juvenile Justice Centre. A new 15 bed unit at Acmena Juvenile Justice Centre also opened in late October 2010 and planning has started on an upgrade to the Riverina Juvenile Justice Centre. This upgrade will result in a new 15 bed unit being built in 2013.

OTHER INFORMATION

Review of the Juvenile Justice System

In July 2009, the Minister for Juvenile Justice commissioned an independent strategic review of Juvenile Justice policy and practice in New South Wales. This review was completed in January 2010 resulting in 77 recommendations to the Government to reduce crime, reduce re-offending and provide cost savings. The review concluded that the reforms from the last independent review in 1993 had resulted in positive improvements, but in recent years some of the improvements had eroded and the outlook was poor.

The review concluded that if all the recommendations were not implemented Juvenile Justice would need to significantly increase its juvenile justice centres' capacity. It estimated the number of detainees would peak at 733 in 2015-16. This is 54 per cent higher than the capacity of 476 at 30 June 2010. The review estimated a capital investment exceeding \$170 million would be needed to create this additional capacity, which would result in additional recurrent costs of \$57.7 million each year.

The Government has accepted all but four of the 77 recommendations. Juvenile Justice is the lead agency for 10 recommendations and advised it has commenced work on all 10 recommendations. The lead agencies for the other recommendations include the Department of Premier and Cabinet, NSW Police Force and the Department of Justice and Attorney General. The Department of Premier and Cabinet is responsible for coordinating and monitoring implementation progress.

Assessment of Care Needs for Children in OOHC

The Department advised that Community Services' assessments of the care needs of all children and young people in OOHC vary depending on their identified needs. Work is proceeding on a needs assessment of all children and young people entering OOHC (including health, mental health and educational assessments). This work is not yet at a stage where reporting against the number or percentage of children and young people in OOHC is available.

Since 1 July 2010, NSW Health and Community Services have agreed to a staged implementation of the OOHC Health Screening and Assessment Pathway. The Pathway describes the process for health screening and assessment, intervention and review for all children and young people entering statutory OOHC. A Health Management Plan is developed for these children, which links with the child or young person's Community Services caseplan. It is anticipated that the Pathway will be rolled out to all children and young people already in statutory care by 2011-12. A draft Memorandum of Understanding (MOU) is in the final consultation stage between both agencies.

Community Services and the Department of Education and Training are currently negotiating an OOHC Education Plan Pathway for children and young people in OOHC. The Pathway will describe the process for the assessment, development, implementation and review of Education Plans for children and young people in OOHC. An Education Plan will be developed, which will link with the child or young person's Community Services caseplan. The pathway is expected to be trialed in term four 2010, with state wide implementation from term one 2011. Both parties have agreed to an in-principle MOU, with formal endorsement expected by the end of 2010.

Aboriginal Communities Development Program

In May 1998, the Minister for Aboriginal Affairs announced the seven year, \$200 million, Aboriginal Communities Development Program (ACDP). The ACDP has now developed into a 12 year \$240 million housing and infrastructure program aimed at improving the health and living conditions of Aboriginal people throughout New South Wales and, in particular, in 22 Priority Communities.

The ACDP program was due for completion in June 2010 and most planned works were finalised. Total program expenditure to June 2010 was \$236 million (\$226 million). Achievements to June 2010 include: the completion of refurbishments and urgent works to over 1,000 dwellings; construction of 185 new dwellings; replacement of 80 existing dwellings with new dwellings; the purchase of 95 existing dwellings; and the roll-out of 79 water and sewerage schemes in 44 locations. In addition, 1,015 dwellings in 32 communities had works undertaken as part of the ACDP 'Housing for Health' program component.

A crucial component of the ACDP has been the creation of employment and training opportunities to over 230 participants, with over 130 participants receiving TAFE Certificate II and Certificate III level qualifications in building (carpentry, painting, plumbing) and non-building (horticulture, rural skills, local government works) trades.

The main focus of ACDP in 2010-11 will be on rolling out the final stages of the program works in Menindee, Dareton, Brewarrina, Tabulam, Tingha and Wallaga Lake. The Department of Services, Technology and Administration, as program manager, engages and monitors the performance of project managers.

Human Resources

This year I reviewed the following areas relating to the Department's human resources:

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- extent of overtime
- management of annual leave balances in excess of threshold policies
- management of forfeited flex balances
- extent of contract staff
- vacant permanent staff positions.

Issues identified from my review will be reported in a management letter to the Department. A summary of the results of my review follows.

Employee Age Profile

The age distribution of the Department is skewed towards employees younger than 50. As a result the Department does not appear to be facing the same challenges as many other public sector entities of the potential loss of large numbers of retiring staff and skills in the near future.

To help ensure the Department has sufficient appropriately skilled staff into the future, it needs to actively monitor its workforce age profile and have strategies in place to develop, attract and retain staff whose skills are aligned to the strategic direction of the Department.

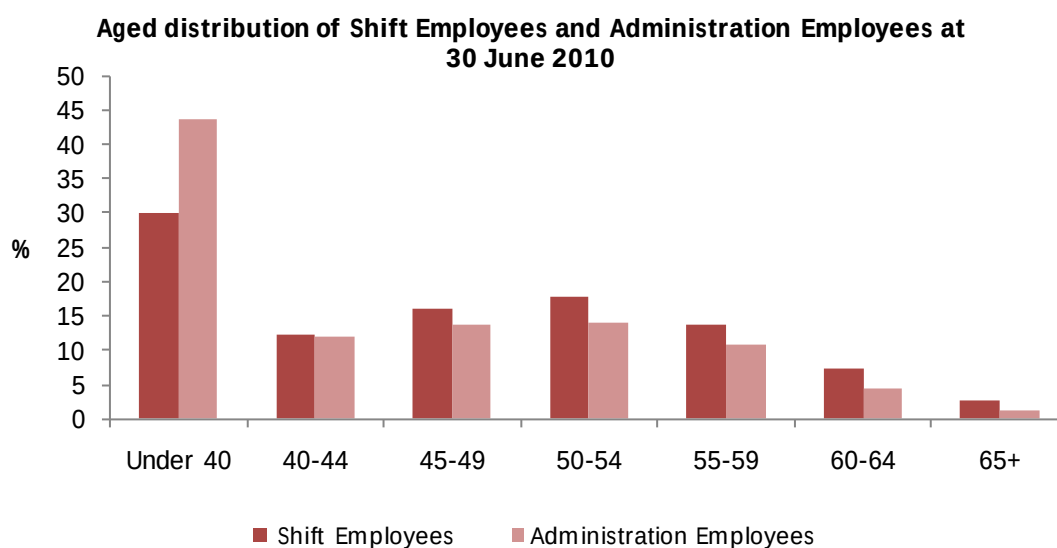
At 30 June Age Group	2010			
	No. of Shift Workers#	%	No. of Administration Staff#	%
Up to 39	1,751	30.1	3,169	43.5
40 - 44	711	12.2	878	12.0
45 - 49	941	16.2	1,004	13.8
50 - 54	1,041	17.9	1,029	14.1
55 - 59	791	13.6	796	10.9
60 - 64	434	7.4	319	4.4
65+	150	2.6	91	1.3
Total	5,819	100.0	7,285	100.0

Source: Department of Human Services (unaudited).

Excludes Aboriginal Affairs and Aboriginal Housing Office employees; information was not available at the time of audit.

Note: The number of shift employees and administration employees are full time equivalent numbers.

The age profile of the Department's employees, split between shift employees and administration employees is shown below:



Source: Department of Human Services (unaudited).

Excludes Aboriginal Affairs employees, and Aboriginal Housing Office employees; information was not available at the time of audit.

For shift employees, 41.5 per cent of staff are over 50 years of age, and 23.6 per cent are over 55.

Overtime

As shown below, 57.8 per cent of shift workers and 23.0 per cent of administrative staff worked overtime in 2009-10.

Year Ended 30 June	Shift Workers#		Administrative Staff#	
	2010	2009*	2010	2009*
Total overtime expenses (\$'000)	16,897	19,440	4,751	5,251
Total number of employees who worked overtime during the year	4,481	4,849	1,794	1,951
Total number of employees	8,370	8,478	7,798	7,469
Proportion of total employees receiving overtime (%)	57.8	57.2	23.0	26.1

Source: Department of Human Services (unaudited).

Excludes Aboriginal Affairs and Aboriginal Housing Office employees; information was not available at the time of audit.

* Responsibility of the former Departments.

In 2009-10, there were 19 employees (18 employees) who worked more than 400 hours overtime. The highest overtime worked by an employee was 1,358 hours (1,305 hours). This level of overtime raises questions about how efficiently and effectively overtime is being managed. High levels of overtime may also have adverse occupational health and safety implications. I recommend management review overtime to minimise the potential downsides of staff working excessive overtime hours.

Excessive Annual Leave Balances

I recommend the Department of Human Services review the effectiveness of its policies in managing excessive annual leave balances.

The following table shows the number of staff with leave in excess of 40 days.

Annual Leave Entitlement (Days)	Shift Workers#		Administrative Staff#	
	2010	2009*	2010	2009*
41-60	738	900	510	523
61-90	200	317	68	122
91-120	32	86	8	15
120 +	11	28	7	10
Total	981	1,331	593	670

Source: Department of Human Services (unaudited).

Excludes Aboriginal Affairs and Aboriginal Housing Office employees; information was not available at the time of audit.

* Responsibility of the former Departments.

There has been some improvement in managing excessive leave, with 1,574 staff having leave balances in excess of 40 days at 30 June 2010 compared to 2,001 in 2009. The highest annual leave balance was 211 days, with the next highest being 191 days.

Excess leave balances can adversely affect an organisation. The associated financial liability generally increases over time as salaries increase which can impact an organisation's cash flows. Excessive leave balances may also adversely affect staff through possible workplace health and safety issues.

The Department advised it has active procedures in place for managing excess annual leave including:

- messages to staff and managers outlining the requirements to reduce leave balances
- configuration of the human resources system to issue notices to managers to implement a reduction strategy for staff with excess leave balances
- monthly monitoring and reporting to the Executive
- periodically contacting staff with annual leave balances over 30 days and asking them to make appropriate arrangements to take leave, and advising those with more than 40 days leave to put leave plans in place to reduce their balances.

Flex Time Balances

I recommend the Department of Human Services develop mechanisms to centrally review flex time records to help ensure excessive flex time is not being accrued and forfeited by staff.

The Department does not know the extent to which flex time is being forfeited by staff, as it does not keep central records of flex time. Records are decentralised and manually maintained by each business unit. If not effectively managed, employees may be accruing and/or forfeiting excessive flex time.

The Department advised for Community Services division staff, flex time agreements do not allow for the accumulation of more than 14 hours credit from one flex period to the next, so there is no risk of excessive flex balances being accumulated. Staff have also been advised that they are not expected to work excessive hours, and where sufficient hours have been worked, flex days should be taken.

The Department advised for ADHC division staff a recent review of flex sheets did not reveal any systemic issues in relation to accumulation of flex days by employees. Also, provision exists for the staff member and supervisor to meet should there be potential for flex time to be forfeited. Management does not consider this to be a high risk issue.

Employment of Contract Employees

I recommend the Department of Human Services periodically review the roles and responsibilities of all contract employees to help ensure:

- reliance on contractors is not excessive
- use of contract employees instead of permanent employees is appropriate
- contractors do not become de facto employees by virtue of being with the Department for an extended period of time
- use of contract employees continues to represent value for money.

The Department's practices for managing contractors are not consistent across its divisions. The costs and benefits of the extended use of contractors should be compared to those of hiring permanent staff, including the risk of losing critical business knowledge when contractors leave the organisation. The total cost incurred on contractors in 2009-10 was \$11.9 million (\$18.9 million). Management advised that a review of contractors is performed on a case by case basis to ensure value for money and appropriateness of staff mix. These reviews are often performed at the time of contract renewal.

There were 107 (356) contractors engaged by Community Services at 30 June 2010, of whom approximately 65 have been engaged for more than two years and 42 for more than three years. Management advised that the majority of contractors are employed in corporate services roles which are subject to a recruitment freeze on permanent positions.

A register of hired contractors for the ADHC division was not maintained. The division was unable to provide information on the number of contractors at 30 June 2010, or the duration of their employment. Management advised it was impractical to maintain a central register because the tenure of contractors may be extremely limited due to the nature of the work. Management also advised that the appropriateness of the use of contractors is monitored through the level of expenditure on contractors by business areas, data that is centrally available.¶¶ In addition, contractors in non-frontline areas are subject to the restrictions associated with the recruitment freeze. The recruitment of contractors in these roles, or the extension of their contracts, requires a business case approved by the Chief Executive.¶

The Department's Juvenile Justice division engaged 42 (91) contractors at 30 June 2010, of whom one had been engaged for more than two years.

Vacant Shift Worker Positions

The Department has a range of differing personnel employee requirements. Within the ADHC division there are two main categories of shift workers, namely nurses who care for clients with complex health care needs, and residential support workers who provide clients with personal development and community integration. They both also assist with the development and implementation of individual support plans.

Improvements have been made in filling vacancies in shift worker positions.

As at 30 June	2010		2009*		2008*	
	Nurses	Residential Support Workers	Nurses	Residential Support Workers	Nurses	Residential Support Workers
Number of Full Time Equivalent (FTE) shift worker positions available**	1,420	2,355	1,365	2,373	1,395	2,388
Number of FTE shift worker positions vacant	225	306	286	394	301	418
Proportion of FTE positions vacant to FTE positions available (%)	15.8	13.0	21.0	16.6	21.6	17.5

Source: Department of Human Services (unaudited).

* Responsibility of the former Department of Ageing, Disability and Home Care.

** ADHC advised that the use of 'available' positions to determine vacancies for residential support workers includes positions maintained to allow for workforce flexibility, not all of which will be filled. The precise mix of permanent, casual and agency staff used to deliver services at any one time will vary according to operational need, as well as vacancies and staff absences. They also advised this applies to group homes (see below under 'Vacant Permanent Staff Positions').

Since 2008, the number of vacant shift worker positions decreased by 25.2 per cent for nurses and 26.8 per cent for residential support workers. At 30 June 2010, 14.1 per cent (18.2 per cent) of FTE positions available remain vacant. Where staff are not available to fill rosters, ADHC uses agency staff. In 2009-10, \$15.9 million was spent on agency staff, a reduction of \$3.9 million on 2008-09.

Management advised that actions taken in 2009-10 to fill vacancies included:

- maintaining an active presence in the employment market
- obtaining an exemption from the Department of Premier and Cabinet to allow for the advertisement of nursing vacancies in local print media
- funding National Disability Services to develop and deliver a recruitment and advertising campaign for the disability and community care sector. The focus of the campaign was to change attitudes towards working in the sector and to direct people to the CareCareers website, which hosts employment opportunities from employers across the sector and provides information on the sector to potential candidates
- commencement of the Aboriginal Trainee Residential Support Worker program, resulting in the recruitment of 74 aboriginal trainees in 2009-10.

Vacant Permanent Staff Positions

In 2010, within the ADHC division, there was a significant improvement in the number of unfilled positions within Community Support teams (CSTs) and group homes.

As at 30 June	2010		2009*		2008*	
	Community Support Teams	Group Homes	Community Support Teams	Group Homes	Community Support Teams	Group Homes
Number of FTE positions available	853	2,305	825	2,311	729	2,232
Number of FTE positions vacant	16	259	77	362	103	340
Proportion of vacant FTE positions to FTE positions available (%)	1.9	11.2	9.3	15.7	14.1	15.2

Source: Department of Human Services (unaudited).

* Responsibility of the former Departments.

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

Year ended 30 June	Consolidated	Parent
	2010 \$'000	2010 \$'000
Employee related	1,609,415	1,450,740
Grants and subsidies	2,258,577	2,437,846
Other expenses	482,177	432,675
OPERATING EXPENSES	4,350,169	4,321,261
OPERATING REVENUE	426,476	378,155
Other losses	60,849	58,114
NET COST OF SERVICES	3,984,542	4,001,220
Government contributions	4,096,133	4,096,133
SURPLUS	111,591	94,913
OTHER COMPREHENSIVE EXPENSE		
Superannuation actuarial losses	(32,571)	(29,323)
TOTAL OTHER COMPREHENSIVE EXPENSE	(32,571)	(29,323)
TOTAL COMPREHENSIVE INCOME	79,020	65,590

This is the Department's first financial reporting year and there are no comparative financial results to report.

Abridged Consolidated Statement of Financial Position

Year ended 30 June	Consolidated	Parent
	2010 \$'000	2010 \$'000
Current assets	368,989	305,546
Non-current assets	1,099,943	1,072,579
TOTAL ASSETS	1,468,932	1,378,125
Current liabilities	349,707	315,803
Non-current liabilities	61,425	49,485
TOTAL LIABILITIES	411,132	365,288
NET ASSETS	1,057,800	1,012,837

An independent valuation of ADHC's land and buildings in 2009-10 resulted in a decrease in value of \$57.0 million. Total land and buildings at 30 June 2010 for ADHC totalled \$654 million. The decrease was largely due to a reassessment of the method used in valuing some Large Residential Centre properties which are specialised properties.

Abridged Service Group Information

The Department's consolidated net cost of services by service group is detailed below.

Year ended 30 June 2010	Net Cost of Services		Net Assets
	2010 Budget**	2010 Actual	2010 Actual
	\$'000	\$'000	\$'000
ADHC			
Supported accommodation	996,286	1,096,339	554,810
Ongoing community support	923,721	866,556	148,567
Short-Term interventions	289,711	298,556	25,993
Community Services			
Out-of-home care	626,009	641,362	2,533
Statutory Child protection	414,176	401,202	22,441
Other	514,220	504,981	34,764
Juvenile Justice			
Custodial services	105,554	118,064	217,356
Other	63,166	55,342	26,781
Home Care Services of NSW	****	(17,046)	36,726
Other*	***	19,128	(12,171)
Total all service groups	***	3,984,542	1,057,800

* Amounts that could not be reliably allocated to a 'service group'.

** Per the New South Wales 2008-09 Budget Papers.

*** Budget paper not prepared for all components of the Department.

**** Home Care Services of NSW is a statutory body and does not prepare financial statements comparing results to budget.

DEPARTMENT ACTIVITIES

The Department provides human and social services directly and in partnership with non-government organisations in order to improve the outcomes for vulnerable client groups in New South Wales. The Department also provides employee related support services to a number of other government agencies including the Aboriginal Housing Office, NSW Businesslink Pty Ltd, and the NSW Land and Housing Corporation.

The Department's responsibilities and services include providing specialist accommodation and home-based services for people with a disability, providing social housing, promoting and enhancing child safety and wellbeing, supporting Aboriginal communities, providing crisis support and disaster recovery services, and managing young offenders.

For further information on Human Services, refer to www.humanservices.nsw.gov.au.

CONTROLLED ENTITIES

Home Care Service of New South Wales

Separate comment on Home Care Service of New South Wales and its controlled entity Home Care Service Division are included elsewhere in this Report.

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

Entity Name	Website
John Williams Memorial Charitable Trust	*

* This entity does not have a website.

NSW Businesslink Pty Ltd

AUDIT OPINION

The audit of NSW Businesslink Pty Ltd's (the company) financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

KEY ISSUES

Employment of Contract Employees

I recommend the company periodically review the roles and responsibilities of all contract employees to ensure:

- reliance on contractors is not excessive
- use of contract employees instead of permanent employees is appropriate
- contractors do not become de facto employees by virtue of being with the company for an extended period of time
- use of contract employees continues to represent value for money, and
- it does not contravene established policies, tax legislation and industrial relation matters relating to employment arrangements.

There were 264 contractors engaged by the company at 30 June 2010. Thirty four have been engaged for more than five years and another 53 have been engaged for more than three years. The company should compare the costs and benefits of the extended use of contractors to the alternative of hiring permanent staff. It should also assess the risk of losing critical business knowledge when the contractors leave the company.

The table below shows the duration since the current contractors' start date:

Year ended 30 June 2010	Number of contractors
Over 6 years	9
5 - 6 years	25
4 - 5 years	18
3 - 4 years	35
2 - 3 years	56
1 - 2 years	48
less than 1 year	73
Total	264

Source: company statistics (unaudited).

The company incurred total contractor costs in relation to individuals and excluding companies contracted to provide project services of \$40.2 million in 2009-10 (\$42.6 million in 2008-09) compared to personnel service expenses (excluding superannuation actuarial losses) of \$54.6 million (\$52.2 million). For those contractors who were engaged at 30 June 2010, the average cost per contractor in 2009-10 was approximately \$143,000. This compares to an average salary received by a full time equivalent employee of approximately \$79,000.

The table below provides further information on the cost of contractors:

Year end 30 June 2010	Number of contractors
Annual cost*	
Over \$200,000	55
\$150,000 - \$200,000	62
\$75,000 - \$149,999	60
less than \$75,000	87
Total	264

Source: company statistics (unaudited).

* The company could not provide data on actual costs paid per contractor. Annual costs per contractor were therefore estimated by the company, based on the contractor's actual hourly rate and the assumption each contractor worked 38 hours per week for 48 weeks.

Flex Time Balances

I recommend the company develop mechanisms to centrally review flex time records to ensure excessive flex time is not being accrued and forfeited by staff.

The company does not know the extent to which flex time is being accrued and forfeited by staff, as it does not monitor, at the company level, the effectiveness of local management of flex time. If not effectively managed, employees could be accruing and forfeiting large amounts of flex time. This could breach employment award conditions.

The company advised that as part of the Flexible Working Hours Agreement there are procedures in place for managing flex credit balances. The flex period is twelve weeks in duration and flex sheets are submitted to the supervisor at the end of the fourth and eighth weeks. Where an employee has a flex credit balance in excess of forty-two hours at the fourth or eighth week, the supervisor and employee must discuss how to reduce this balance. This could mean reducing the hours worked during the remainder of the period, the taking of flex leave or the banking of untaken flex days.

Repeat Management Letter Issues

I recommend that management address, as a priority, the matter of verification of financial delegations that I have reported for at least the past two years.

Verification of Financial Delegations

Before invoices greater than \$5,000 are processed for payment for clients, the company is required to check that appropriately delegated officers have approved the invoices for payment. This check was not always done for one of the clients. Management advised that its standard operating procedures require staff to do this check. The company advised it now has a process to regularly remind staff of their responsibility, and has reviewed its processes to minimise the risk of recurrence. This will be checked in the next audit cycle.

PERFORMANCE INFORMATION

Benchmark Study

In November 2009, a study was commissioned by the company that benchmarked it against selected peer organisations in the areas of product prices, service performance standards, and customer satisfaction. The main findings of this study as reported in the 'Businesslink 2009 Benchmark Study Report' (the Report) were:

- the majority of the company's products are priced within market range and in some cases priced substantially lower. Many of the company's prices have remained static in nominal terms, or even decreased, since 2007. Given wage rises and the effect of CPI during this period, the static price levels have provided a real price reduction of 5.7 per cent
- prices are toward the higher end of the market for the accounts payable end-to end process, payroll runs, fleet management and salary sacrifice management
- the company performed comparably or better than peer organisations in relation to service standards, except in the delivery of finance services and IT services
- customer satisfaction for products and services was generally slightly higher than experienced by peer organisations, particularly in finance and payroll services. The company charges prices that are higher than the peer market in these areas
- customer satisfaction levels were lower than experienced by peer organisations in IT on-site support, and human resources advice and recruitment services. The company charges prices significantly lower than the peer market in these areas.

Some of the recommendations made in the Report include:

- that the company re-assess its Key Performance Indicators (KPIs) for appropriateness to the business. The majority of the company's KPIs are time-related measures and do not consider aspects such as quality of performance, accuracy, efficiency and cost effectiveness
- as there appears to be a correlation between lower satisfaction scores and lower prices, the company should clarify the level of service that client agencies should expect from particular price levels (especially lower price levels) to better manage and meet client service quality expectations.

OTHER INFORMATION

Service Partnership Agreements

The company has Service Partnership Agreements in place with its clients for the exclusive provision of designated corporate services. For two of its clients the agreements expired in August 2009 whilst a third expired in August 2007. All parties are continuing to operate within the terms in the original agreements, which provide for the continuance of the contract where neither party has indicated an intention to withdraw from the agreement. Last year management advised that new agreements were being developed. However, as these clients are now within the new Department of Human Services NSW, the agreements have not been finalised.

Human Resources

The company does not have any employees. It receives personnel services from NSWbusinesslink, a division within the Department of Human Services NSW. Management of NSWbusinesslink staff is, however, the responsibility of the company. This year I reviewed the following areas relating to human resources:

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- extent of overtime
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- extent of contract staff
- management of flex balances.

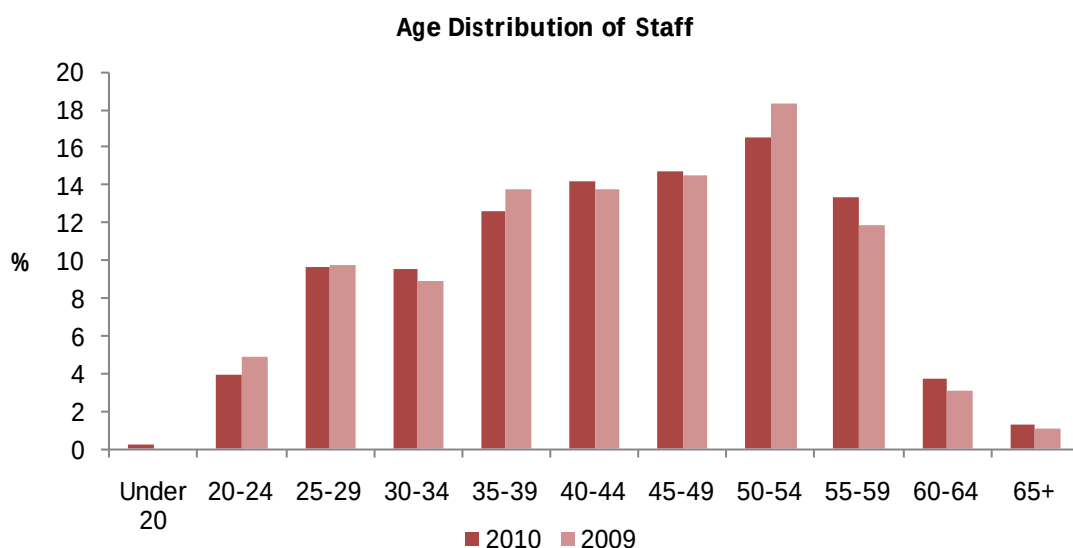
Issues identified from our review will be reported in a management letter to the company. A summary of the results of the contract staff and flex balances review is reported above under 'Key Issues'. A summary of the results of our review of the ageing profile, annual leave balances, overtime and long service leave liabilities follows.

Ageing of Staff

I recommend the company implement effective policies to address and manage its ageing workforce.

Thirty five per cent of the company's employees are over 50 years of age and 18.5 per cent are over 55. These employees are likely to retire over the next five to ten years, which may result in a significant loss of knowledge and skills if an appropriate plan is not developed to address the risk.

The age profile of the company's employees is shown below:



Source: Company statistics (unaudited).

To ensure an adequate supply of staff in the future, it is essential for the company to monitor its workforce age profile and ensure strategies are in place to develop, attract and retain staff whose skills are aligned with the strategic direction of the company.

Excessive Annual Leave

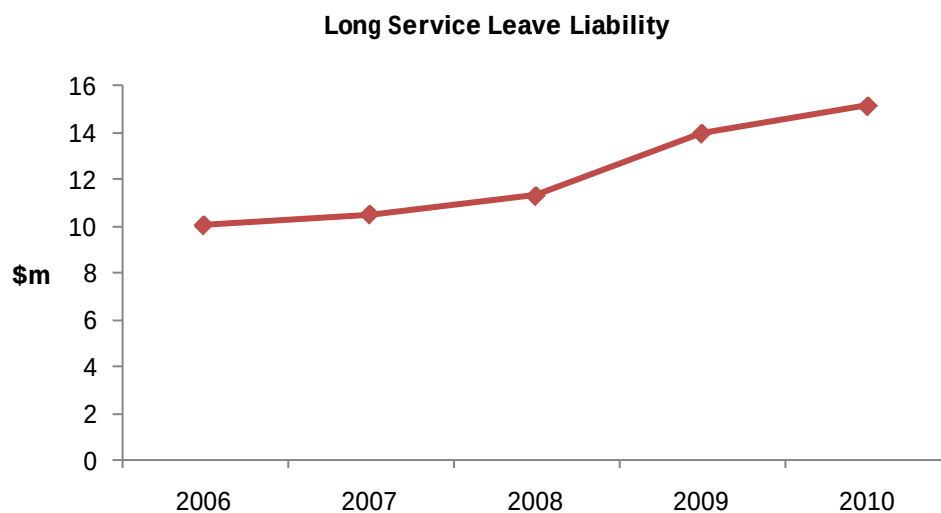
I did not identify any significant issues in my review of annual leave. At 30 June 2010, 41 employees (26) or 6.2 per cent (4.0 per cent) of all staff had annual leave balances in excess of 40 days. The highest annual leave balance was 59 days (74 days), with the next highest being 56 days (60 days).

Overtime

There was a rise of over 22.0 per cent in the level of overtime worked by NSWbusinesslink staff. Overtime costs increased from \$987,000 in 2008-09 to \$1.2 million in 2009-10. Overtime as a proportion to total salaries was however only 2.8 per cent (2.4 per cent). The highest overtime amount was \$32,945 (\$29,295) and the next highest being \$23,406 (\$23,460).

Long Service Leave Liabilities

The liability for long service leave (LSL) entitlements at 30 June 2010 amounted to \$15.1 million (\$14.0 million). This liability has increased by 50.7 per cent over the past five years.



Source: Company statistics (audited).

The company will need to ensure it has an adequate plan to fund these liabilities, which generally increase over time with increases in employee remuneration levels. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

FINANCIAL INFORMATION**Abridged Statement of Comprehensive Income**

Year ended 30 June	2010 \$'000	2009 \$'000
Fees for services	188,574	166,417
Other	1,103	699
TOTAL REVENUE	189,677	167,116
Personnel services	61,133	73,257
Contractors	65,679	57,334
Information technology	26,487	20,828
Depreciation and amortisation	15,244	12,415
Telecommunication	11,144	9,071
Other expenses	11,652	14,543
TOTAL EXPENDITURE	191,339	187,448
DEFICIT	1,662	20,332
OTHER COMPREHENSIVE INCOME	--	--
TOTAL OTHER COMPREHENSIVE INCOME	--	--
TOTAL COMPREHENSIVE EXPENSE	1,662	20,332

A major reason for the increase in fees for services was \$8.6 million for the provision of services to four new clients namely: Department of Human Services NSW, Juvenile Justice, Aboriginal Housing Office, and the Department of Education and Training. The company also processed a higher number of transactions for its client agencies.

The reduction in personnel services expense was due to a reduction in actuarially assessed superannuation losses, \$6.5 million in 2009-10 compared to \$21.1 million in 2008-09. The company is required to pay fees to the Department of Human Services NSW equivalent to all employee related costs and all employment administration costs.

Contractor expenses rose by \$8.3 million, mainly due to the increase in the number of client projects.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	36,785	22,553
Non-current assets	50,495	42,585
TOTAL ASSETS	87,280	65,138
Current liabilities	85,664	57,378
Non-current liabilities	630	5,112
TOTAL LIABILITIES	86,294	62,490
NET ASSETS	986	2,648

Current assets increased largely due to an increase in cash holdings.

The increase in non-current assets was due to computer software purchases of \$3.8 million, as well as an increase in the number of development projects during 2009-10.

Current liabilities include trade and other payables of \$72.8 million (\$49.0 million). The increase was attributable to a rise in accruals of \$12.3 million, as well as a change in the company's payment procedures whereby creditor invoices are now paid on a '30 day' basis as against paying as soon as the invoice is received. Also, there was an increase in the payable to the Department of Human Services NSW for employee entitlements of \$6.4 million.

COMPANY ACTIVITIES

NSW Businesslink Pty Ltd is a State Government owned company established under the *Corporations Act 2001*. It is the shared corporate service provider for administrative services, such as human resources, property and records management, information technology services and other financial services for the Department of Human Services NSW and Housing NSW. It supports these agencies in their service delivery by providing better and more efficient services through economies of scale, productivity gains and process improvements.

NSW Businesslink Pty Ltd shareholders are the Treasurer, the Minister for Community Services, the Minister for Ageing and Disability Services and the Minister for Housing.

For more information on NSW Businesslink Pty Ltd, refer to www.businesslink.nsw.gov.au.

Minister for Fair Trading

Refer to Appendix 1 for:

Financial Counselling Trust Fund

Minister for Housing

Aboriginal Housing Office

City West Housing Pty Limited

Home Purchase Assistance Fund

NSW Land and Housing Corporation

Aboriginal Housing Office

AUDIT OPINION

The audit of the Aboriginal Housing Office's (AHO) financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

KEY ISSUES

Total Asset Management Plan

Last year I reviewed the AHO's compliance with certain aspects of The Treasury's Total Asset Management Program (TAM) and my findings were reported to management. In response, the AHO developed a process to ensure compliance with the TAM. The AHO will implement its compliance process.

Tax Ruling

Last year I reported that the AHO submitted two separate requests to the Australian Taxation Office (ATO) for private rulings in relation to Goods and Services Tax treatment. The AHO received ATO rulings in August 2009 and is still considering the rulings to determine if a liability exists. The ATO has given the AHO until 31 October 2010 to respond to the rulings.

PERFORMANCE INFORMATION

The AHO has developed targets as a measure of its performance including:

Management of Housing Stock

Actual expenditure on all repairs and maintenance has trended upward over the last few years.

Year ended 30 June	Target	Actual			
	2010	2010	2009	2008	2007
AHO dwellings planned repairs and maintenance (\$m)	14.0	12.8	9.2	7.9	4.3
Management of repairs and maintenance budget (community dwellings) (\$m)	13.5	16.2	11.1	5.5	6.9
Average cost per dwelling upgraded/repaired:					
- AHO dwellings (\$)	42,296	38,671	47,917	29,306	36,402
- Aboriginal community dwellings (\$)	3,048	3,658	6,839	5,971	10,633

Source: Aboriginal Housing Office (unaudited).

The AHO's planned maintenance program for its housing stock, is designed to minimise its repairs and maintenance liability. The program ranges from relatively minor works for newer dwellings to large works for older dwellings.

Expenditure on the Aboriginal community property repairs and maintenance program was \$2.7 million more than budget (\$600,000 more than budget in 2008-09). This program is generally limited to small value works required to either improve or maintain health and safety needs.

The major difference in the average cost per dwelling to upgrade/repair AHO dwellings and Aboriginal community dwellings is that the AHO fully funds its own dwellings and only partly funds the Aboriginal community dwellings.

Tenant and Property Management

Net rental income has trended downwards over the last three years because of increased repairs and maintenance costs on properties.

Year ended 30 June	Target	Actual			
	2010	2010	2009	2008	2007
Rental income (net of property expenses) (\$m)	2.5	5.0	5.3	5.8	3.8
Rental income arrears (%)	7.8*	7.3*	8.5*	7.2*	7.5*

Source: Aboriginal Housing Office (unaudited).

* Percentage of gross rental income.

The AHO manages a property portfolio with a value of \$956 million (\$909 million) with gross annual rental income of \$35.6 million (\$28.1 million). Rental income arrears decreased in 2010 following increased management attention.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Grants and contributions	67,879	42,628
Rental income	35,581	28,058
Other	19,563	12,417
TOTAL REVENUE	123,023	83,103
Depreciation	6,584	6,963
Personnel expenses	7,564	7,958
Housing program	41,884	34,571
Property expenses	30,604	22,798
Other	4,401	4,648
TOTAL EXPENSES	91,037	76,938
SURPLUS	31,986	6,165
OTHER COMPREHENSIVE INCOME		
Gain on revaluation of property, plant and equipment	11,908	4,880
TOTAL OTHER COMPREHENSIVE INCOME	11,908	4,880
TOTAL COMPREHENSIVE INCOME	43,894	11,045

Grants and Contributions increased largely due to \$22.5 million from the Australian Government's Remote Indigenous Housing National Partnership (RIHNP) project.

The AHO's housing program incurred the following expenditure:

Year ended 30 June	2010 \$'000	2009 \$'000
Community asset acquisition of dwellings – Aboriginal communities program	535	2,769
AHO dwelling planned repairs and maintenance	12,656	9,069
Community dwelling repairs and maintenance	15,772	10,721
Aboriginal Community Development Program	4,592	6,921
Other	8,329	5,091
	41,884	34,571
Employee related expenses	1,528	1,123
Total	43,412	35,694

Management advised the increase in housing related expenditure was made possible due largely to \$1.2 million of funding for the new RIHNP project and the energy savings program.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	41,585	44,555
Non-current assets	974,955	925,347
TOTAL ASSETS	1,016,540	969,902
Current liabilities	21,941	20,120
Non-current liabilities	4,124	3,201
TOTAL LIABILITIES	26,065	23,321
NET ASSETS	990,475	946,581

Non-current assets increased due to asset acquisitions of \$30.8 million, \$17.6 million of asset transfers free of liability from Housing NSW and Aboriginal community housing providers and a \$11.9 million revaluation of existing properties.

OTHER INFORMATION

The 'Public Sector Employment and Management (Department Amalgamations) Order 2009' transferred the staff performing the functions for the AHO to the New South Wales Department of Human Services. The Order abolished the Aboriginal Housing Office Group of Staff, effective 1 July 2009.

AHO'S ACTIVITIES

The AHO's principal functions are to plan, develop, deliver and evaluate programs and services to assist Aboriginal and Torres Strait Islander peoples within New South Wales to meet their housing needs. Other functions relate to registering and funding Aboriginal community housing providers; the power to enter into agreements with registered Aboriginal community housing providers; and the management of property owned by the AHO.

The AHO was constituted by the *Aboriginal Housing Act 1998*. It is subject to the control and direction of the Minister for Housing.

For further information on the AHO, refer to www.aho.nsw.gov.au.

City West Housing Pty Limited

AUDIT OPINION

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

PERFORMANCE INFORMATION

The Company's progress against its long-term development program at 30 June 2010 was:

Location	Long-term target (units)	Completed units	% of target
Ultimo-Pymont	600	446	74.3
Green Square *	216	102	47.2

Source: City West Housing Pty Limited (unaudited).

* Includes 57 unit development completed in August 2010

The Company had 491 residential units at 30 June 2010. This included 446 units in Ultimo-Pymont, accommodating 850 people and 45 units in Green Square, accommodating 85 people. This is consistent with 30 June 2009.

The average cost of construction is approximately \$243,000 per unit. Costs per unit range from approximately \$160,000 for a development in Pymont completed in 1997 to approximately \$398,000 for a development in Waterloo completed in 2007.

In August 2010, the Company completed construction of its 57 unit development at Zetland. The cost to develop this site was \$19.2 million. The development was completed on time and under budget.

The Company reported a 99 per cent average occupancy in 2010 and 2009. There are currently 365 households on its eligibility wait list.

Accommodation is allocated to eligible applicants according to need. Eligibility is determined by applicants':

- gross household income and financial circumstances
- connections to the local area
- current housing adequacy and suitability
- need for long term housing in the local area
- Australian residency.

Rent charges paid by tenants are determined having regard to annual household income. At six month intervals, tenants are reassessed to ensure they still meet eligibility requirements and are charged appropriate rents. Bad debts represent 0.1 per cent of rent charges for 2009-10.

OTHER INFORMATION**Future Developments**

The Company receives developer contributions under the Sydney Local Environmental Plan 2005 as part of the City West Affordable Housing Program. The Department of Planning revised this City West Affordable Housing Program in June 2010.

The revised program acknowledges reducing availability of land in Ultimo-Pyrmont, which causes constraints and limitations on spending developer contributions within that area. Contributions from Ultimo-Pyrmont can be used for the provision of future affordable housing developments elsewhere in the City of Sydney local government area.

The Company is working on plans for a further development in South Sydney, which is expected to yield between 90 and 120 units and be completed by 2014.

FINANCIAL INFORMATION**Abridged Statement of Comprehensive Income**

Year ended 30 June	2010 \$'000	2009 \$'000
Developer contributions	4,549	6,556
Rental income and tenants' contributions to outgoings	5,502	5,385
Investment income	2,256	2,380
Grant income	7,817	24
TOTAL REVENUE	20,124	14,345
Depreciation	3,762	3,768
Property outgoings and maintenance	1,755	1,475
Employee benefits	459	420
Other	209	204
TOTAL EXPENSES	6,185	5,867
SURPLUS	13,939	8,478
OTHER COMPREHENSIVE INCOME		
Gain on revaluation of property, plant and equipment	34,969	--
TOTAL OTHER COMPREHENSIVE INCOME	34,969	--
TOTAL COMPREHENSIVE INCOME	48,597	8,478

In 2010, the company received \$7.8 million from the National Employment Stimulus Package. A further \$1.3 million is expected in 2010-11. The Company allocated the funding to construction of its 57 unit development at Zetland.

Abridged Statement of Financial Position

At 30 June	2010	2009
	\$'000	\$'000
Cash and investments	56,997	51,679
Property, plant and equipment	251,415	208,373
Other	1,390	368
TOTAL ASSETS	309,802	260,420
Trade and other payables	1,342	881
Employee benefits	215	202
TOTAL LIABILITIES	1,557	1,083
NET ASSETS	308,245	259,337

The Company's significant cash and investments are being held to fund its extensive capital program. Over the next four years, the Company expects to construct 216 units at a cost of \$81.2 million.

At 30 June 2010, the Company had units rented to tenants valued at \$238 million (\$206 million at 30 June 2009). After a revaluation at 30 June 2010, the average fair value of units at 30 June 2010 was \$474,000 per unit (\$420,000).

COMPANY ACTIVITIES

The Company was established in 1994, with its principal function to provide affordable rental housing to very low, low and moderate-income households in Pyrmont, Ultimo and Green Square. It develops and manages affordable housing, which contributes to the maintenance of a socially diverse community in the inner city.

The key aim of affordable housing is to maintain socially diverse communities by providing housing to people who are unable to compete in the existing private housing market. By contrast, social housing (also known as public housing) is provided to people on low incomes who are unable to obtain affordable housing.

Ownership vests with Government by holding the Company's only ordinary shares. Redeemable preference shares are issued to organisations with a direct interest in the development and management of affordable rental housing in the City West area. There are currently 11 preference shareholders.

For further information on the company, refer to www.citywesthousing.com.au.

Home Purchase Assistance Fund

AUDIT OPINION

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

FINANCIAL INFORMATION

Year ended 30 June	2010 \$'000	2009 \$'000
Revenue	17,563	21,624
Expenses	309	494
Surplus	17,254	21,130
Distributions	22,166	22,232
Net assets attributable to beneficiaries (at 30 June)	360,374	365,286

Revenue comprises interest earned on investments. Revenue decreased in 2009-10 by \$4.0 million due to a change in investment products and corresponding movements in interest rates. Expenditure is predominantly the operational support payment paid to service providers and the Trustee's fee.

Distributions made by the Fund were:

- \$21.5 million (\$21.5 million in 2008-09) to the Crown Entity for reimbursement of loan and interest repayments made to the Australian Government. The nominal value of the Crown Entity's loans was \$238 million at 30 June 2010 (\$248 million) which is not included in the net assets above
- \$642,000 (\$708,000) to special beneficiaries for revenue shortfalls of individual FANMAC Trusts and Shared Equity Schemes.

The Fund made no distribution to the NSW Land and Housing Corporation as a return of capital (\$45.0 million in 2008-09).

Assets at 30 June 2010 are held in term deposits and bonds.

FUND ACTIVITIES

A Trust Deed established the Fund on 14 February 1989 to support the State's home purchase assistance program. The Fund is required to make distributions including:

- meeting any income shortfalls in the FANMAC Trusts and some Shared Equity Schemes. These distributions are paid to the Special Beneficiary, Permanent Trustee Company Limited, as Trustee of these Trusts and Schemes. The FANMAC Trusts were established to raise funds on behalf of the State and to lend funds to a certain class of homebuyers under conditions specified by the Government. At 30 June 2010 the only mortgage trust still operating was the FANMAC Master Trust
- those as directed by the beneficiary. The beneficiary is the Minister of the Crown of the State of New South Wales for the time being charged with the administration of the *Housing Act 2001*.

NSW LAND AND HOUSING CORPORATION

AUDIT OPINION

The audits of the Corporation and its controlled entity's financial reports for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

KEY ISSUES

Transfer of functions to the Department of Human Services

On 27 July 2009, the 'Public Sector Employment and Management (Departmental Amalgamations) Order 2009' transferred the functions of the former Department of Housing to the Department of Human Services. The Department of Housing was abolished.

The Corporation prepared separate financial statements for the first time. The Corporation's activities were previously combined with the former Department of Housing.

Social Housing Implementation Plan

During the year ended 30 June 2010, the Corporation received \$1.3 billion under the Social Housing Implementation Plan (the Plan). In the same period, it spent \$37.2 million on repairs and maintenance and \$1.1 billion on new construction. The Plan is part of the Commonwealth Government's Nation Building Economic Stimulus Plan (NBESP). Under the Plan, the Corporation will build approximately 6,000 dwellings expected to be completed in 2011-12, in addition to its existing plans to build around 3,000 dwellings.

On completion of the Plan, some or all of the properties might transfer to not-for-profit community housing providers. In May 2009, the Government approved the transfer of title of up to 6,500 properties and up to 500 existing properties under community housing management to community housing providers subject to a number of conditions. These conditions have not yet been met. The proposed transfers will occur for nil consideration. The value of the assets at 30 June 2010 was \$1.2 billion (including work-in-progress of \$879 million).

The table below details the cash received and the spending across the three components of the Plan:

Year Ended 30 June 2010	Cash received	Actual Expenditure	Accrued Expenditure for Completed and Work in Progress	Total
	\$m	\$m	\$m	\$m
Repairs and maintenance	65.2	36.1	1.1	37.2
Stage 1	206.0	178.7	7.4	186.1
Stage 2	1,055.5	641.4	305.1	946.5
Total expenditure	1,326.7	856.2	313.6	1,169.8

Source: NSW Land and Housing Corporation (unaudited).

At 30 June 2010, the Corporation advised that, on Stage 1, it incurred \$186 million and completed approximately 99.8 per cent of stage 1 of the Plan. This stage will see approximately \$226 million deliver 860 dwellings through 121 projects. Stage 1 brought forward previously planned and approved construction for social housing dwellings.

The Corporation incurred \$947 million on Stage 2 of the Plan by 30 June 2010. This stage involves new construction costs, including the spot purchase of house and land packages for use in social housing. The Corporation's financial statements show an increase in current liabilities at 30 June 2010, which is mostly due to Stage 2 activity.

The program model adopted by the Corporation involves the outsourcing of project work to a number of major development/project management firms and Landcom.

The breakdown of approved funding under Stage 1 and Stage 2 by area is detailed below:

Region	Stage 1		Stage 2		Total	
	No. of Dwellings	\$m	No. of Dwellings	\$m	No. of Dwellings	\$m
Central Sydney	112	33.5	836	239.8	948	273.3
Greater Western Sydney	294	80.7	1,937	585.6	2,231	666.3
Northern Division	360	90.9	1,035	315.5	1,395	406.4
Southern and Western Division	94	20.5	1,664	507.0	1,758	527.4
Total	860	225.6	5,472	1,647.8	6,332	1,873.4

Source: NSW Land and Housing Corporation (unaudited).

Funding allocations from the Australian Government, compared with other jurisdictions are detailed below. Since 30 June, the Australian Government amended New South Wales' funding for Stage 2 to \$1.7 billion. This funding includes State funded contributions via GST input tax credit claims of \$128 million.

	Repairs and maintenance \$m	Stage 1 \$m	Stage 2 \$m	Total \$m
NSW	130.4	225.6	1,725.2	2,081.2
Vic	99.2	171.5	1,313.0	1,583.7
Qld	80.0	138.6	1,062.2	1,280.8
WA	40.0	70.0	538.1	648.1
SA	32.1	51.9	395.3	479.3
Tas	9.3	16.1	122.6	148.0
ACT	6.5	11.2	85.2	102.9
NT	2.5	7.1	54.4	64.0
Total	400.0	692.0	5,296.0	6,388.0

Source: Commonwealth Government Nation Building Economic Stimulus Plan (unaudited).

Repairs and maintenance work costing \$130 million was expected to be completed over two years ending in June 2010. The Corporation advised it completed the maintenance work six months early in December 2009. An amount of \$30.0 million was transferred to a separate project to improve 300 bedsitter dwellings by June 2011.

The Corporation is receiving funding for Stages 1 and 2 between 2008-09 to 2011-12. It exceeded its target to complete 752 dwellings by 30 June 2010 by completing 844 dwellings. The Australian Government expects the Corporation to complete 75 per cent of the dwellings under Stage 1 and Stage 2 by no later than 31 December 2010.

Aspects of the Corporation's Governance over the Plan Project

Project Acceptance

I reviewed a sample of the Plan's projects and found that the projects complied with the Corporation's criteria for project acceptance. The Corporation developed criteria for project acceptance. Some of the criteria included access to public transport, schools, shops and hospitals.

In some instances, initial assessments, completed at a local level, were revised by the Plan's Steering Committee. The basis for the Plan's Steering Committee final decisions appeared reasonable.

Planning approvals

I reviewed some of the NBSEP developments and found that the Corporation complied with the State Environmental Planning Policy (Affordable Rental Housing) 2009 (State Environmental Planning Policy). When the Corporation approves a development it must, amongst other requirements:

- give written notice of the intention to carry out the development to the council for the area in which the land is located and to the occupiers of adjoining land, and
- take into account any response to the notice that is received within 21 days after the notice is given.

A point of difference between developments approved by the Corporation and developments approved by Councils is notification of residents. Councils tend to communicate development proposals wider than the occupiers of adjoining land.

I have been advised the time taken for the NBESP planning approvals was less than for previous approvals for similar projects. The NBESP planning approval process appears to have benefited from the State Environmental Planning Policy (Affordable Rental Housing) 2009 (State Environmental Planning Policy). This State Environmental Planning Policy removed the approval process from local government for certain developments.

Payment Acquittals under the NBESP

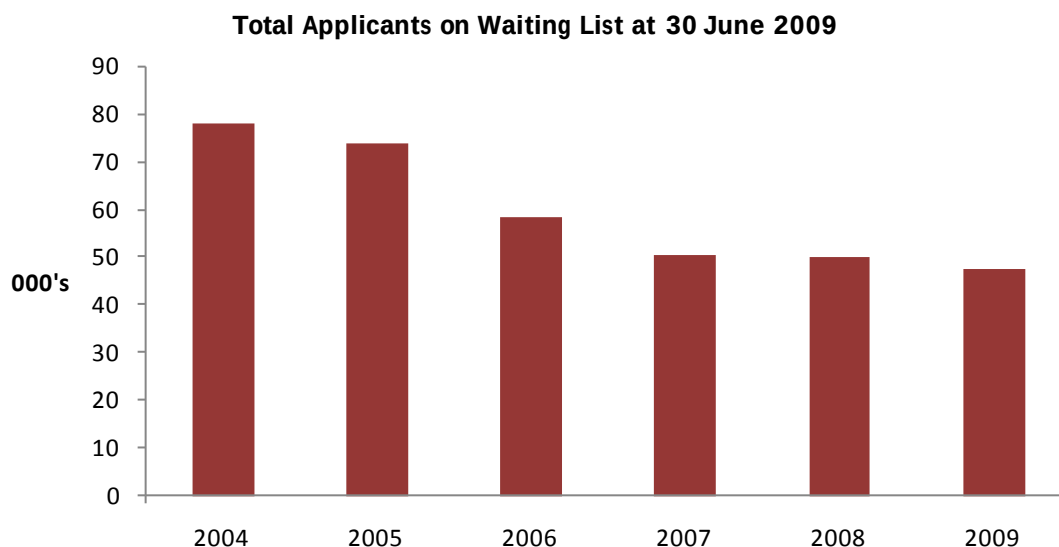
The Corporation pays its contractors after receiving statutory declarations from them indicating that the value of works equal to the claim were complete and they owed no amounts to their sub-contractors. However, it is possible there may have been sub-contractor invoices issued but not yet due and payable.

The Corporation contracted with a large number of contractors to deliver the Plan on time and within budget. Many of these contractors further sub-contracted the work. To help ensure contractors paid their sub-contractors on time, the Corporation required contractors to provide statutory declarations indicating they had no amounts owing to their sub-contractors.

PERFORMANCE INFORMATION

Waiting Lists

The Corporation's public housing waiting lists, including transfer applicants, have decreased over the past five years from 77,984 in 2004 to 47,410 in 2009, an average reduction of 7.8 per cent per annum or 39.2 per cent over the five years. About 13,300 applicants were housed annually in this period. The Corporation advised the reduction in waiting lists is attributable to housing applicants as indicated above as well as from improved management of the housing registers, including regular surveys of applicants to determine their ongoing eligibility and needs.



Source: Productivity Commission Report on Government Services, 2010

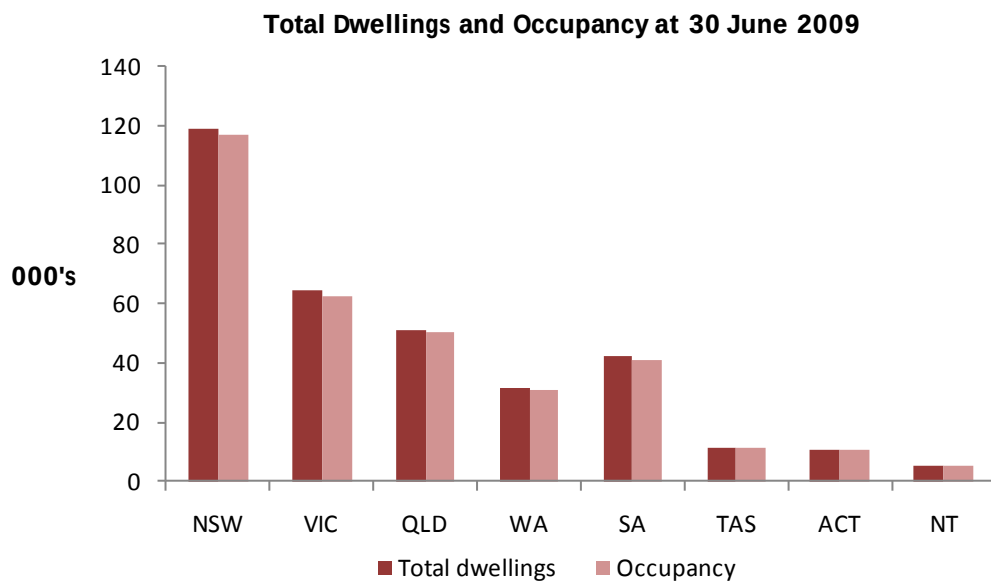
Provision of Social Housing

During 2009-10 the Corporation assisted 339,400 (341,400) people through the provision of social housing. The New South Wales Government's RentStart Program helped approximately 35,022 (32,649) households into the private rental market.

Private Rental Assistance provided was \$41.4 million (\$32.4 million). This includes payment of rental arrears to salvage existing tenancies and assistance in bonds and advance rent.

Number of Public Housing Properties and Occupancy Rates

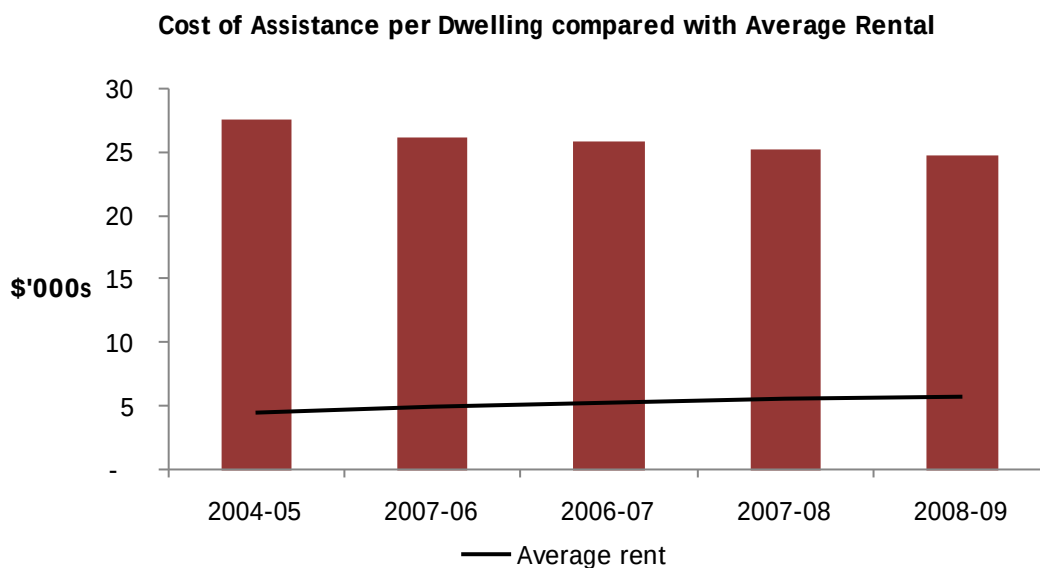
At 30 June 2009, New South Wales had the greatest number of public housing properties in Australia. Queensland had the highest occupancy rate at 98.9 per cent (99.1 per cent). New South Wales had an occupancy rate of 98.6 per cent (99 per cent) ranking it second in Australia and higher than the national average of 97.3 per cent (98 per cent).



Source: Productivity Commission Report on Government Services, 2010

Cost of Providing Assistance per Dwelling compared with Average Rental

There has been a slight increase in average rent over time. When compared, over the same period, the cost of providing assistance per dwelling has declined. The Corporation attributes this to a declining cost of capital offset by rent increases.

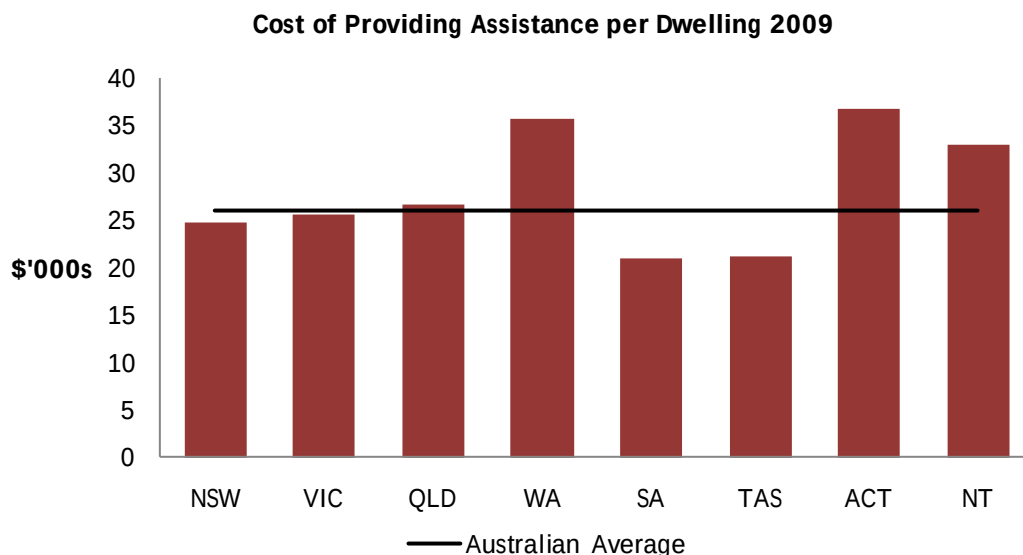


Source: Compiled by the Audit Office of New South Wales, based on information in the Productivity Commission Report on Government Services, 2010

*Cost of providing assistance per dwelling includes the cost of capital.

Cost of Providing Assistance per Dwelling

In 2008-09, New South Wales had the sixth (fifth) highest cost of providing assistance (including the cost of capital) per dwelling at \$24,653 (\$23,938), 5.4 per cent lower (3.2 per cent higher) than the national average.



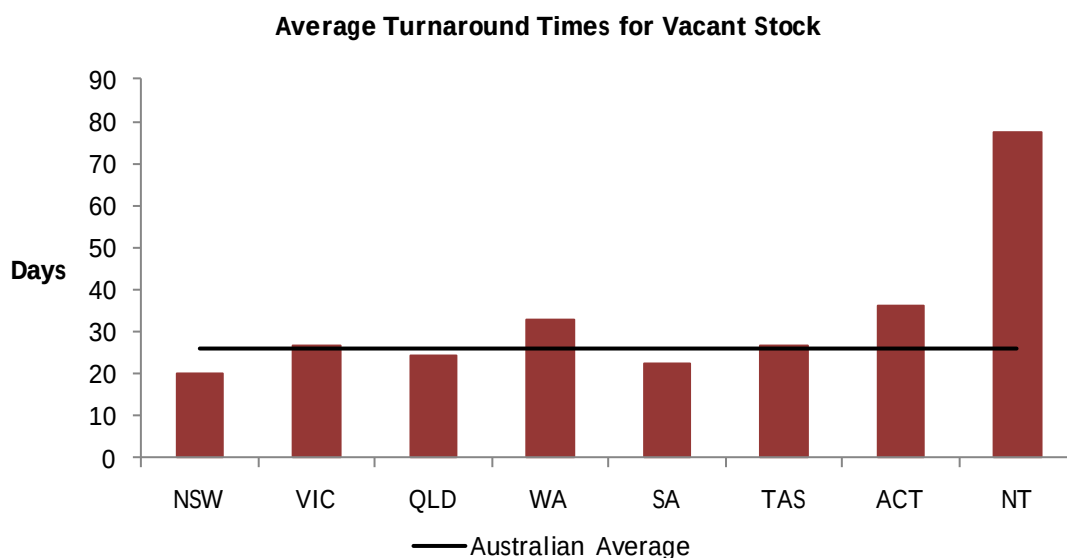
Source: Productivity Commission Report on Government Services, 2010

Issues on the comparability of the cost data across jurisdictions include consistency of data collection, completeness of data and the possibility of double counting of items by some jurisdictions.

Average Turnaround Time

In 2008-09, New South Wales' public housing turnaround time of 20.2 days (22.2 days) was lower than the Australian average of 26.2 days (25.2 days) ranking it first in Australia.

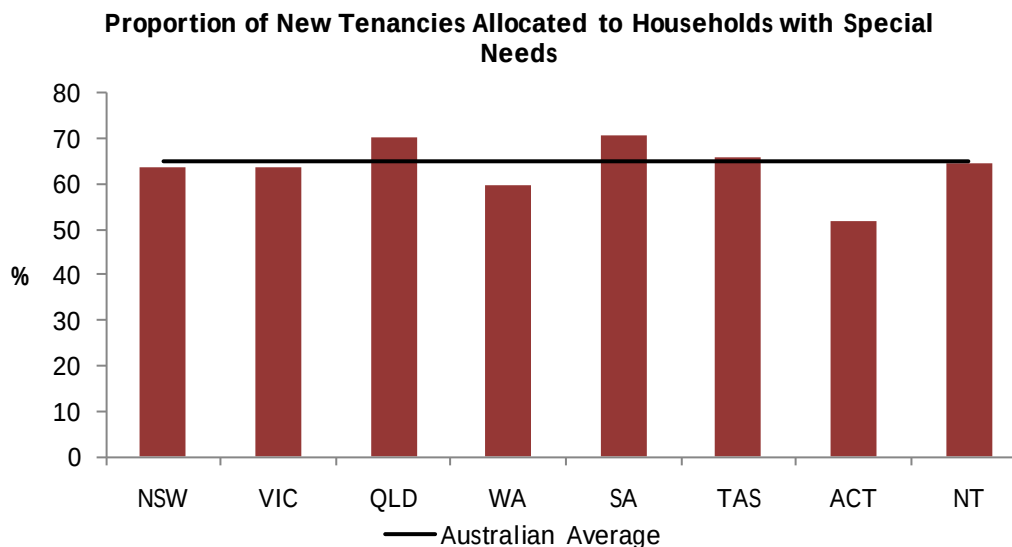
Turnaround time indicates how quickly jurisdictions rent out housing stock after being vacated or acquired.



Source: Productivity Commission Report on Government Services, 2010

Proportion of New Tenancies to Households with Special Needs

The Australian average of new tenancies allocated to 'special needs' households in 2008-09 was 64.8 per cent (59.5 per cent). At 63.4 per cent (59.5 per cent), New South Wales was lower than the national average.



Source: Productivity Commission Report on Government Services, 2010

OTHER MATTERS

We identified opportunities to improve accounting and internal control procedures and reported them to management.

Bonnyrigg Project

The Corporation expects the new estate to be constructed in 18 stages over 14 years.

Stage 1 of the project, which commenced in February 2009, was completed in June 2010. It comprises 67 private dwellings, 39 social dwellings and some resident amenities.

Stage 2 of the project has commenced and is scheduled for completion in December 2011. Stage 3 will be completed in phases. The first phase will commence with the demolition of existing dwellings in November 2010. Stage 3 construction should commence in June 2011.

The project will redevelop and renew 833 public housing properties into a mixed community of 1,631 private and 699 public housing homes through a 30-year public-private partnership. The project also involves the building or purchase of 143 dwellings offsite to help ensure the stock of 833 social houses is maintained. When the project is complete, private and public dwellings will be in the ratio of 70:30 across the whole project.

In October 2007, Bonnyrigg Partnerships, comprising Becton Property Group, Westpac Banking Corporation, St George Community Housing Association and the Spotless Group Limited, were selected by the New South Wales Government to undertake the \$733 million redevelopment of Bonnyrigg. The transfer of dwellings and tenants from the Corporation to Bonnyrigg Partnerships also occurred in October 2007, with St George Community Housing Association becoming the social housing landlord.

The project aims to improve the quality of public housing and community facilities and services provided to tenants and the local community. To encourage the achievement of these goals the Corporation has designed the payments to the private sector to be predominantly performance based. Key performance indicators have been agreed for most aspects of service delivery, including tenant's satisfaction with each broad category of service provision.

One Minto Project

The One Minto Project incorporates extensive deconcentration of the estate with redevelopment of the townhouse precincts, upgrading of the cottage precincts and refurbishment of the roads, parks and common areas across Minto. Management advised on completion of the development:

- there will be approximately 1,200 lots of land. The Corporation will own 30 per cent of the properties and the remaining 70 per cent will be private housing
- approximately 50 of the Corporation's properties will be refurbished for private sale
- 664 demolished properties at Minto will be replaced with properties in other areas of South Western Sydney with high demand for public housing.

Since sales commenced in late 2008, approximately 73 per cent of the lots released have been sold.

The One Minto Concept Plan (formerly Minto Renewal Project) was developed after extensive community consultation and was approved in June 2006. It is expected to be completed in 2015-16. The Corporation, Campbelltown City Council and Landcom are working together to redevelop the area. Landcom has been engaged as the development manager. The initial budget set for this project was \$226 million and the costs are within expectations.

Project Meridian

The objective of the project is to replace the Integrated Housing System (IHS) with a new IT system. This is a major project for the Corporation as IHS currently supports core business activities associated with the management of tenants, applicants and the property portfolio. Management has advised that the project will significantly improve service delivery through new enhancements in accessing client information and higher quality data.

Management has advised recent achievements and decisions include:

- finalising of user acceptance testing and system performance testing
- HOMES training rolled out to users
- testing on 70 predefined reports which are available for go-live.

The original budget for this project was \$42.4 million; however this increased to \$57.3 million as a result of the increased complexity of the project and to allow for additional system functionality.

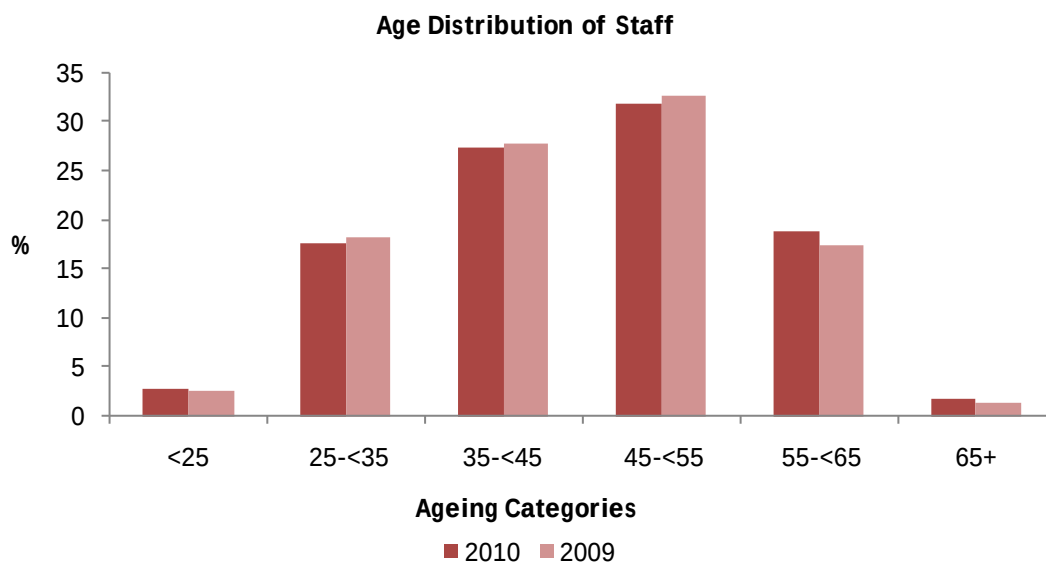
When implemented, Project Meridian will be renamed Homes. Management has advised it is on track for implementation by the end of 2010.

Ageing of the Workforce

The age distribution of the Corporation's workforce is not as significantly skewed towards employees approaching retirement age. As a result it does not face the challenges posed by the potential loss of large numbers of retiring staff and skills to the same degree as the rest of the sector. The Corporation is actively monitoring its workforce profile and has key strategies in place to address this risk.

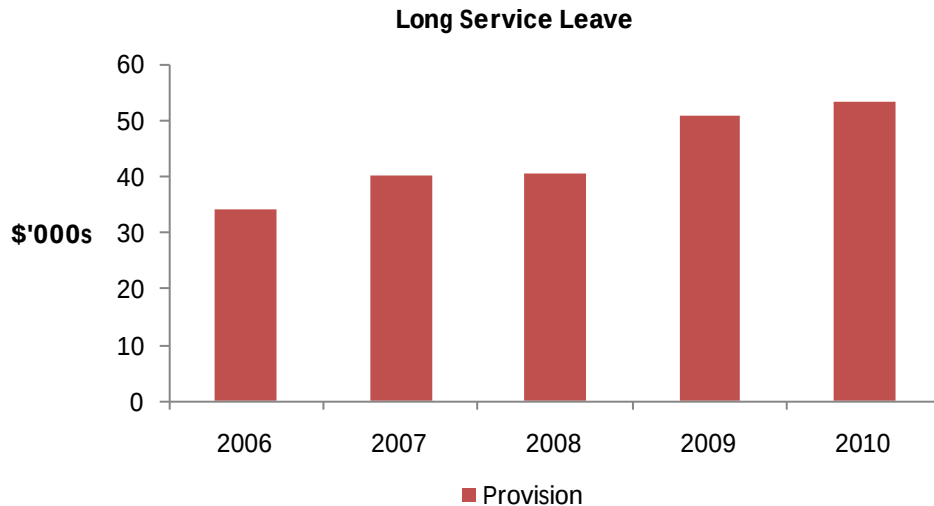
At 30 June Age Group	2010		2009	
	No. Of Staff (FTE)	%	No. Of Staff (FTE)	%
45 and younger	1,158.6	47.5	1,145.7	48.6
45 to less than 55	777.0	31.9	769.2	32.6
55 to less than 65	461.5	18.8	410.0	17.4
65 and over	44.5	1.8	32.1	1.4
Total	2,441.6	100	2,357	100

Source: NSW Land and Housing Corporation (unaudited)



Long Service Leave

Increasing long service leave liabilities may create a funding challenge for the Corporation. Long service leave liabilities have increased by approximately 56 per cent over the past five years.



Excessive Annual Leave

The Corporation effectively monitors and manages employee annual leave balances, containing the annual leave expense and related liability. At 30 June 2010, 62 (124) employees had accrued annual leave entitlements in excess of 40 days. This represents 2.4 per cent (4.7 per cent) of all employees. The accumulation of excessive annual leave entitlements results in increased financial costs to the Corporation because these entitlements will be paid out at higher salary rates in the future and may have occupational health and safety implications.

Overtime

The Corporation effectively manages overtime worked by its employees. The Corporation engages over 2,500 people and incurred \$212 million (\$229 million) on personnel services. Of this amount, approximately \$1.2 million (\$1.7 million) was paid as overtime. Only two employees (two) received overtime payments in the range of 10-20 per cent higher than their base salary. All other employees who worked overtime received less than 10 per cent of their base salary in overtime payments.

Employment of Contractors

I recommend the Corporation periodically review the roles and responsibilities of all its contractors to help ensure:

- its reliance on contractors is not excessive
- use of a contractor instead of a permanent employee is appropriate
- contractors do not become de facto employees by virtue of being with the Corporation for an extended period of time
- use of a contractor continues to represent good value for money.

The Corporation has employed some contractors for more than two years. The risk of engaging long term contractors is that they may become entitled to all the benefits associated with permanent employment.

At 30 June	2010	2009
	No. of Contractors	No. of Contractors
Less than 1 year	268	245
Between 1 and 3 years	188	128
Between 3 and 5 years	29	9
Between 5 and 10 years	11	10
Total	496	392

The number of contractors engaged by the Corporation has increased over the past two years due to the Social Housing Implementation Plan and Project Meridan. The Corporation advised that contractor numbers will decline in future years as these projects are completed.

Affordable Housing Grants

The Corporation received grants in 2005-06 and 2006-07 totaling \$39.5 million from the Rental Bond Board (RBB) to establish the Affordable Housing Innovations Fund (AHIF) and for the St Mary's Development affordable housing project. The AHIF aims to provide grants to registered community housing providers for the development or acquisition of affordable rental dwellings. At the St Mary's Development, these funds will be allocated to a registered community housing provider and used in conjunction with land contributions, provided through a planning agreement between the Government and a private firm, to construct affordable rental housing on the site.

During 2009-10, the Corporation provided \$4.4 million (\$17.1 million) to community housing providers to deliver new affordable dwellings. The remaining funds, which now total \$23.0 million including interest earned, have been allocated and will be paid progressively to community housing providers. These funds will deliver around 326 new affordable dwellings.

The unspent grants are shown as restricted assets in the financial statements. In accordance with the RBB agreements, the \$23.0 million in unspent funds were invested in two New South Wales Treasury Corporation (TCorp) Hour-Glass cash facilities.

FINANCIAL INFORMATION**Abridged Statement of Comprehensive Income**

Year ended 30 June	2010 \$'000	2009 \$'000
Rent and other tenant charges	694,920	688,312
Government grants	1,922,608	889,952
Interest income	26,469	24,839
Other income	35,315	32,404
TOTAL REVENUE	2,679,312	1,635,507
Repairs and maintenance	266,390	234,829
Council and water rates	189,164	180,106
Employee related expenses	212,503	229,218
Other operating expenses	145,261	125,294
Depreciation and amortisation	298,984	282,241
Grant expenses	296,571	191,969
Other expenses	195,933	176,139
TOTAL EXPENSES	1,604,806	1,419,796
SURPLUS FOR THE YEAR	1,074,506	215,711
OTHER COMPREHENSIVE INCOME		
Revaluation Increment/(Decrement)	2,907,995	(47,714)
Gain on sale of investments	276	--
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	2,908,271	(47,714)
TOTAL COMPREHENSIVE INCOME	3,982,777	167,997

Government grants increased largely due to funding of \$1.3 billion (\$85.0 million) received under the Nation Building Economic Stimulus Plan.

Repairs and maintenance increased due to accelerated maintenance funded by the Government and Social Housing Implementation Plan funding aimed specifically at maintenance.

Grant expenses increased by \$94.6 million during 2009-10. This increase is largely due to an increase of \$68.0 million in Social housing Growth Fund grants. These grants will provide capital funding to support a range of projects to increase supply of social housing. The Corporation also provided grants of \$23.3 million to the Aboriginal Housing Office to fund the Remote Indigenous Housing program.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	835,404	659,819
Non-current assets	32,033,388	28,170,421
TOTAL ASSETS	32,868,792	28,830,240
Current liabilities	701,609	491,107
Non-current liabilities	729,420	884,147
TOTAL LIABILITIES	1,431,029	1,375,254
NET ASSETS	31,437,763	27,454,986

Current assets increased by \$176 million. This increase is largely due to an increase in bank bills and deposits. These funds will be used to meet the funding requirements of the Social Housing Implementation Plan.

Non-current assets increased due to the completion of 851 dwellings and the partial construction of 1,752 dwellings and revaluation increments of \$2.6 billion.

The increase in current liabilities was mainly due to higher accrued capital expenditure of \$191 million due to spending to meet the Social Housing Implementation Plan.

The decline in non-current liabilities was mainly due to the repayment of borrowings.

THE CORPORATION'S ACTIVITIES

The Corporation's statutory functions are set out in the *Housing Act 2001*. Its role is to provide quality rental housing solutions for those whose needs cannot be met by the private market.

The Minister for Housing has the power to direct and control the Director-General of the Department of Human Services in respect of all the Corporation's operations. Management advised that no such Ministerial Directions occurred in 2009-10.

For further information on the Corporation, refer to www.housing.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.

For further financial and other information on this entity we have listed the entity's website.

Entity Name	Website
Rental Housing Assistance Fund	www.housing.nsw.gov.au

Minister for Planning

Refer to Appendix 1 for:

Building Professionals Board

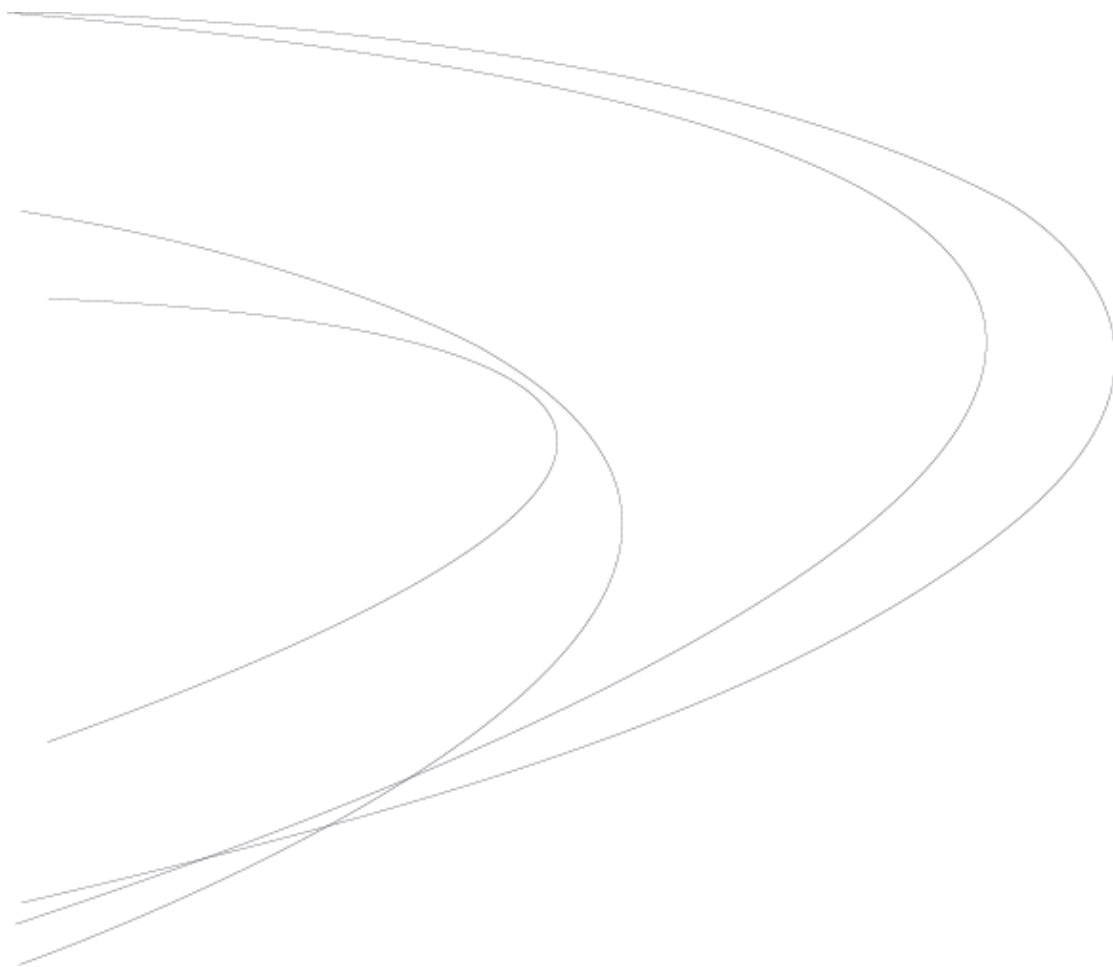
Treasurer

Refer to Appendix 1 for:

Internal Audit Bureau of New South Wales

Appendix

Appendix 1 Agencies not reported elsewhere in this Volume



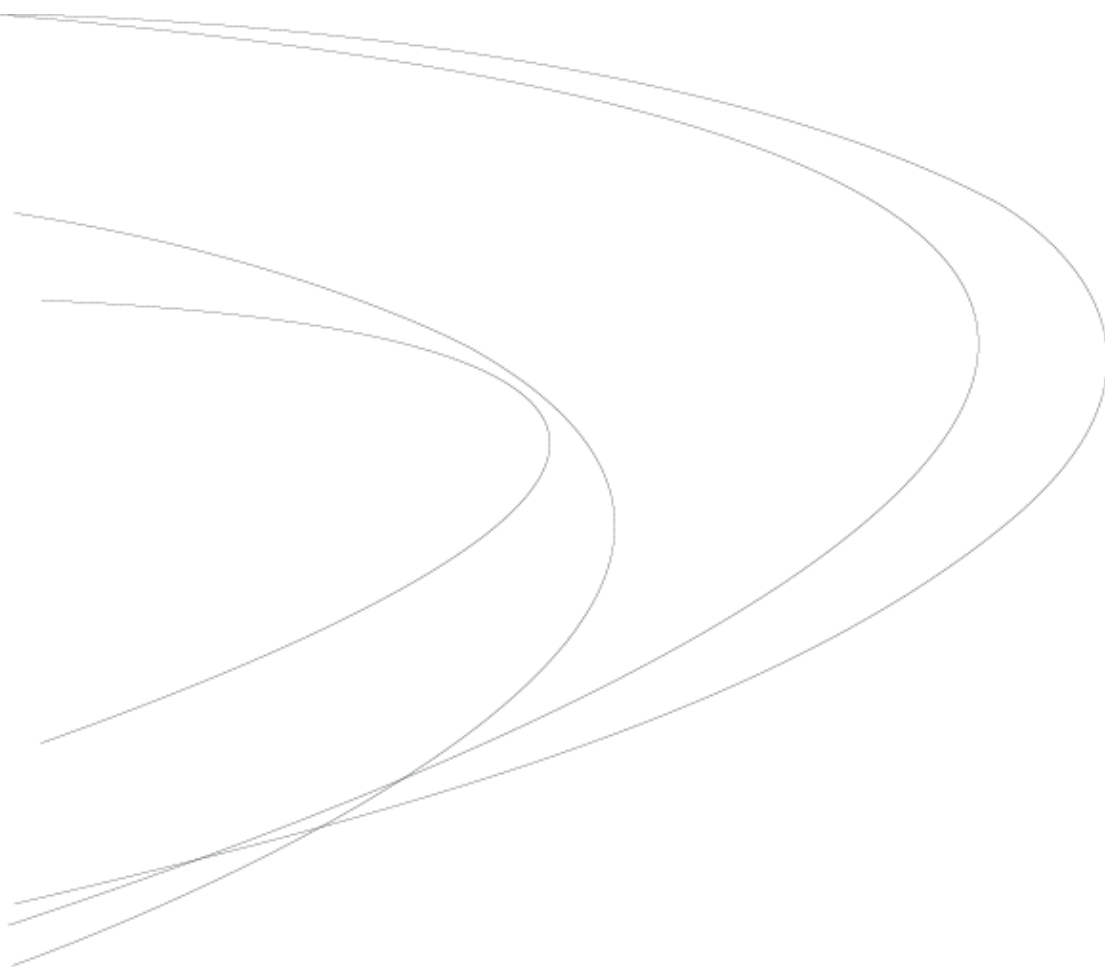
Appendix 1 - Agencies not reported elsewhere in this Volume

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

Entity Name	Website	Period/Year Ended
Building Professionals Board	www.bpb.nsw.gov.au	30 June 2010
Fair Trading Administration Corporation	*	30 June 2010
Financial Counselling Trust Fund	*	30 June 2010
Internal Audit Bureau of New South Wales	www.iab.nsw.gov.au	30 June 2010
Motor Vehicle Repair Industry Authority	*	30 June 2010
NSW Architects Registration Board	www.boarch.nsw.gov.au	30 June 2010

* This entity does not have a website.

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AUDITOR-GENERAL'S REPORT FINANCIAL AUDITS

Volume Seven 2010



The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

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

Peter Achterstraat
Auditor-General

Sydney
November 2010

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Significant Items

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Environment and Water Overviews	
In 2009-10, poor air quality days increased to 64 from 47 in 2008-09 and 23 in 2007-08 and is attributed to photochemical smog during the summer, dust storms and bushfires.	5
At 30 June 2009, there were 272 contaminated sites across New South Wales of which 114 have been successfully remediated.	5
The Department spent \$214 million of the Climate Change Fund to help households, businesses and government save energy and water and to reduce greenhouse gas emissions.	12
The New South Wales Home Saver Rebate Program, part of the Climate Change Fund, has paid more than 263,000 rebates to residents since its commencement. The Department estimates related savings of 310,000 tonnes of greenhouse gas and 3.6 billion litres of potable water each year.	13
In the period October 2007 to June 2010, the Department paid 118,848 rebates to residents for hot water systems. The related payments from the Climate Change Fund totalled \$64.6 million in 2009-10 (\$20.8 million).	13
The Department contributed \$25.0 million to the Australian Government's \$500 million National Clean Coal initiative. The New South Wales Government has committed \$100 million over four years to the Fund, which will be mainly used to fund research into, and development of, clean coal technologies.	13
In 2009-10, the NSW Office of Water finalised 246 compliance investigations under the <i>Water Act 1912 and Water Management Act 2000</i> resulting in two license suspensions and the issuance of 40 penalty notices.	15
The <i>Central Coast Water Corporation Act 2006</i> is expected to commence late 2010.	17
Water utilities contributed \$379 million to government during the year ended 30 June 2010.	18
Hunter Water Corporation reported average number of unplanned interruptions per 1,000 properties of 255.5.	19
The NSW Office of Water's information systems do not meet the information needs of the Independent Pricing and Regulatory Tribunal of New South Wales.	20
Department of Environment, Climate Change and Water	
The total number of prosecutions commenced during the year for environmental protection offences was the highest number since 2006. Of the 134 cases completed in 2009-10, 94 per cent resulted in successful prosecutions.	27
Surveyed unregulated water invoices for 2007 were issued in September 2010.	28
Purchases of water entitlements fell from 145,122 megalitres in 2008-09 to 40,122 megalitres in 2009-10. Purchases over the last four years totalled 252,694 megalitres.	28

Taronga Conservation Society Australia

Paid attendance at Taronga Zoo increased by 15 per cent in 2009-10. The months of July 2009 and April 2010 recorded higher than expected visitors following the successful birth of two Asian elephant calves. 46

Hunter Water Corporation

A final decision on the Tillegra Dam remains outstanding. 52

Hunter Water is planning to complete its major projects in line with original service delivery dates. 54

At 30 June 2010, 132 employees (20.9 per cent of all employees) had accrued more than 40 days of annual leave entitlements. Twenty two employees had more than 80 days accrued annual leave. 55

State Water Corporation

The volume of water sales during 2009-10 continued to remain at historically low levels. 60

The Corporation's performance against its Operating Licence declined slightly from 2007-08. 61

The Corporation spent \$58.0 million on the first phase of its dam safety compliance project during the year. 62

Sydney Catchment Authority

Over 31 per cent of the Authority's employees had leave balances in excess of 40 days. 72

The Authority has established a working group to address overtime costs of \$1.2 million, representing 5.7 per cent of total employees' base pay. 72

Sydney Water Corporation

The Minister for Water granted Sydney Desalination a network operating licence and a retail supplier's licence. 76

The cost of constructing the desalination plant was approximately \$90.0 million less than budget. 76

The Maximo project, an Information Technology solution to assist with asset management, has been delayed further at additional cost. 77

Water customers have retained water saving behaviours developed during the drought, keeping consumption in 2009-10 below the ceiling specified in the Corporation's Operating Licence. 78

Total recycled water from all sources was 35.8 gigalitres in 2009-10. 80

Water loss from breaks and leaks has nearly halved from 68,620 megalitres in 2002-03 to 35,323 megalitres in 2009-10. Water loss represented seven per cent of water supplied. 81

Some employees received overtime payments higher than their base salary. 87

Recommendations

	Page
Environment and Water Overviews	
I recommend:	
▪ DECCW finalise the implementation of the revised Funding Agreement for grant recipients.	14
▪ DECCW report on compliance with National Australian Built Environment Rating System ratings on its website and in its annual report.	15
▪ the NSW Office of Water establish systems to meet the information needs of the Independent Pricing and Regulatory Tribunal of New South Wales.	20
Department of Environment, Climate Change and Water	
I recommend the Department:	
▪ continue to implement its policy requiring all staff with excessive leave balances to have a leave management plan in place in order to further reduce leave balances within an acceptable timeframe.	30
▪ further review the roles and responsibilities of all contract employees to ensure:	
▫ reliance on contractors is not excessive	
▫ use of contract employees instead of permanent employees is appropriate	
▫ contractors do not become de facto employees by virtue of being employed for an extended period of time	
▫ the use of contract employees continues to represent value for money.	30
▪ ensure its systems are able to provide accurate data to enable it to prepare specific project based submissions to The Treasury which address its maintenance requirements.	31
Hunter Water Corporation	
I recommend the Corporation:	
▪ the Corporation prepare a sound and comprehensive business case before any decision is made to proceed with the Tillegra Dam.	52

Hunter Water Corporation (continued)

I recommend the Corporation:

- create and maintain a single register for contracted employees
- using this register, review the effectiveness of its existing policies for employment of contract employees to ensure:
 - reliance on contractors is not excessive
 - use of contract employees instead of permanent employees is appropriate
 - contractors do not become de facto employees by virtue of being with the Corporation for an extended period of time
 - use of contract employees continues to represent value for money.
- review the effectiveness of its existing policies for managing the use of overtime.

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State Water Corporation

I recommend the Corporation:

- review the effectiveness of its existing policies for managing overtime work and analyse the underlying reasons for overtime payments that are significantly more than base pay.
- create and maintain a single record of all contractors engaged by it
- using this record, periodically review the roles and responsibilities of all its contractors to ensure:
 - its reliance on contractors is not excessive
 - use of contract employees instead of permanent employees is appropriate
 - contractors do not become de facto employees by virtue of being with the Corporation for an extended period of time
 - use of a contractor continues to represent good value for money.

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Sydney Catchment Authority

I recommend the Authority:

- create and maintain a single record of all contractors engaged by it
- using this record, periodically review the roles and responsibilities of all its contractors to help ensure:
 - its reliance on contractors is not excessive
 - use of contract employees instead of permanent employees is appropriate
 - contractors do not become de facto employees by virtue of being with the Authority for an extended period of time
 - use of a contractor continues to represent good value for money.
- continue its efforts to help ensure accumulated flex leave is taken rather than forfeited.

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Sydney Water Corporation

I recommend the Corporation:

- review the effectiveness of its existing policies for managing overtime. 87
- continue to implement and monitor its existing Workforce Planning policies for managing its ageing workforce. 87
- create and maintain a single register for contracted employees
- using this register, review the effectiveness of its existing policies for employment of contract employees to ensure:
 - reliance on contractors is not excessive
 - use of contract employees instead of permanent employees is appropriate
 - contractors do not become de facto employees by virtue of being with the Corporation for an extended period of time
 - use of contract employees continues to represent value for money.

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Section One



Environment and Water Overviews

Environment and Water Overviews

ENVIRONMENT OVERVIEW

The following Government entities provide environmental services.

Department

Department of Environment, Climate Change and Water (DECCW).

Statutory Bodies

- Environment Trust.
- Environment Protection Authority (EPA).
- Marine Parks Authority (MPA).
- Royal Botanic Gardens and Domain Trust.
- Lord Howe Island Board.
- Taronga Conservation Society Australia and its controlled entities.

The audits of the above-mentioned entities' financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

Separate commentary on most of the above entities appears elsewhere in this Report.

KEY ISSUES

The New South Wales Government has committed over \$1.9 billion for the environment in its 2010-11 budget. DECCW administers a number of funding programs and initiatives as well as being the recipient of funding for specific projects.

NSW State Plan

The New South Wales State Plan 2010 is the Government's plan to deliver to the community promised results over the medium to long term across seven broad areas of activity:

- better transport and liveable cities
- supporting business and jobs
- clever State
- healthy communities
- Green State
- stronger communities
- keeping people safe.

DECCW is the lead agency for the following five State Plan priorities under the Green State theme:

- tackle climate change
- secure sustainable supplies of water and use our water more wisely
- protect our native vegetation, biodiversity, land, rivers and coastal waterways
- improve air quality
- reduce waste.

In addition, DECCW is also a significant partner agency for a further three priorities:

- develop a clean energy future (Green State)
- strengthen Aboriginal communities (stronger communities)
- increase the number of people using parks (stronger communities).

DECCW also contributes to 13 other priorities across a diverse range of initiatives.

State of the Environment Report

The *Protection of the Environment Administration Act 1991* requires DECCW to prepare a State of the Environment Report (SoE) for New South Wales every three years. The seventh and most recent SoE was issued in December 2009. DECCW prepares the SoE, with guidance from the State of the Environment Advisory Council, from material provided by a wide range of government agencies, other organisations and independent scientific experts. It also aligns the issues with relevant measures and targets in the New South Wales Government's State Plan 2006 where appropriate.

The SoE 2009 is structured around the following seven major themes:

- People and the Environment
- Climate Change
- Human Settlement
- Atmosphere
- Land
- Water
- Biodiversity.

Some of the major findings and extracts contained in the SoE 2009 are detailed below. A copy of the SoE 2009 is available at: www.environment.nsw.gov.au/soe/soe2009/.

People and the Environment

While the New South Wales Government has developed a range of programs to reduce water and energy consumption, overall per capita consumption in New South Wales has continued to increase. In view of a projected increase in the resident population from 7.0 million at June 2008 to 9.1 million by 2036, the SoE concluded that because of 'the added effect of population growth, the total consumption of the population of New South Wales is increasing at a rate that may no longer be sustainable in the future'.

The ecological footprint, which estimates sustainability in New South Wales (i.e. the land that would be needed to sustain a State's population indefinitely), has increased from 6.35 hectares per person in 1998-99 to 7.02 hectares per person in 2003-04, while the footprint for Australia was 6.90 hectares per person. Growth in the ecological footprint in New South Wales relating to aggregate consumption continues to put pressure on resources.

Climate Change

The SoE 2009 concludes that it is more than 90 per cent certain that observed increases in global temperatures are caused by greenhouse gases resulting from human induced activities. The average temperature in New South Wales has been increasing at an accelerating rate since the mid-1990s. The average annual temperature rise was around 0.1°C per decade during 1950-80 and since 1990 it has been around 0.5°C per decade, a five-fold increase.

The sea level benchmarks adopted by the State Government to guide planning decisions, predict a rise of 0.4 metres by 2050 and 0.9 m by 2100, relative to 1990 levels. Climate change will have further impacts on New South Wales, including increased coastal erosion and inundation, a decline in water resources, and impacts on health, biodiversity and agriculture.

Human Settlement

While there have been improvements in reducing demand for water, energy use has continued to increase with energy from both fossil fuels and renewable sources maintaining their share of supply. Fossil fuels currently meet 97 per cent of New South Wales' energy demands with one quarter of the total production being used to generate energy. Demand for electricity has continued to rise with an increase in the number of households. Also, while the waste disposal rate per person in the Sydney Metropolitan Area has been stable over the five years to 2007-08, in regional areas it has increased since 2000 by nearly 20 per cent.

Atmosphere

Air quality in New South Wales meets four out of six national air quality standards, with the standards for ground level ozone and particles exceeding the standard. DECCW provides hourly updates of air quality on its website from 24 monitoring sites throughout New South Wales. The Department and New South Wales Health operate a Health Alert system for the Sydney Region for the benefit of asthmatics and other sensitive members of the community.

DECCW's 2010 annual report noted that the regional air quality index (RAQI) calculated 64 poor air quality days compared to 47 in 2008-09 and 23 in 2007-08. The increase in 2009-10 was driven by a combination of photochemical smog during the summer, dust storms and bushfires. The RAQI is reported for three regions in Sydney (central east, north-west and south-west), the Illawarra and the lower Hunter. A day is counted as poor if one or more of the regions exceed the index.

Land

New South Wales soil continues to be under pressure from changes in land use compounded by years of drought. While degradation is continuing, improved land management practices over the years have helped slow this decline. However, the situation varies across the State and with different degradation issues. The SoE 2009 states that of the soils investigated, about one quarter were assessed as being managed sustainably. Half are managed in a manner that poses some risk of degradation to one or two specific soil functions. The remaining quarter of the States' soils investigated have been assessed as being at risk of degradation for multiple soil functions.

At 30 June 2009 there were 272 contaminated sites regulated under the *Contaminated Land Management Act 1997* and *Environmentally Hazardous Chemicals Act 1985*. At 30 June 2009, 114 sites had been successfully remediated. The number of sites being listed has reduced from 34 additional sites in 2002-03 to 12 in 2008-09.

Water

Drought has significantly affected all water users as well as the environment. Water storage dropped to historic lows and, coupled with limited flows in most inland rivers, this required temporary suspension of some water sharing plans in New South Wales. Only limited releases of water have been possible during this time, but additional water entitlement for the environment has been obtained over the last few years through water saving efficiencies and the purchase of water licences.

While coastal rivers are in a better health overall, most inland river systems and wetlands are presently in poor ecosystem health due to the historic impacts of water extraction, flow regulation and catchment disturbances, as well as the effects of drought.

Biodiversity

The diversity and richness of native species remains under threat, particularly vertebrate fauna that are vulnerable to invasive species and habitat loss. Over half of all listed key threatening processes relate to invasive species, and pests and weeds have been identified as a threat to over 70 per cent of all threatened species in New South Wales. Fire is a significant and ongoing threat to human settlement and ecosystem integrity.

Environmental Indicators

The SoE 2009 identifies 30 environmental issues within the seven key themes discussed above. Of the 30 issues, 21 have environmental indicators that assist in assessing environmental conditions. The nine environmental issues which do not have indicators are:

- the physical environment of New South Wales
- population and settlement patterns
- sustainability and consumption
- economics and the environment
- social trends
- climate change impacts and adaptation in New South Wales
- noise
- indoor air quality, and
- fire.

For those issues without indicators, the Department advises that in a number of cases it is not considered appropriate to evaluate the issue from an environmental perspective, but it is still important to describe their contribution to environmental outcomes. For example, while 'the physical environment of New South Wales' is described in the SoE 2009, there is no reason or basis to assess the natural features and processes with which New South Wales is endowed.

For other environmental issues, appropriate indicators have not yet been identified. For example, 'indoor air quality' standards are being developed nationally. Indicators for 'climate change impacts and adaptation in New South Wales' are still being developed. An important consideration is the practicality and cost efficiency of a long term commitment to monitoring such indicators.

After each SoE cycle in New South Wales the indicators are progressively refined and the current SoE review is examining whether the indicators serve a useful function. Some data is collated on a continuous basis, but some natural resource data is sampled less frequently for reasons of practicality and cost efficiency and only compiled every three years for SoE reporting.

The SoE 2009 assesses each environmental indicator in terms of three classifications: its status; trend since the SoE 2006; and the availability of information used to make an assessment against the indicator. For SoE purposes, it is considered critical to provide an assessment of data quality and/or availability as an indication of the reliability or confidence in the assessment of the data.

The following tables summarise the 76 indicators contained in the SoE 2009 across each criteria within the three classifications:

Indicator Status

The 'Indicator Status' criteria, in the SoE 2009 report, shows the environmental condition of the indicator.

Indicator rating	Status of indicator	Number of indicators with this rating	Percentage of indicators with this rating
Green	Data shows a generally positive or healthy environmental condition	16	21.1
Yellow	Data demonstrates a moderate overall status, and that the environmental condition is neither positive nor negative	39	51.3
Red	Data shows that there is a generally poor environmental condition or that the condition is under significant stress	18	23.7
Grey	There is insufficient information to make an assessment	3	3.9
Total		76	100.0

Source: SoE 2009 report (unaudited).

The 'Red' indicators showing that for 18 indicators there is a generally poor environmental condition or that the condition is under significant stress, are further discussed later in this report.

The Department advised that its Monitoring Evaluation and Reporting (MER) strategy, used to develop the SoE reports, identifies the indicators used to assess the condition of natural resource assets. As shown in the table above (Grey rating), for three of the indicators there was insufficient data or knowledge to enable a confident assessment to be made. It is expected that the MER Strategy will, over time, ensure that sufficient data is collected to enable more confident assessments.

Indicator Trend

The 'Indicator Trend' in the SoE 2009 report shows the direction of change in the environmental condition since the SoE 2006 report.

Indicator rating	Trend of indicator	Number of indicators with same ratings	Percentage of indicators with same ratings
Improving	The trend in the condition of the indicator is good and getting better	14	18.4
No change	There has been no significant change in the condition of the indicator	25	32.9
Stabilising	A declining trend in the condition of the indicator is poor or fair, but improving	5	6.6
Recovering	The condition of the indicator is poor or fair, but improving	3	3.9
Deteriorating	The condition of the indicator is getting worse from its current status	12	15.8
Unknown	There is not enough information to show a trend for the indicator	17	22.4
Total		76	100.0

Source: SoE 2009 report (unaudited).

The Department has advised that for some indicators, it is difficult and expensive to collect data, and historically there have been many gaps and considerable variability in data quality. The continuing MER Strategy will ensure that following future assessments, trends in resource condition will be determined. Some assets will react rapidly to management intervention and trends will become apparent quickly. In many cases, however, changes to resource condition are slow and may only reveal robust trends after several decades.

Trend information is based on a consideration of change over time. This is even more challenging than assessing status, especially in natural resource data. Firstly there are areas where data has not been compiled consistently across the whole State for an extended period of time. Secondly, the effect of a disturbance is less than the normal natural variability in the system and its effects can only be discerned after they have been sustained over an extended period of time.

Information Availability

The 'Information Availability' in the SoE 2009 report describes the State-wide extent, condition and fitness of the data used.

Indicator rating	Availability of information to assess the indicator	Number of indicators with same ratings	Percentage of indicators with same ratings
Good	There is sufficient data and information on a State-wide basis and is of a high standard	28	36.8
Reasonable	There is some data and information on a State-wide basis of a reasonable standard	29	38.2
Limited	There is little data or information on a State-wide basis	19	25.0
Total		76	100.0

Source: SoE 2009 report (unaudited).

The MER Strategy has made significant progress in establishing baselines for the natural resource assets for which targets exist in the State Plan; it has addressed a number of data gaps over the past three years. SoE 2009 is the first comprehensive report of this baseline assessment and provides data and information on resource condition that has not previously been available.

As most natural resources only change over longer timeframes, many of the MER monitoring programs are adapted to reflect natural cycles and for cost effectiveness. For example, most water ecology sampling is staggered over two to five year cycles as appropriate, depending on the indicator, so that northern rivers are monitored one year, central rivers the next and then southern rivers. Much of this data is only assembled once every three years for SoE and State of Catchment reporting purposes. It would impose additional workloads and costs to compile this data more frequently, without a clear requirement or stated purpose. However, an effort is being made to make the source data publicly available as it is collected by the programs that produce this data.

Poor Environmental Condition

The following table provides details of the Indicator Status, Indicator Trend and the Information Availability for the 18 indicators where the environmental condition of the indicator is described as poor or coded red, indicating a generally poor environmental condition:

Theme	Indicator	Trend	Information Availability
Climate Change	Annual mean temperature	Deteriorating	Good
	Sea level rise	Deteriorating	Good
	Atmospheric concentrations of greenhouse gases	Deteriorating	Good
	Annual per capita greenhouse gas emissions	Improving	Good
Human Settlement	Energy supply by source	Stabilising	Good
	Energy use	Deteriorating	Good
	Transport energy consumption (total)	Deteriorating	Limited
	Vehicle kilometres travelled (total and per person)	Recovering	Reasonable
Water	Available water supply (in storage)	No change	Good
	Waterbird abundance and diversity	No change	Good
	Fish assemblages	Deteriorating	Reasonable
	Wetland condition	Deteriorating	Limited
	Sustainable Rivers Audit (SRA) overall health index of Murray Darling Basin rivers	Unknown	Reasonable
	Phosphorus	Stabilising	Reasonable
Biodiversity	Distribution of birds: sustainability	Deteriorating	Limited
	Threatened species: historical loss of distribution	Unknown	Limited
	Threatened species: sustainability	Unknown	Limited
	Widespread invasive species	Unknown	Limited

Source: SoE 2009 report (unaudited).

The code red indicators in the above table that are deteriorating are of particular concern, however, in some cases they relate to broader issues than State-wide issues.

The data collected by MER thus far is the result of scientific monitoring processes and describes overall resource condition outcomes, which often reflect inputs and management from a wide variety of agencies and levels of government. For the next cycle of MER, a performance MER program is being developed that will provide natural resource managers, government and investors with information on short to medium term outputs and outcomes of natural resource management that are understood to contribute to overall environmental outcomes. This program will be developed and implemented in a staged manner over the life of the new MER Strategy, being 2010-2015.

New South Wales Climate Change Fund

The Climate Change Fund (the Fund) was established on 1 July 2007 under the *Energy and Utilities Administration Act 1987* and raises contributions from electricity distributors and water utilities.

DECCW administers the Fund to help households, businesses and government save energy and water and to reduce greenhouse gas emissions. Current programs include:

- \$170 million New South Wales Home Saver Rebates provides rebates for hot water systems, hot water circulators, rainwater tanks, dual flush toilets and the removal of inefficient fridges
- \$150 million Energy Efficiency Strategy aimed at reducing greenhouse gas emissions through measures that lower energy consumption, reduce the impacts of rising energy prices and reduce the need for additional energy generation and distribution infrastructure
- \$30.0 million Public Facilities program provides funding of up to \$40,000 for not-for-profit community organisations to undertake simple low cost water and energy upgrades in the facilities they use
- \$20.0 million School Energy Efficiency program which is aimed at reducing greenhouse gas emissions in high schools with measures such as energy efficient lighting
- \$20.0 million Rainwater Tanks in Schools program.

Under the legislation, the Minister for Climate Change and the Environment is required to produce an annual report detailing fund allocation, programs and anticipated benefits. This annual report is required to be tabled in both Houses of Parliament by the end of December each year. The 2008-09 annual report was tabled in March 2010 and is available at:

www.environment.nsw.gov.au/grants/ccfannualreport.htm

The following is a summary of the revenue and expenditure of the Fund over the last three years.

Year ended 30 June	2010 \$'000	2009 \$'000	2008 \$'000
Revenue			
Sydney Water	33,593	36,025	30,000
Energy Australia	67,354	18,866	18,814
Integral Energy	42,385	11,875	12,232
Country Energy	32,989	9,259	8,954
Interest	4,732	5,963	6,789
Other	3,076	6,913	5,798
Total Revenue	184,129	88,901	82,587
Expenditure			
Home Saver Rebate Program	90,439	40,038	12,694
Next Generation Coal Technology	25,000	--	--
Sydney Water Demand Management Program	16,196	18,051	15,029
Water and Energy Savings Funds	10,323	12,146	17,181
Green Business Program	4,629	2,320	--
Public Facilities Program	13,099	2,550	278
School Energy Efficiency Program	5,205	2,336	588
Metropolitan Water Education Program	2,000	2,000	2,000
Central Coast Water Savings Fund	1,476	1,953	1,402
Energy Efficiency Strategy	14,082	4,086	--
Australian Energy Market Commission	5,516	4,218	5,466
Housing Program	6,485	5,475	--
Administration	6,998	2,830	2,463
Other	12,397	537	1
Total Expenditure	213,845	98,540	57,103

Source: DECCW unaudited

The Fund is projected to collect and spend approximately \$700 million by 2012, based on forward estimates, which indicates an escalation in revenue and expenditure during 2010-11 and a significant decline to 2012.

In 2009-10, four providers contributed 96 per cent of total revenue to the Fund. Total funding available since the commencement of the Fund, including a balance of \$106 million relating to Water and Energy Savings Funds transferred from the former Department of Energy, Utilities and Sustainability, was \$461 million.

Total Expenditure from the Fund since its commencement was \$369 million, including \$214 million in 2009-10. At 30 June 2010, the Fund held an unexpended cash balance of \$92.0 million. Major funding increases were provided for the following programs/projects:

Home Saver Rebate Program

The New South Wales Home Saver Rebate Program has been the major area of expenditure. DECCW advises that, from commencement to 30 June 2010, the Fund has paid more than 263,000 rebates to New South Wales residents, providing the following savings:

- 310,000 tonnes of greenhouse gas per annum through hot water systems and ceiling insulation funded in New South Wales homes since October 2007
- 1.8 billion litres of potable water each year through funding for water efficient washing machines
- 1.8 billion litres of potable water through funded rainwater tanks.

The table below details the number of rebates paid since the introduction of the Fund.

Residential rebates paid under the Climate Change Fund (cumulative)	2010	2009	2008
Hot water systems (since October 2007)	118,848	28,586	4,772
Insulation (1 October 2007 to 30 June 2009)	26,080	10,800	3,060
Rainwater tanks (since July 2007)	40,154	26,875	17,573
Washing machines (1 August 2008 to 30 June 2010)	76,223	27,765	na
Dual Flush Toilets (since 15 January 2010)	2,214	na	na

na: Program had not commenced
Source: DECCW unaudited

In 2008-09, DECCW advised there was a significant backlog in processing rebate claims due to the large number of applications prompted by changes in the Commonwealth's rebates. To address this, DECCW employed extra staff to process applications. The introduction of an Electronic Funds Transfer payment option and the outsourcing of rebate cheque printing and distribution in May 2010 further improved rebate processing times. DECCW is currently processing rebates within the 60 day service standard stated on the DECCW website.

Large increases in rebate expenditure were largely attributable to an influx of applications under State and Commonwealth schemes that often overlapped. A number of these schemes have since been discontinued or had the amount of the rebate substantially reduced.

Rebates paid for hot water systems totalled \$64.6 million in 2009-10 (\$20.8 million). The increase was mainly due to residents taking advantage of a period of overlap for State and Commonwealth schemes. During the period 3 February 2009 to 15 January 2010, the Commonwealth and State were providing rebates of up to \$1,600 and \$1,200 respectively. The State reduced its hot water system rebate to a maximum of \$300 from 16 January 2010 and the Commonwealth reduced its solar hot water rebate to a maximum of \$1,000 from 20 February 2010.

The New South Wales Ceiling Insulation Rebate Program ceased on 30 June 2009 because of the introduction of the Australian Government stimulus package which funds home insulation up to a limit of \$1,600. The 15,280 rebates processed during 2009-10 related to a backlog in processing for systems installed before 30 June 2009.

Next Generation Coal Technology

As part of the Australian Government's \$500 million National Clean Coal initiative, a \$25.0 million contribution was provided to the Clean Coal Fund which is a special deposits account administered by the Department of Industry and Investment. The New South Wales Government has committed \$100 million over four years to the Fund which will be mainly used to fund research into, and development of, clean coal technologies.

Public Facilities Program

During 2009-10, expenditure on the Public Facilities Program increased by \$10.5 million. Under the program, \$17.9 million is being provided for 72 Demonstration projects and \$6.6 million for 281 Community Savers projects. These projects are estimated to save 4.9 billion litres of water, 230,000 megawatt hours of electricity and 250,000 tonnes of greenhouse gas emissions in the first ten years.

Demonstration projects show how water and energy savings work in practice in public or educational facilities. Community Savers projects provided funding up to \$40,000 for not-for-profit community organisations to undertake water and energy saving upgrades of their facilities.

NSW Energy Efficiency Strategy

In 2009-10, expenditure on this strategy increased by \$10.0 million. The purpose of the strategy is to reduce greenhouse gas emissions by: lowering energy consumption; reducing the impact of rising energy prices; and delaying the need to construct additional energy generation and distribution infrastructure. The main measures undertaken under the strategy are:

- \$20.0 million Energy Efficiency Training Program to build energy efficiency skills in the New South Wales workforce
- \$63.0 million Home Power Savings Program which provides free home power assessments and power savings kits to 220,000 low income families
- Sustainability Advantage Energy Saver – energy efficiency for medium to large organisations under which \$20.0 million is being provided to subsidise energy audits to help New South Wales businesses identify and implement energy savings
- Energy Efficiency for Small Business which provides small businesses that use up to approximately \$20,000 in electricity a year or have up to about 10 full time employees with support and subsidies for energy efficiency improvements
- \$15.0 million Energy Efficiency Community Awareness Program which provides practical advice on saving energy at home and work.

Discontinued Funds

I recommend DECCW finalise the implementation of the revised Funding Agreement for grant recipients.

DECCW has reported discontinued climate change fund projects totalling \$8.7 million. A milestone payment of \$425,000 was made to one private company that subsequently went into voluntary administration in 2008-09. DECCW reviewed the possibility of reclaiming the grant funds provided to this company but found that the Funding Agreement was unlikely to be regarded as a contract if considered by a court. DECCW is now redrafting the Funding Agreement as a 'deed' which will ensure it is legally enforceable.

Other than grants provided upfront to government bodies and non-profit organisations, which are usually small amounts, DECCW only pays grant recipients based on milestones achieved. It requires more extensive due diligence information on application forms. Commercial entities only receive grant payments after completion of obligations in the Funding Agreement.

Water Compliance Monitoring

DECCW, through the New South Wales Office of Water (NOW), is responsible for regulating surface, river, and groundwater in New South Wales. This also includes monitoring, encouraging and maintaining community compliance. In 2009-10, the following compliance investigations were conducted under the *Water Act 1912* and *Water Management Act 2000*:

- there was a total of 624 investigations
- 246 or 39 per cent of investigations were finalised
- 378 or 61 per cent of investigations were ongoing at the end of the year.

The finalised investigations resulted in:

- two licence suspensions
- nine stop work orders
- forty penalty and 30 remediation notices being issued
- one hundred and nine warning and/or negation letters being issued
- one hundred and eight cases with no compliance action necessary, possibly because of actions taken by other agencies, advisory letters sent or decisions by NOW not to pursue the matter
- no prosecutions arose from any of the investigations in 2009-10.

National Australian Built Environment Rating System (NABERS)

I recommend DECCW report on compliance with National Australian Built Environment Rating System ratings on its website and in its annual report.

NABERS is a national initiative, managed by DECCW in New South Wales, which rates a building on the basis of its operational impact on the environment. Under the Office Building Strategy of the New South Wales Government Sustainability Policy, office buildings over 1,000m², owned or tenanted by budget dependent agencies, are required to:

- obtain an accredited NABERS Energy and Water rating
- achieve and maintain a NABERS rating of 4.5 stars for energy and water by 1 July 2011, where cost effective
- for new or refurbished buildings, achieve and maintain 2011 targets from 18 months of the first occupancy, where cost effective
- tenanted buildings to include a Green Lease Schedule in all new leases and lease renewals, where practical.

Waste Reduction and Purchasing Policy

Last year, I recommended that agencies must meet their WRAPP reporting obligations to DECCW. Recycling and reuse of waste is important for maximising the use of our resources and minimising our carbon footprint. DECCW is responsible for coordinating the New South Wales Government's Waste Reduction and Purchasing Policy (WRAPP) across other agencies and State owned corporations. WRAPP data is collected by DECCW every two years for inclusion in the 'Whole of Government WRAPP Progress Report'. The next report will be for the two years ended 30 June 2011 and the data will be due from agencies by 31 August 2011. I will report on all agencies' progress in meeting this reporting deadline.

In June 2008, I tabled a performance audit report on Reuse and Recycling of Waste by the New South Wales Public Sector. I concluded that WRAPP was a good example of success in implementing, supporting, monitoring and public reporting on a sector wide policy. I also found that most agencies had done well in implementing WRAPP. A copy of the report can be located at the following link:

www.audit.nsw.gov.au/publications/reports/performance/2008/recycle/recyclecontents.Htm

Performance Audit

In September 2010, I released my performance audit report on Protecting the Environment: Pollution incidents, which highlighted the following:

- DECCW received 5,146 reports of air, odour, water and waste pollution incidents via its Environmental Line in 2009-10, an increase of six per cent from two years ago
- while DECCW uses a mix of tools to achieve environmental outcomes, it could make better use of the Environmental Line.
- Environmental Line records how many reports there are of pollution. Often the one incident receives a number of reports but as the first point of reporting, Environment Line staff are not generally in a position to assess how many incidents it relates to until further investigation is done. And importantly, DECCW does not record the combined effect of these incidents on the environment in the Environment Line system because officers investigating all these reports use a different management system.
- the Environment Line does not report on how many high risk pollution incidents resulted in regulatory actions being taken, again because the officers doing this work use a different management system. This is essential to understanding whether their actions are having a positive impact.
- DECCW's response to pollution incidents can and does ensure that harm is reduced and many wilful acts are punished by appropriate penalties. However, the improved integration of monitoring and performance information means that DECCW could better demonstrate how well this is being done.

I recommended that DECCW:

- make better use of Environment Line intelligence to assess the extent of environmental harm, by recording and analysing key data for each report of a pollution incidents
- assess whether its response to pollution incidents implicating licensees improves compliance
- review its indicators of success, such as results based performance measures to assess whether its response to pollution incidents has minimised harm to the environment.

A copy of the report can be located at the following link:

www.audit.nsw.gov.au/publications/reports/performance/2010/epa/epa_contents.htm

WATER OVERVIEW

The following Government entities provide water services:

Department

The NSW Office of Water (NOW is part of DECCW).

State Owned Corporations

- Hunter Water Corporation (Hunter Water).
- Sydney Water Corporation (Sydney Water).
- State Water Corporation.

Statutory Bodies

- Sydney Catchment Authority.
- Catchment Management Authorities (13 entities).
- Water Administration Ministerial Corporation (WAMC).
- Office of the Hawkesbury-Nepean.
- Dams Safety Committee.

Water Supply Authorities

- Cobar Water Board.
- Gosford Water Supply Authority, part of Gosford City Council.
- Wyong Water Supply Authority, part of Wyong Shire Council.

The audits of the above-mentioned entities' financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports, other than for Sydney Water Corporation which was qualified as the Corporation had entered into contractual arrangements concerning four water filtration plants but did not recognise any assets or liabilities relating to the contracts.

At the time of preparing this report the audits of WAMC and Gosford Water Supply Authority were incomplete. The audit of WAMC was delayed due to issues surrounding the valuation of infrastructure assets. The audit of Gosford Water Supply Authority is linked to the audit of Gosford City Council, which is not audited by the New South Wales Audit office, and the results of the audit were not available.

Separate commentary on some of the above entities appears elsewhere in this Report.

KEY ISSUES

Proposed Changes in Water Industry Entities and Businesses

The *Central Coast Water Corporation Act 2006* is expected to commence late 2010. Under this Act, the water supply and sewerage activities of Wyong Shire and Gosford City Councils will merge into a single entity, the Central Coast Water Corporation (the Corporation).

The merger is expected to increase efficiencies in areas such as planning, environmental issues and drought management whilst maintaining benefits to the Central Coast community.

PERFORMANCE ISSUES

Financial Performance

For the four largest New South Wales water suppliers and distributors, the key financial ratios are shown below.

Year ended 30 June	Sydney Water Corporation		Hunter Water Corporation		Sydney Catchment Authority		State Water Corporation	
	2010	2009*	2010	2009	2010	2009	2010	2009
Current ratio ^a	0.3	0.3	0.2	0.3	0.6	0.6	0.9	0.8
Return on average equity (%) ^b	8.1	2.9	3.0	2.9	6.4	6.1	13.1	(10.1)
Return on average assets (%) ^c	7.0	5.6	4.1	4.6	7.1	5.8	12.4	(10.8)
Interest cover (times) ^d	1.9	1.9	2.4	3.5	2.6	2.5	9.6	(13.1)
Debt to equity ratio (%) ^e	116.8	103.3	39.3	32.2	67.2	71.5	29.4	16.7
Dividend paid (\$m)	205.0	190.0	30.4	35.3	26.8	6.2	--	4.4
Tax paid (\$m)	87.9	70.8	13.3	12.8	16.1	4.2	(0.5)	--
Contributions to government (\$m)	292.9	260.8	43.7	48.1	42.9	10.4	(0.5)	4.4

Calculated as:

(a) Current assets divided by current liabilities (current liabilities include taxation liabilities and exclude employee provisions payable after 12 months).

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

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

(d) Operating profit plus interest and tax expense divided by gross interest expense.

(e) External debt divided by equity (net assets)

* does not recognise the impact of changed accounting policies.

Consistent with prior years, all entities have a current ratio of less than one. A ratio under one suggests that an entity may have difficulty paying its obligations as and when they fall due. However, an entity can manage its cash flows with a lower ratio if its revenues and expenditures are highly predictable and it can quickly source funds. This is true for these entities, which have access to funds from a 'come and go' facility with the New South Wales Treasury Corporation, as well as approved borrowing facilities, which enable them to pay obligations as they fall due.

State Water's return on average equity improved because of the impact of increased assets values on profit for the year. At year end, State Water assessed the fair value of its property, plant and equipment which resulted in a reversal of the previous year's impairment loss of \$59.8 million. Higher water prices are the main reason for increased asset values.

Sydney Water and State Water achieved improved returns on average equity due to improved asset positions.

The improvement to State Water's interest cover is because of the reversal of the previous year's impairment loss of \$68.7 million, discussed above.

Sydney Water's debt to equity ratio is high because it is funding assets via debt. Sydney Water completed its desalination plant during the year. The cost of this asset, approximately \$1.8 billion, was funded by debt.

State Water's debt to equity ratio increased because it has embarked on significant dam upgrades, which are debt funded.

Sydney Water's credit rating was recently reviewed by Moody's Ratings. They have proposed a 'stand alone' rating of Baa2 for Sydney Water. This is equivalent to a Standard and Poor's 'BBB' credit rating and represents a downgrade from the credit rating of 'BBB+' issued in 2008. The outlook for the rating is stable; reflecting the stability of Sydney Water's operating profile and cash flow. Sydney Water's board has established a planned credit rating of BBB+ no later than 2016. The capital structure needed to achieve the higher credit rating will provide more resilience against any adverse change in the economic environment.

Dividends for Sydney Water are determined by agreement with the shareholder Ministers. For Hunter Water Corporation, Sydney Catchment Authority and State Water, dividends are a percentage of profit after income tax. Because State Water incurred a loss in the prior year, it paid no dividend in the current year.

Targets for these key ratios are not set for the New South Wales water industry, however, targets for individual agencies are agreed with the shareholder Ministers.

Non-financial Performance

Non-financial performance measures are comparable for the entities below. Because the businesses of Sydney Catchment Authority and State Water are slightly different to the entities below, we have not compared their non-financial performance measures here. Please refer to the commentary on these entities elsewhere in this Report.

Year ended 30 June	Sydney Water Corporation		Hunter Water Corporation		Wyong Water Supply Authority	
	2010	2009	2010	2009	2010	2009
Volume of water consumed (kilolitres per residential property)	204.6	197.7	184.0	179.7	153.0	141.0
Water quality complaints per 1,000 properties	0.3	0.6	3.4	3.2	4.9	4.9
Average frequency of unplanned water interruptions per 1,000 properties	4.3	4.5	255.5	271.2	59.9	58.8
Water main breaks and leaks per 100 km of water main	28.4	33.7	3.5	3.7	6.0	8.6
Sewer main breaks and chokes per 100 km of sewer main	56.0	51.1	58.2	44.4	56.8	47.7

The audit of Gosford Water Supply Authority is incomplete (unaudited).

The volume of water consumed is trending up as drought restrictions are reduced.

Sewer chokes vary over time with trees roots causing most sewer breaks and blockages. In dry years, tree roots seek moisture more aggressively and enter pipes through joints and cracks.

The number of main breaks is influenced by a number of factors, including soil type, rainfall, pipe material and the age and condition of the network.

OTHER ISSUES

Competition

At 30 June 2010, ten licences had been issued to private sector entities under the *Water Industry Competition Act 2006* (the Act) for recycling projects.

Sydney Desalination Plant Pty Ltd has two licences under the Act as a Network Operator for the Provision of Water Service and as Retail Operator for the Provision of Water Service.

The New South Wales Parliament passed the *Water Industry Competition Act 2006* in November 2006. This Act commenced in August 2008. The aim of the Act is to encourage competition in relation to the supply of water and the provision of sewerage services and to facilitate the development of infrastructure for the production and reticulation of recycled water.

Water Pricing

I recommend the NSW Office of Water establish systems to meet the information needs of the Independent Pricing and Regulatory Tribunal of New South Wales.

The Independent Pricing and Regulatory Tribunal of New South Wales's (IPART) draft prices reflect the quality of the information the NSW Office of Water (NOW) has provided to IPART in support of its future costs and the efficient use of its existing resources.

IPART, in its draft 'Review of prices for the Water Administration Ministerial Corporation for the NSW Office of Water – From 1 July 2011', set the opening value of NOW's regulatory asset base (RAB) at zero. This reflects its view on the deficiencies of NOW's capital planning and asset management systems. IPART stated it 'could not confidently quantify the prudent and efficient value of NOW's existing asset base. Setting the opening value of the RAB at zero means that NOW will not earn a return on, or of, all capital investments that it made prior to 1 July 2011.'

The information provided by NOW for audit purposes meets our needs.

IPART determines water prices for:

- Sydney Water Corporation
- Hunter Water Corporation
- State Water Corporation
- Sydney Catchment Authority
- NSW Office of Water (part of DECCW)
- Gosford City Council
- Wyong Shire Council.

Cobar Water Board sets its water prices.

Operating Licences

Sydney Water Corporation, Hunter Water Corporation, State Water Corporation and Sydney Catchment Authority hold operating licences, which allow them to fulfil their functions.

IPART administers the operating licences. Its administration of operating licences is designed to:

- maintain and improve service quality and the reliability of supply
- protect consumers
- assess the impact of the industry on the environment
- encourage compliance through ongoing auditing of performance.

It achieves these objectives through regular review of the operating licences and annual audits of performance.

All of the above entities achieved high levels of compliance with the licence conditions. Refer to the individual entities' comments for more detailed information.

The Governor has the legislative power to grant operating licences.

Section Two



Commentary on Government Agencies

Minister for Climate Change and the Environment

Department of Environment, Climate Change and Water

Environment Protection Authority

Environmental Trust

Royal Botanic Gardens and Domain Trust

Taronga Conservation Society Australia

***Waste Recycling and Processing Corporation**

Refer to Appendix 1 for:

Border Rivers-Gwydir Catchment Management Authority

Central West Catchment Management Authority

Dams Safety Committee

Dumaresq-Barwon Border Rivers Commission

Hawkesbury-Nepean Catchment Management Authority

Hunter-Central Rivers Catchment Management Authority

Jenolan Caves Reserve Trust

Lachlan Catchment Management Authority

Lord Howe Island Board

Lower Murray-Darling Catchment Management Authority

Marine Parks Authority

Murray Catchment Management Authority

Murrumbidgee Catchment Management Authority

Namoi Catchment Management Authority

Northern Rivers Catchment Management Authority

Southern Rivers Catchment Management Authority

Sydney Metropolitan Catchment Management Authority

Upper Parramatta River Catchment Trust

Western Catchment Management Authority

*The audit was incomplete at the time of compiling this Volume
The comment will be included in a later 2010 Volume

Department of Environment, Climate Change and Water

AUDIT OPINION

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

KEY ISSUES

Administrative Restructure

From 1 July 2009, the former Department of Environment and Climate Change (DECC) was amalgamated with the NSW Office of Water (NOW) to form the Department of Environment, Climate Change and Water (DECCW or the Department). NOW undertakes the water management responsibilities of the former Department of Water and Energy (DWE).

Fines and Penalties

The Department can commence prosecutions for environmental protection offences under the authority of the Environment Protection Authority (EPA). Actions regarding native vegetation, threatened species, parks wildlife and Aboriginal heritage provisions can be made under Departmental legislation.

The table below details prosecutions by the Department and the EPA.

	2010		2009	
	Prosecutions	Fines/ Penalties \$	Prosecutions	Fines/ Penalties \$
Total prosecutions under Environment Protection Authority legislation (fines and other financial penalties)	53	860,250	37	1,050,300
Total prosecutions under parks, wildlife, threatened species and Aboriginal heritage legislation (fines)	69	199,968	53	148,846
Total prosecutions under native vegetation legislation (fines)	12	342,500	7	449,000
Total prosecutions completed	134	1,402,718	97	1,648,146

Source: DECCW annual report 2010 (unaudited).

The total number of prosecutions commenced during the year was the highest number since 2006. Of the 134 cases completed, 94 per cent resulted in successful prosecutions. There was a 43 per cent increase in the number of prosecutions under the EPA legislation. The Department maintained a focus on more serious offences which resulted in 24 EPA prosecutions, where the fine or penalty was equal to or greater than \$10,000. The largest fine issued was \$80,000 for a pollution incident that threatened material harm to the environment.

The Department continues to focus on its native vegetation compliance strategy, which it began developing in 2008, and this resulted in the completion of 12 (seven in 2009) prosecutions and fines totalling \$342,500 (\$449,000). In two instances the fines for clearing native vegetation were \$160,000 and \$100,000.

Water Management Charges

Over the past few years I have commented on the late issuing of invoices by NOW. The following table details the current invoicing status for the last four years.

Year ended 30 June	2010	2009	2008	2007
Unregulated	Not yet issued	Issued in November 2009	Issued in December 2008 and February 2009	Issued in June 2008
Groundwater	Not yet issued	Issued in December 2009	Issued in March 2009	Issued in June 2008
Regulated	Issued within three months of quarter end	Issued within three months of quarter end	Issued in August 2008	Issued in December 2007
Surveyed Unregulated	Not yet issued	Issued in September 2010	Issued in September 2010	Issued in September 2010

NOW's planned invoice issue dates for those invoices not yet issued are in November 2010.

Integrated Landscape Management Program

The acquisition of water entitlement purchases fell from 145,122 megalitres in 2008-09 to 40,122 megalitres in 2009-10 as the program of acquisitions drew to a close. Purchases over the last four years have totalled 252,694 megalitres.

The water purchases were used to redirect water to wetlands in the Gwydir, Macquarie, Lachlan, Murrumbidgee and Murray valleys. Water licences acquired by DECCW during the year totalled \$24.3 million (\$260 million).

This program encompasses environmental water purchases and water saving infrastructure projects. Over the last two years, a major program of water entitlement purchases was carried out under the Riverbank, Living Murray and Wetland Recovery programs.

The New South Wales RiverBank program was funded by the New South Wales Government and the Commonwealth Living Murray Program. The New South Wales Rivers Environmental Restoration and Wetland Recovery programs were jointly funded by the New South Wales and Australian Governments.

Plans of Management

At 30 June 2010, 800 areas required management plans under the *National Parks and Wildlife Act 1974* (the Act) and 425 had been completed (392 of 793 at 30 June 2009), representing 75 per cent of the gazetted area. A further 32 areas have had plans placed on public exhibition. Department management has advised that a management plan usually takes around two years to prepare.

Section 72 of the Act requires a plan of management be released, as soon as practicable, for each national park, nature reserve, historic site, karst conservation reserve, state conservation area and regional park. A plan of management is a legal document that outlines how an area will be managed, the value of the area, and management objectives and strategies. The Act allows more than one of these areas to be incorporated under the same management plan.

Managing Parks Framework

Last year, I referred to the State of the Parks survey undertaken in late 2007. A public report was planned for release in late 2009, but it is now being updated with the most recent 2010 staff survey data and is expected to be released in 2011. The new report will be called 'Managing our Parks Effectively'.

OTHER INFORMATION

Human Resources

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

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- extent of use of contract staff.

While no significant issues were identified from my review, a summary of the findings follows.

Workforce Ageing

Eighteen per cent of the Department's employees, including NOW, are older than 55 and 34 per cent are older than 50. This represents a large number of employees who are likely to retire over the next five to ten years. This potential loss of knowledge and skills may be a risk for the Department.

With respect to NOW only, 24 per cent of the employees are older than 55 and 42 per cent are older than 50. The age profile of staff within NOW will need to be monitored closely by the Department.

The age profile of the Department's employees, including NOW, is shown below:



At 30 June	2010		2010		2010		2009	
Organisation Age Group	DECCW		NOW		DECCW (excl. NOW)		DECC	
	No. Of Employees	%	No. Of Employees	%	No. Of Employees	%	No. Of Employees	%
Up to 39	1,355	33	185	26	1,170	35	1,245	36
40 - 44	606	15	103	15	503	15	530	15
45 - 49	740	18	118	17	622	19	618	18
50 - 54	644	16	126	18	518	15	506	15
55 - 59	498	12	124	18	374	11	367	11
60 - 64	185	5	40	5	145	4	124	4
65+	33	1	5	1	28	1	28	1
Total	4,061	100	701	100	3,360	100	3,418	100

Number of employees are reported as full time equivalents.
Source: Department (unaudited).

Annual Leave Balances

I recommend the Department continue to implement its policy requiring all staff with excessive leave balances to have a leave management plan in place in order to further reduce leave balances within an acceptable timeframe.

Following the administrative restructure, the Department needs to continue its program to reduce excessive leave balances by ensuring its policies are applied consistently across the entire agency.

At 30 June 2010, the Department had 711 employees with annual leave balances in excess of 40 days, representing 15 per cent of total employees. Of these employees, 14 had balances higher than 80 days, four of which were NOW employees.

A significant number of staff in the Department (1,296 at 30 June 2010) accrue additional annual leave (above 20 days) as compensation for working weekends, public holidays or residing in the Western or Central Division of New South Wales.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave. Allowing the accrual of excess annual leave balances means staff performing key control functions may not be rotated regularly, which is a preventative control against fraud.

Use of Contract Staff

I recommend the Department further review the roles and responsibilities of all contract employees to ensure:

- reliance on contractors is not excessive
- use of contract employees instead of permanent employees is appropriate
- contractors do not become de facto employees by virtue of being employed for an extended period of time
- the use of contract employees continues to represent value for money.

In 2009-10, the Department paid \$14.3 million to a total of 460 contractors, which included contractors engaged for specific project work where skills are not available within the Department. Three hundred and thirty nine new contract staff were engaged in 2009-10. At 30 June 2010, 26.3 per cent of contractor staff had been engaged for more than 12 months and three staff had been contracted for more than six years. The retention of contract staff for extended periods may result in additional costs to the Department.

As a result of the Department's active review of contract staff and the completion of a number of projects, a significant number of long term contractors have left the Department since 30 June 2010.

Backlog Asset Maintenance

I recommend that the Department ensure its systems are able to provide accurate data to enable it to prepare specific project based submissions to The Treasury which address its maintenance requirements.

The Department is implementing an asset maintenance system (AMS). Completion of the AMS for the Parks and Wildlife Group was achieved in November 2009. The Department has advised that the rollout to other areas has commenced and the development and loading of cyclic maintenance plans for major assets is progressing.

Because the AMS is not finalised, the Department's application to The Treasury for funding of its Total Asset Maintenance Plan did not allow for specific projects and was based on indicative figures only. The Department has also recently applied to The Treasury for funding of \$1.7 million to enable it to use the AMS as an asset management system. The Department has advised that until management information is available it is not able to properly support a detailed funding submission.

Operational Performance

Environmental Grants Administration

My Environmental Grants Administration performance audit, released in August 2009, assessed whether environmental grants were aligned with government objectives, allocated appropriately and achieved the required results for New South Wales. The audit focussed on three grant programs administered by the Department and seven programs administered by the Environmental Trust. I found many aspects of good grants management, particularly in the Trust.

My report recommended that:

- agencies reduce red tape and delay when administering grants
- Ministers act transparently
- agencies monitor grants and evaluate funding programs.

The full report is at:

www.audit.nsw.gov.au/publications/reports/performance/2009/grants/grants-contents.htm

Agreements with Snowy Hydro Limited

The Department is rehabilitating the former Snowy Mountain Scheme sites in Kosciuszko National Park. This rehabilitation program is funded by Snowy Hydro Limited (SHL) from contributions of \$33.4 million provided to the Department between 2002 and 2007. Interest earned on funds provided by SHL from the inception of the agreements totalled \$12.4 million at 30 June 2010 (\$11.0 million).

Since the start of the rehabilitation works, the Department has spent \$15.2 million (\$10.0 million) on various elements including weed eradication, re-establishment of ecological flora communities, engineering stabilisation works, and planning and coordination. Rehabilitation is expected to continue over a period of up to 15 years.

Water Administration Ministerial Corporation

Last year, I recommended The Treasury consider whether the Water Administration Ministerial Corporation (WAMC) is a reporting entity that needs to prepare general purpose financial statements. The Hunter Valley Flood Mitigation Works, valued at approximately \$500 million, were not recognised in the Total State Sector Accounts. During 2009-10 these assets were determined to be controlled by WAMC and managed by the Department under an instrument of sub delegation from the former Department of Water and Energy.

Following an amendment to the *Public Finance and Audit Act 1983* that clarified the status of agencies controlled by Ministers, WAMC was required to prepare general purpose financial statements for the first time at 30 June 2010. The Hunter Valley Flood Mitigation Works were included in the financial statements of WAMC.

FINANCIAL INFORMATION

Comparative Information

As NOW did not exist as a separate reporting entity before 1 July 2009, the 2009 figures in the following tables only include those of the former Department of Environment and Climate Change, whereas the 2010 figures include NOW balances and transactions. As a result, only limited analysis can be made from the comparative financial information and in a number of cases previous year figures are not available.

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 DECCW \$'000	2009 DECC \$'000
Employee related expenses	500,527	413,497
Grants and subsidies	576,118	271,046
Other expenses	375,974	368,367
TOTAL EXPENSES	1,452,619	1,052,910
TOTAL REVENUE	579,142	432,733
Other gains/(losses)	43,249	(3,636)
NET COST OF SERVICES	830,228	623,813
Government contributions	864,962	686,300
SURPLUS	34,734	62,487
OTHER COMPREHENSIVE INCOME		
Gain on revaluation of property, plant and equipment	192,125	251,081
Gain on revaluation of jointly controlled assets	25,146	--
Other comprehensive income	74	--
TOTAL OTHER COMPREHENSIVE INCOME	217,345	251,081
TOTAL COMPREHENSIVE INCOME	252,079	313,568

Employee related expenses include personnel services provided to the Royal Botanic Gardens, the Domain Trust and the Lord Howe Island Board of \$26.3 million, and to catchment management authorities of \$50.5 million. Of the total employee related expenses of \$500 million, \$68.3 million related to the operations of NOW.

Grants and subsidies included \$301 million paid to other New South Wales Government agencies, comprising mainly \$163 million paid to Sydney Water for rebate programs and \$59.4 million paid to catchment management authorities.

Other expenses include operating expenses of \$286 million (\$302 million) and depreciation of \$87.5 million (\$63.9 million). Of these amounts, \$63.2 million of other expenses related to the operations of NOW.

The gain on revaluation of jointly controlled assets of \$25.1 million in 2010 represents NOW's share of the jointly controlled assets of the Living Murray Initiative and the River Murray Operation joint ventures.

Abridged Statement of Financial Position

At 30 June	2010 DECCW \$'000	2009 DECC \$'000
Current assets	300,344	235,245
Non-current assets	4,211,133	3,373,479
TOTAL ASSETS	4,511,477	3,608,724
Current liabilities	117,258	79,405
Non-current liabilities	54,811	43,758
TOTAL LIABILITIES	172,069	123,163
NET ASSETS	4,339,408	3,485,561

Current assets include cash holdings of \$218 million (\$185 million) of which \$52.0 million related to the operations of NOW. The cash balance also includes funds which are restricted in use, including \$92.0 million for the Climate Change Fund and \$26.9 million for the remediation of the former Snowy Mountain scheme sites, both referred to earlier in this Report.

Non-current assets mainly comprise land and buildings of \$2.2 billion (\$2.1 billion) and infrastructure systems of \$1.6 billion (\$1.1 billion). Of these balances, \$19.8 million of land and buildings and \$539 million of infrastructure systems related to the operations of NOW.

Abridged Service Group Information

The Department's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2010 Budget \$'000	2010 Actual \$'000	2009 Actual \$'000	2010 Actual \$'000	2009 Actual \$'000
Service Group 1 - Climate Change and Policy Programs	233,291	183,234	210,661	231,529	280,777
Service Group 2 - Environment Protection and Regulation	97,404	89,311	82,633	3,530	2,827
Service Group 3 - Parks and Wildlife	284,322	259,578	266,604	3,256,186	3,170,182
Service Group 4 - Country, Culture and Heritage	13,172	12,238	15,079	1,192	330
Service Group 5 - Scientific Services	43,843	39,580	43,611	53,339	31,445
Service Group 6 - Urban Water Utilities	200,043	215,737	na	20,038	na
Service Group 7 - Water Management	57,342	26,155	na	773,595	na
Personnel Services		4,395	5,225	--	--
Total all service groups	929,417	830,228	623,813	4,339,409	3,485,561

na - Relates to NOW and was not part of DECCW in 2009

The \$99.2 million difference between the budgeted and actual net cost of services mainly relates to \$99.4 million in transfer payments to catchment management authorities, the Taronga Conservation Society and the State Water Corporation, which are included in the budget but not in the actual figures.

Details of each Service Group's objectives and deliverables are shown under Departmental Activities below.

DEPARTMENTAL ACTIVITIES

The Department's primary activities comprise the following seven service groups:

Climate Change and Policy Programs (Service Group 1)

This covers the State's climate change policy response and delivers water and energy conservation and waste sustainability programs. It develops, implements and reviews strategic policies, programs and procedures pertaining to native vegetation, biodiversity, landscape conservation, environment protection and coastal protection.

Environment Protection and Regulation (Service Group 2)

This covers delivering regulation and enforcement for environment protection, conservation, native vegetation and Aboriginal heritage areas. It implements market based and regulatory programs for industry and local government to reduce environmental impacts.

Parks and Wildlife (Service Group 3)

This covers managing and acquiring parks and protected areas within which it conserves and manages nature and cultural heritage. It manages on-park Aboriginal and historic heritage sites, as well as protecting, managing and licensing native wildlife.

Country, Culture and Heritage (Service Group 4)

It develops policies, strategies, programs and systems that support Aboriginal participation in the management of their traditional lands, waters and natural resources. It also provides technical services for the conservation of cultural heritage within parks, reserves and botanic gardens.

Scientific Services (Service Group 5)

This covers scientific research, investigation, monitoring, analysis, evaluation and reporting on a range of climate change, natural resource, and environmental and cultural heritage matters.

Urban Water Utilities (Service Group 6)

This covers the planning and policy development for urban water industries; coordination and review of the Metropolitan Water Plan; facilitating water recycling across New South Wales; overseeing and monitoring utility performance; and providing emergency drought assistance.

Water Management (Service Group 7)

This service group covers the sharing of water to provide stimulus for businesses and social benefits, and to improve the condition of New South Wales rivers, wetlands and aquifers.

Other Activities of the Department

The Environment Protection Authority (EPA), as a statutory body, is required to prepare a separate general purpose financial statements. The EPA has no staff, no material assets or liabilities and its operations are fully integrated within the Department's operations. The EPA has been retained as an independent body to take legal actions including the possible prosecution of State Government authorities.

The Marine Parks Authority (MPA) is a reporting entity established under the *Marine Parks Act 1997*, whose activities have been administered by the Department since 27 April 2007. The MPA has no staff and no material assets or liabilities. Marine Park assets included within the Department include those at Jervis Bay, Solitary Islands, Cape Byron, Lord Howe Island, Port Stephens and Batemans Bay.

The Office of the Hawkesbury-Nepean (OHN) is a statutory corporation, established under the *Hawkesbury-Nepean River Act 2009*, proclaimed in February 2010. The activities of OHN are administered by DECCW.

The Department's employees also provide personnel and related services to the catchment management authorities, Royal Botanic Gardens and Domain Trust, Dams Safety Committee and the Lord Howe Island Board.

Administered Activities

The Department administers, but does not control, certain activities on behalf of the Crown Entity. It is accountable for the transactions relating to those administered activities, but does not have the discretion, for example, to deploy these funds for the achievement of the Department's own objectives. Transactions and balances relating to the administered activities are not recognised as DECCW's revenues, expenses, assets and liabilities, but are disclosed as 'Administered income', 'Administered expenses', 'Administered assets' and 'Administered liabilities'.

For further information on the Department, refer to www.environment.nsw.gov.au.

Environment Protection Authority

AUDIT OPINION

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

PERFORMANCE INFORMATION

The Authority's Board provides independent oversight of environmental regulation in New South Wales and advice on policy and programs.

During 2009-10, the Board focussed on progressing whole-of-government collaboration and joint regulatory enforcement roles for environmental issues, including a strategic approach to the cumulative impacts of coal mining using land use planning.

The Board also endorsed the Enforceable Undertakings Policy which allows the Authority to accept a written undertaking in respect of a breach of the *Protection of the Environment (Operations) Act 1997*. This policy enables the Authority to exercise wider discretion when choosing between legal proceedings and administrative responses to non-compliance.

The Board also endorsed a financial assurance policy for waste facilities which should ensure that funds are available for the rehabilitation of sites where individual operators fail to protect the environment at waste facilities.

FINANCIAL INFORMATION

Year ended 30 June	2010 \$'000	2009 \$'000
Revenue	82,742	84,804
Expenses	82,742	84,804
Surplus	--	--
Net assets (at 30 June)	--	--

The activities of the Authority are fully integrated within the operations of the Department of Environment, Climate Change and Water (DECCW). The Authority has no staff of its own, no liabilities or assets under its control and does not receive a separate allocation from the Consolidated Fund for its operations. As a result, DECCW funded the Authority's expenditure, which was incurred in the following service group areas:

Year ended 30 June	2010 \$'000	2009 \$'000
Climate Change and Policy Programs	12,829	17,096
Environment Protection and Regulation	65,631	55,918
Scientific Services	3,921	11,424
Other	361	366
Total	82,472	84,804

AUTHORITY ACTIVITIES

The Department of Environment and Conservation was established in September 2003 following the abolition of the Environment Protection Authority (the Authority) as a department. As such, the Authority is no longer a separate department of the Crown. On 1 July 2009, DECCW was created as a result of the Public Sector Employment and Management (Departmental Amalgamations) Order 2009.

A need was identified to retain an independent role for the statutory body corporate of the Authority in taking legal actions, including the possible prosecution of State Government authorities and for most serious prosecutions. As a result, the Government decided to retain a separate legal entity that could undertake this legal action.

The Authority with its Board is a legal mechanism only that operates within the confines of the *Protection of the Environment Administration Act 1991*, and the *Protection of the Environment Operations Act 1997*, in order to facilitate activities of the DECCW's staff under these Acts. It is subject to the control and direction of the Minister for Climate Change and the Environment.

For further information on the Authority, refer to www.environment.nsw.gov.au.

Environmental Trust

AUDIT OPINION

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

PERFORMANCE INFORMATION

During 2009-10, the Trust noted the following achievements:

- eight new properties were purchased under the Trust's Land Acquisition Program
- the Trust approved \$7.9 million in grants for a diverse range of new environmental projects for community groups, schools and universities, local councils and New South Wales Government agencies
- the Trust approved 180 projects including: 39 environmental restoration projects; 18 education and 60 school projects; 13 research projects; 17 projects under the Aboriginal program; and 11 local council projects to improve urban sustainability
- \$1.8 million was paid to the Department of Environment, Climate, Change and Water (DECCW) for the second year of the Growth Centres Biodiversity Offset Scheme. This scheme supports the establishment of biobanking agreements and new reserves to offset urban development. Further details are provided below.

OTHER INFORMATION

BioBanking Scheme

In July 2008, the Environmental Trust was appointed by the former Minister for Climate Change and the Environment as Fund Manager for the BioBanking Trust Fund (the Fund). The Fund is an element of the Biodiversity Banking and Offsets Scheme (BioBanking Scheme) established under Section 127A of the *Threatened Species Conservation Act 1995*.

The BioBanking Scheme provides long term arrangements for biodiversity conservation on private lands through agreements between the Minister for Climate Change and the Environment and land owners. The Fund holds and invests financial assets to pay for the future management of BioBanking sites. The role of the Trust as manager of the Fund includes:

- acting as trustee of money vested in the Fund
- investing amounts held in the Fund to generate a return
- administering the accounts and making payments to the biobank site owners.

BioBanking Trust funds are excluded from the financial statements of the Trust as these cannot be used by the Trust for making any grant payments for the achievement of its own objectives.

In May 2010, the first BioBanking agreement in New South Wales was finalised between the Minister and the private owners of an 80 hectare site in Douglas Park, which contains Cumberland Plain woodland and sandstone transition forest. As a result, the Fund received \$556,000 to ensure the land will be permanently managed for conservation in the future.

FINANCIAL INFORMATION**Abridged Statement of Comprehensive Income**

Year ended 30 June	2010 \$'000	2009 \$'000
Grants and subsidies	77,471	89,647
Other expenses	1,749	1,919
TOTAL EXPENSES	79,220	91,566
TOTAL REVENUE	3,970	2,256
NET COST OF SERVICES	75,250	89,310
Government contributions	78,368	86,792
SURPLUS/(DEFICIT)	3,118	(2,518)
OTHER COMPREHENSIVE INCOME	--	--
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	3,118	(2,518)

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	17,237	15,469
TOTAL ASSETS	17,237	15,469
Current liabilities	2,675	4,025
TOTAL LIABILITIES	2,675	4,025
NET ASSETS	14,562	11,444

The Trust receives an annual appropriation and other funding from the New South Wales Government to fund projects under the Government's City and Country Environment Restoration Program, as well as a range of other grant programs managed by the Trust.

The net cost of services in 2009-10 was \$75.3 million compared to a budget of \$92.5 million. The variance of \$17.2 million was primarily due to a number of Government decisions regarding the Trust's grant program, which reduced the Trust's expenditure during the financial year by \$16.2 million. Slight delays in incurring the expenditure also occurred.

In 2009-10, the Trust paid \$77.5 million (\$89.6 million in 2008-09) in grants and subsidies to:

- State and Local Government authorities totalling \$71.5 million (\$76.8 million)
- community and school groups totalling \$3.5 million (\$8.7 million)
- the Consolidated Fund totalling \$2.0 million (\$3.7 million), for initiatives under the *Forestry Restructuring and Nature Conservation Act 1995*. This included forestry restructure and assistance programs in the Brigalow and Nandewar areas, including business exit assistance, timber worker assistance and industry development assistance
- the Australian Government totalling \$412,000 (\$418,000).

Payments of \$71.5 million to State and Local Governments included the following:

- \$20.7 million to DECCW for the acquisition of water licences under the Riverbank program, and \$2.9 million for land acquisitions
- \$18.9 million to Local Government authorities for urban sustainability initiatives
- \$9.7 million to DECCW towards clean up, waste reduction and regional waste programs
- \$5.5 million to DECCW for rehabilitation, restoration and education projects
- \$3.6 million to Forests NSW for the Brigalow and Nandewar related programs
- \$3.0 million to Local Government authorities for rehabilitation and restoration projects
- \$2.8 million to the private Native Forestry Initiative
- \$1.0 million to DECCW's Climate Change Fund to improve efficiency in schools and fund water and energy saving in public facilities.

At 30 June 2010, the Trust had commitments totalling 49.5 million (\$127 million) for the Trust's environmental initiatives. These commitments are to be financed through future funding by the New South Wales Government.

TRUST ACTIVITIES

The Trust was established under the *Environmental Trust Act 1998* to support the public and private sectors to:

- encourage and support restoration and rehabilitation projects that are likely to reduce pollution, the waste-stream or environmental degradation within New South Wales
- promote research into environmental problems
- promote and develop environmental education programs which will increase public awareness of environmental issues
- fund the acquisitions of land for national parks
- fund the declaration of areas for marine parks
- promote waste avoidance, resource recovery and waste management
- fund environmental community groups
- fund the purchase of water entitlements for the purposes of increasing environmental flows for the State's rivers and rehabilitating major wetlands.

The Trust is a statutory body and is chaired by the Minister for Climate Change and the Environment. The maintenance of the Trust's accounting records and provision of other administrative services is provided by the DECCW. The fair value of such services is charged to the Trust.

For further information on the Trust, refer to www.environment.nsw.gov.au/grants/envtrust.htm.

Royal Botanic Gardens and Domain Trust

AUDIT OPINION

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

OTHER INFORMATION

The New South Wales Government announced funding of \$15.5 million for the construction of PlantBank to be built at the Mount Annan Botanic Garden. It will house the New South Wales Seedbank with the objective of safeguarding the future of the State's flora through 'seed-banking', research and information-sharing.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Personnel related expenses	24,270	22,623
Other expenses	17,371	17,763
TOTAL EXPENSES	41,641	40,386
TOTAL REVENUE	18,459	18,849
NET COST OF SERVICES	23,182	21,537
Government contributions	21,950	20,740
DEFICIT	(1,232)	(797)
OTHER COMPREHENSIVE INCOME		
Gain on revaluation of property, plant and equipment	--	7,127
TOTAL OTHER COMPREHENSIVE INCOME	--	7,127
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	(1,232)	6,330

Abridged Statement of Financial Position

Year ended 30 June	2010 \$'000	2009 \$'000
Current assets	3,671	4,335
Non-current assets	277,976	278,081
TOTAL ASSETS	281,647	282,416
Current liabilities	4,210	3,749
Non-current liabilities	26	24
TOTAL LIABILITIES	4,236	3,773
NET ASSETS	277,411	278,643

Abridged Service Group Information

The table below details the Trust's net cost of services on a service group basis:

Year ended 30 June	Net Cost of Services			Net Assets	
	2010 Budget \$'000	2010 Actual \$'000	2009 Actual \$'000	2010 Actual \$'000	2009 Actual \$'000
Science and Public Programs	6,535	8,636	8,864	103,345	114,682
Botanic Gardens and Parks	16,455	14,546	12,673	174,066	163,961
Total all service groups	22,990	23,182	21,537	277,411	278,643

The methodology used to determine the net cost of services and net assets for the service groups was refined during 2009-10. As a result of this methodology change, the budget data is not directly comparable with the actual data in 2009-10. In 2010-11 the new methodology will be used to ensure alignment with The Treasury estimates.

TRUST ACTIVITIES

The Trust is a statutory body established under the *Royal Botanic Gardens and Domain Trust Act 1980*. It is governed by a Board and is not a controlled entity of the Department of Environment, Climate Change and Water (DECCW). Staff working at the Trust are employees of DECCW.

The Trust is responsible for the management and stewardship of the Royal Botanic Gardens; the Domain; Mount Annan Botanic Garden; Mount Tomah Botanic Garden; the National Herbarium of New South Wales and the New South Wales Seedbank. The Trust also undertakes and provides scientific and horticultural research, together with advice and education on botany, horticulture and biodiversity.

The Trust has nearly 200,000 plants in its three botanic gardens and the Domain, representing 20,000 different kinds of plants from all over the world. The Herbarium has over 1.2 million preserved collections, there are over five million seeds in the Seedbank at Mount Annan Botanic Garden and the library preserves a rich assortment of books, archives and artworks.

For further information on the Trust, refer to www.rbgsyd.nsw.gov.au.

Taronga Conservation Society Australia

AUDIT OPINION

The audits of Taronga Conservation Society Australia (TCSA) and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

KEY ISSUES

Master Plan

TCSA completed the ninth year of its 12 year Master Plan for Taronga Zoo and Taronga Western Plains Zoo, including completion of the 'Tasmanian Devil Exhibit' at Taronga Zoo in June 2010. The three major current projects are the Top Entry Plaza, Chimpanzee Exhibit and the Entry Plaza at Taronga Western Plains Zoo. The projects are all due to be complete in 2011.

The Master Plan's budgeted costs are indexed each year for inflation. At 30 June 2010, the budgeted cost was \$221 million.

The table below shows the Master Plan's revised predicted expenditure over the term of the plan and the planned and actual expenditure from inception to 30 June 2010.

	Revised		
	Master Plan \$'000	Planned \$'000	Actual \$'000
Internal funding	43,770	35,090	37,679
New South Wales Treasury Corporation loan	36,272	34,270	23,894
Government grants	140,559	129,663	129,663
Total	220,601	199,023	191,236

Source: Taronga Conservation Society Australia (unaudited).

The New South Wales Government requires TCSA to raise approximately 20 per cent (\$43.7 million) of the total cost of the Revised Master Plan through the fundraising activities of The Taronga Foundation.

TCSA spent \$24.6 million (\$25.7 million in 2008-09) on additions to capital works.

PERFORMANCE INFORMATION

Visitors

The following table shows the number of visitors and revenue for the past five years:

Year ended 30 June	Actual				
	2010	2009	2008	2007	2006
Taronga Zoo					
Paid attendance	1,247,205	1,085,207	1,078,865	1,148,403	1,039,122
Free of charge attendance	272,444	276,134	260,491	218,926	241,336
Taronga Western Plains Zoo					
Paid attendance	184,585	190,519	193,554	199,044	199,683
Free of charge attendance	33,869	38,589	37,062	42,333	37,569
Total attendance	1,738,103	1,590,449	1,569,972	1,608,706	1,517,710
Admissions Revenue (\$'000)	36,484	28,219	26,353	24,761	22,905

Source: Taronga Conservation Society Australia (unaudited).

Paid attendance at Taronga Zoo increased by 15 per cent in 2009-10. The months of July 2009 and April 2010 recorded higher than expected visitors following the successful birth of two Asian elephant calves.

Paid attendance at Taronga Western Plains Zoo continued to decrease. Full year paid admissions were down by 3.1 per cent compared to 2008-09.

Free of charge attendance primarily relates to sponsors, function guests and children under the age of four.

OTHER INFORMATION

Car Park Facility at Taronga Zoo

The new car park earned \$1.6 million revenue during the year ended 30 June 2010. The car park reduced street parking by taking 400 cars off the surrounding streets, improving safety and traffic flows for visitors.

Taronga Foundation

This year the Taronga Foundation celebrated its 10th anniversary. The Foundation was created in 2000 to provide visitors and supporters an efficient way to become involved in the Zoo and support animal conservation, education and research.

The funds raised by the Taronga Foundation for the year ended 30 June 2010 amounted to \$9.58 million (\$8.47 million).

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Revenue	64,586	53,260	64,586	53,260
Government grants	36,906	25,779	36,906	25,779
OPERATING REVENUE	101,492	79,039	101,492	79,039
Employee related expenses	37,650	37,358	38,558	40,681
Depreciation and amortisation	13,544	12,513	13,544	12,513
Other expenses	26,092	24,715	26,092	24,715
OPERATING EXPENSES	77,286	74,586	78,194	77,909
SURPLUS	24,206	4,453	23,298	1,130
OTHER COMPREHENSIVE INCOME:				
Gain on revaluation of assets	13,012	60,269	13,012	60,269
Superannuation actuarial losses	(907)	(3,323)	--	--
TOTAL OTHER COMPREHENSIVE INCOME	12,105	56,946	13,012	60,269
TOTAL COMPREHENSIVE INCOME	36,310	61,399	36,310	61,399

Revenue increased by \$22.5 million, largely due to increased admissions revenue and an increased New South Wales Government Capital Grant of \$22.0 million compared with \$10.4 million in 2008-09.

Expenses rose mainly due to increased depreciation charges following a revaluation of assets at the end of 2008-09. Employee related expenses increased as a result of an average pay increase of four per cent from 1 July 2009 and hiring of additional casual Zoo staff during peak visitation periods.

Abridged Consolidated Balance Sheets

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	30,750	15,440	30,750	15,440
Non-current assets	369,737	345,171	369,737	345,171
TOTAL ASSETS	400,487	360,611	400,487	360,611
Current liabilities	23,594	14,663	27,631	18,228
Non-current liabilities	38,355	43,720	34,318	40,155
TOTAL LIABILITIES	61,949	58,383	61,949	58,383
NET ASSETS	338,538	302,228	338,538	302,228

Net assets rose by \$36.3 million mainly due to a \$20.0 million increase in capital work in progress, including construction of the new top entrance and the chimpanzee exhibition at Taronga Zoo and the entry plaza at Taronga Western Plains Zoo.

SOCIETY ACTIVITIES

The TCSA was established under The *Zoological Parks Board Act 1973*. Its principal objectives are to establish, maintain and control zoological parks at Sydney's Taronga Zoo and Taronga Western Plains Zoo in Dubbo.

The TCSA is subject to the control and direction of the Minister for Climate Change and the Environment.

For further information on the Society, refer to www.taronga.org.au

CONTROLLED ENTITY

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

Entity Name	Website
Taronga Conservation Society Australia Division	*

* This entity does not have a website

Minister for Water

Cobar Water Board

***Gosford Water Supply Authority**

Hunter Water Corporation

State Water Corporation

Sydney Catchment Authority

Sydney Water Corporation

Wyong Water Supply Authority

Refer to Appendix 1 for:

Dumaresq-Barwon Border Rivers Commission

Office of Hawkesbury-Nepean

*The audit was incomplete at the time of compiling this Volume
The comment will be included in a later 2010 Volume

Cobar Water Board

AUDIT OPINION

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

FINANCIAL INFORMATION

Year ended 30 June	2010 \$'000	2009 \$'000
Revenue	2,049	1,556
Expenses	3,160	3,008
Loss	1,111	1,452
Net assets (at 30 June)	63,391	62,894

Revenue increased mainly due to an increase in water prices and an Australian Government contribution of \$222,000 for the construction of Swan Dam.

Expenses rose mainly due to increased depreciation of re-valued infrastructure assets.

Net assets increased due to work-in-progress on the Swan Dam and revaluation of infrastructure assets which was offset by depreciation expense during the year.

BOARD'S ACTIVITIES

The Board is a statutory body under the *Water Management Act 2000*. It consists of seven part-time members who are appointed by the Governor on the recommendation of the responsible Minister. Nominees include representatives of the local mining companies and the Cobar Shire Council.

The Board maintains and operates water works, and makes agreed quantities of water available to the Cobar Shire Council and two mining companies. This is based on an agreement between the Board, Cobar Shire Council and the mining companies.

The Board does not employ any staff. The Cobar Shire Council performs administration and works for the Board.

CONTROLLED ENTITY

Cobar Water Board Division

The objective of the Division is to provide personnel services to Cobar Water Board. Cobar Water Board and the Division had no staff during the year. The Division did not prepare financial statements for 2009-10.

Hunter Water Corporation

AUDIT OPINION

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

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

KEY ISSUES

Tillegra Dam (Repeat Issue)

I recommend that the Corporation prepare a sound and comprehensive business case before any decision is made to proceed with the Tillegra Dam.

The NSW Department of Planning has not yet completed its assessment of the Tillegra Dam proposal. It has commissioned four independent reviews on the project. The reviews are:

- Project justification
- Hydrological modelling of the Williams River
- Hunter River estuary modelling
- Socioeconomics.

In November 2006, a former New South Wales Premier announced a \$342 million plan to build a 450 billion litre dam at Tillegra on the Williams River north of Dungog. Hunter Water has advised that their latest estimated cost of the dam is now \$477 million which includes the estimated value of surplus lands. The Corporation advised that the latest estimated net cost of the dam is still \$406 million (as I reported last year). The increase in the gross cost is due to the Corporation acquiring additional land to meet the needs for new public roads around the dam and landholders electing to sell entire holdings rather than just affected areas.

The Corporation advises that the business case for the project consists of a range of documents comprising engineering, hydrological, environmental and socioeconomic studies.

Once a decision has been made on whether to proceed with the Dam, I will consider whether a performance audit is appropriate.

PERFORMANCE INFORMATION

Independent Pricing and Regulatory Tribunal (IPART) Operational Audit

The audit found the Corporation managed its resources to achieve predominantly full compliance. The results of the 2008-09 audit are summarised below. At the time of writing IPART has not issued the results of 2009-10 operational audit.

Compliance with Operating Licence Year ended 30 June	2009 %
Full compliance	76
High compliance	20
Moderate compliance	4

Source: IPART Hunter Water Corporation Operational Audit 2008-09.
Prior year compliance not similarly reported.

Whilst the Corporation improved its licence compliance compared with 2007-08, IPART identified areas for improvements in the Corporation's performance against a range of reporting requirements and quality assurance processes. IPART also commented that the areas of moderate compliance do not represent a major shortfall in the Corporation's attention to core responsibilities.

IPART reported the results of its 2008-09 operational audit of the Corporation in November 2009. The audit assessed the Corporation's performance against the standards in its Operating Licence.

Operational Performance Indicators

Year ended 30 June	2010	2009	2008	2007	2006
Average volume of water consumed (kilolitres) per residential property	184.0	179.7	177.0	195.0	205.0
Water quality complaints per 1,000 properties	3.4	3.2	2.8	3.9	6.8
Average number of unplanned water supply interruptions per 1,000 properties	255.5	271.2	225.2	372.3	386.9
Water losses (kilolitres/water main kilometre/day)	3.5	3.7	3.9	4.2	3.8
Sewer main breaks and chokes per 100 kilometres of sewer main	58.2	44.4	51.7	63.5	61.1
Wastewater biosolids available for reuse (% reused/recycled)**	104***	88.0	100.0	104.4***	88.0

Source: Hunter Water Corporation (unaudited).

** Does not include biosolids from Burwood Beach Waste Water Treatment Works – not stabilised and stockpiles at Shortland and Dora Creek.

*** Use of historic stockpiles.

The Corporation promotes a number of water saving schemes although water restrictions have not applied to the Hunter region since 2005 due to favourable water storage levels (81.0 per cent of capacity at 8 October 2010).

The increase in water quality complaints is due to power failures to a water pump station (WPS) in one suburb within the Lower Hunter region. The Corporation has planned an alternate supply project to obtain water from another main in the event of future power failure to the WPS.

The movement in sewer main breaks and chokes is largely attributed to changing climatic conditions and the effect this has on soil moisture. Analysis of historical sewer chokes and applying a maintenance risk model has resulted in a increased funding of \$500,000 to rehabilitate the sewer mains. Strategy development with a focus on preventative maintenance of sewer mains that have choked is ongoing.

In 2009-10, the Corporation reused 100 per cent of biosolids produced. In addition, it reused 203 tonnes of biosolids stockpiled from the previous year in land application program. Biosolids are solid or semisolid material obtained from treated wastewater, often used as fertilizer.

Maintenance Activities

The table below shows the Corporation completed its planned maintenance for 2009-10. The Corporation advised it had no maintenance backlog at year-end. The results are consistent with the previous year.

Year ended 30 June	2010	2009
Total planned maintenance completed for network and treatment assets (%)	95.1	99.3
Total planned maintenance completed for critical assets (%)	100.0	100.0
Maintenance work completed on time (%)	73.2	83.1
Budgeted maintenance expenditure (\$m)	47.1	46.9
Actual maintenance expenditure (\$m)	46.6	46.5

Source: Hunter Water Corporation (unaudited).

Review of Major Capital Projects

The Corporation's capital expenditure in 2009-10 was \$179 million (excluding capitalised interest).

The original and current cost estimates and service delivery dates for all capital projects with an original cost above \$10.0 million are listed in the table below.

Project	Original Cost Estimate \$m	Current Cost Estimate \$m	Original Service Delivery Date	Achieved/ estimated Service Delivery Date
In progress at 30 June 2010:				
Branxton Waste Water Treatment Work (WWTW) Stage 3 Upgrade	48.3	48.3	December 2011	December 2011
Burwood Beach WWTW Stage 2 Upgrade	26.1	43.9	March 2011	March 2011
Boulder Bay WWTW Stage 2 Upgrade	15.6	25.5	September 2011	September 2011
Paxton WWTW Stage 2 Upgrade	19.8	19.8	March 2011	March 2011
Dungog Additional Clear Water Tank	17.7	12.0	June 2011	June 2011
Watermain Replacement-Beresford to Stony Pinch	11.4	11.4	December 2011	December 2012
Wastewater Transportation Upgrade	16.4	16.4	December 2013	December 2013
Cessnock Water Distribution Stage 1 Upgrade	20.3	20.3	June 2012	June 2012
Clarence Town Sewerage Scheme	17.2	11.1	May 2011	March 2012
Shortland WWTW	10.8	10.8	March 2012	March 2012
Dora Creek WWTW Upgrade	21.8	33.6	December 2010	December 2010
Tillegra Dam – land acquisition and other preliminary costs	59.1	111.3	June 2014	June 2014

Source: Hunter Water Corporation (unaudited).

Lower than expected cost estimates for the Dungog clearwater tank and Clarence town sewerage scheme projects is due tender prices being lower than those originally estimated.

Higher than expected cost estimates for the Burwood Beach WWTW Stage 2 Upgrade, the Boulder Bay WWTW Stage 2 Upgrade and the Dora Creek WWTW Upgrade are due to changes in the scope and technologies used. These changes resulted in higher tender prices than originally estimated.

Original cost estimates for Tillegra Dam of \$51.9 million relate to the acquisition of land and other preliminary costs. Current cost estimates of \$111 million reflect higher than expected land costs and the costs of seeking planning approval.

The Corporation considers the overall risk profile of its capital program to be low.

OTHER INFORMATION

Excessive Annual Leave Balances

At 30 June 2010, 132 employees (139) had accrued more than 40 days of annual leave entitlements. This represents 20.9 per cent of all employees (22.6 per cent). There were 22 employees (25) who have accrued more than 80 days of annual leave entitlements at year-end.

Managing excessive annual leave balances is a challenge for the Corporation. It has implemented a policy which requires employees with annual leave balances greater than 50 days to take a minimum of five weeks annual leave a year and those with greater than 100 days to take a minimum of six weeks annual leave a year. The Corporation's recently negotiated enterprise agreement also contains this policy. The Corporation is yet to see the effect of this policy on employees leave balances.

The accumulation of excessive annual leave entitlements results in increased financial costs to the Corporation because these entitlements will be paid out at higher salary rates in the future and may have occupational health and safety implications.

Workforce Ageing

The Corporation is not facing the challenges of an ageing workforce. The following statistics support this view:

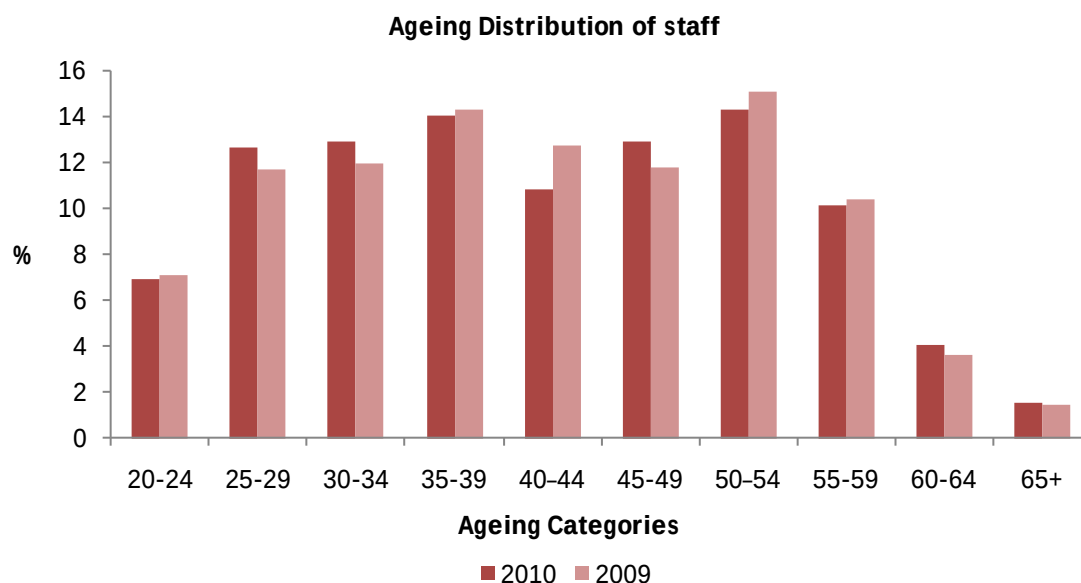
- 15.6 per cent are aged 55 years and over
- 29.9 per cent are aged 50 years and over.

At 30 June Age Group	2010		2009	
	Number of Employees*	%	Number of Employees*	%
20 – 49	426	70.1	401	69.5
50 – 54	87	14.3	87	15.1
55 – 59	61	10.0	60	10.4
60 – 64	25	4.1	21	3.6
65+	9	1.5	8	1.4
Total	608	100.0	577	100.0

Source: Hunter Water Corporation (unaudited).

* Full-time equivalent (FTE).

The graph below further demonstrates the age structure of the workforce:



Source: Hunter Water Corporation (unaudited).

Use of Contractors

I recommend the Corporation

- create and maintain a single register for contracted employees
- using this register, review the effectiveness of its existing policies for employment of contract employees to ensure:
 - reliance on contractors is not excessive
 - use of contract employees instead of permanent employees is appropriate
 - contractors do not become de facto employees by virtue of being with the Corporation for an extended period of time
 - use of contract employees continues to represent value for money.

In 2009-10, the Corporation engaged 92 contractors for a total cost of \$1.8 million. This represents 14.6 per cent of all employees. Eleven contractors have been with the Corporation for more than three years, including one contractor for more than six years. The Corporation does not have a single register for contractors from labour hire agencies and those engaged by the Corporation. The Corporation cannot easily determine payments to contractors over the lives of their contracts.

The lack of a central register for contract employees increases the risk of the Corporation not being able to determine, monitor and analyse:

- the total cost of contract employees
- the total number of contract employees
- the period of service for all contract employees.

The Corporation needs to review its practices relating to contract employees to help ensure they achieve the desired outcomes and comply with all applicable laws and regulations.

Excessive Overtime Payments

I recommend the Corporation review the effectiveness of its existing policies for managing the use of overtime.

The Corporation employs over 600 people and incurred \$48.3 million (\$43.2 million) on personnel services. Of this amount, approximately \$1.6 million (\$1.5 million) was paid as overtime. These costs represent 3.4 per cent (3.5 per cent) of total employees' base pays for the year.

The number of employees and overtime paid as a percentage of base pay are as follows:

Year ended 30 June	2010		2009	
Overtime paid as a percentage of base pay	Number of employees	Overtime paid \$'000	Number of employees	Overtime paid \$'000
100+	--	--	--	--
91 - 100	--	--	1	65
81 - 90	1	66	1	63
71 - 80	--	--	--	--
61 - 70	1	35	--	--
51 - 60	1	38	3	97
41 - 50	4	122	1	24
31 - 40	14	307	15	318
21 - 30	17	270	19	269
11 - 20	26	224	20	176
0 - 10	177	566	180	514
Total	241	1,628	240	1,526

Source: Hunter Water Corporation (unaudited).

The number of employees who received overtime during the year represents 38.1 per cent (39.0 per cent) of the Corporation's total number of employees. This suggests that either there is a significant gap between the number of employees and work requirements of the Corporation or there are inefficiencies in delivery of those work requirements. The constant overtime work of employees may lead to occupational health and safety issues.

The main drivers of overtime expense are out-of-hours repairs not work not completed during the day. There are operating licence requirements, and societal expectations, that these asset failures are dealt with speedily and not left until business hours recommence.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Tariff charges	217,566	174,560	217,566	174,560
Other revenue	36,523	52,669	28,659	45,170
OPERATING REVENUE	254,089	227,229	246,225	219,730
Employee related expenses	31,666	27,123	17,553	15,779
Maintenance and operational services	68,663	64,267	77,619	71,505
Depreciation	36,455	34,712	35,781	34,091
Finance costs	47,409	32,347	47,591	32,578
Other expenses	3,896	6,810	3,308	5,844
OPERATING EXPENDITURE	188,089	165,259	181,852	159,797
PROFIT BEFORE INCOME TAX	66,000	61,970	64,373	59,933
Income tax expense	16,339	12,385	14,449	10,171
PROFIT AFTER TAX	49,661	49,585	49,924	49,762
OTHER COMPREHENSIVE INCOME				
Revaluation of property, plant and equipment	58,639	220,628	58,639	220,629
Superannuation actuarial losses	(5,183)	(26,364)	(4,335)	(23,298)
TOTAL OTHER COMPREHENSIVE INCOME	53,456	194,264	54,304	197,331
TOTAL COMPREHENSIVE INCOME	103,117	243,849	104,228	247,093

The increase in tariff charges is consistent with the increase in prices as determined by IPART.

Other revenue decreased primarily due to the abolition of developer contribution charges for potable water, wastewater and storm water, while charges for recycled water remain.

Finance costs increased due to additional borrowings during the year to deliver an increased capital works program.

In 2009-10, the Corporation revalued land and drainage assets (sewer network assets) using independent valuation. The Corporation also reported significantly lower actuarial losses for defined benefits superannuation due to recent improvement in economic conditions.

Abridged Statements of Financial Position

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	59,196	48,798	57,495	47,745
Non-current asset	2,836,877	2,602,294	2,839,903	2,603,242
TOTAL ASSETS	2,896,073	2,651,092	2,897,398	2,650,987
Current liabilities	276,850	198,545	277,234	198,284
Non-current liabilities	931,198	833,539	933,679	836,346
TOTAL LIABILITIES	1,208,048	1,032,084	1,210,913	1,034,630
NET ASSETS	1,688,025	1,619,008	1,686,485	1,616,357

Current assets increased due to land, previously classified as a non-current, being identified as held for sale at year-end and reclassified to current assets.

Non-current assets rose primarily due to a \$90.2 million revaluation increment of property plant and equipment and \$116 million of non-current asset acquisitions during the year.

Liabilities increased mainly due an increase in current tax liabilities and additional borrowings to finance the Corporation's capital works program.

CORPORATION ACTIVITIES

The Corporation is a statutory State owned corporation that operates within the Lower Hunter Region. It collects, conserves, preserves and distributes water, provides sewerage facilities, and constructs, controls and maintains certain stormwater channels.

Its charter is to be commercially successful as a company while delivering water, wastewater and associated services.

For further information on the Corporation, refer to www.hunterwater.com.au.

CONTROLLED ENTITIES

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

For further financial and other information on this entity, we have listed the entity's website.

Entity Name	Website
Hunter Water Australia Pty Limited	www.hwa.com.au

State Water Corporation

AUDIT OPINION

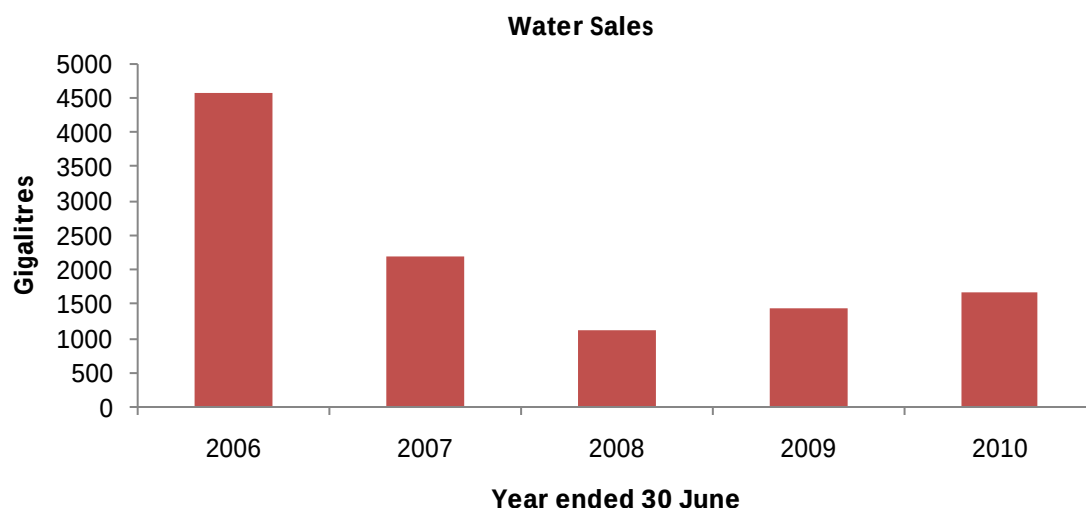
The audit of the Corporation's financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

KEY ISSUES

Financial Viability

In June 2010, the Independent Pricing and Regulatory Tribunal (IPART) determined the Corporation's bulk water prices for the four-year period from 1 July 2010.

In the past few years, the drought meant the Corporation had less water to sell. These lower water sales highlighted the variability of the Corporation's revenue earning capacity. Although drought conditions eased during the latter half of the year, water sales remained at historically low levels. Water sales over time are highlighted in the graph below:



Source: State Water Corporation (unaudited).

The increase in water sales during 2009-10 compared with 2008-09 reflects higher rainfall and increasing river flows in the latter half of the year. Drought information prepared by the Department of Industry and Investment highlights the improving conditions during 2009-10. In January 2010, 81.8 per cent of the State was in drought. By June 2010, 13.9 per cent was in drought and in October 2010, no part of the State was in drought.

In 2009-10, the Corporation delivered 1,681 gigalitres of water sales (1,446 gigalitres in 2008-09). In addition, the Corporation delivered 275,000 megalitres (500,000 megalitres) to interstate parties. Although water sales were higher than the previous year, they were only 30.6 per cent of long-term average annual sales.

PERFORMANCE INFORMATION

IPART Operational Audit

The audit found the Corporation satisfactorily performed its core functions of capture, storage and release of water. The results of the 2008-09 operational audit are summarised below. At the time of writing, IPART has not issued results of the 2009-10 operational audit.

Compliance With Operating Licence Year ended 30 June	2009 %
Full compliance	81
High compliance	8
Moderate compliance	8
Low compliance	3

Source: IPART State Water Corporation Operational Audit 2008-09.
Prior year compliance not similarly reported.

IPART reported that the Corporation's compliance with its licence declined slightly from 2007-08 partly due to the lack of checks on data prior to submission to IPART. IPART commented that the limitations of the Corporation's business systems might have impacted the Corporation's ability to fully and accurately report on its performance against some clauses of the licence.

IPART stated that where State Water achieved low to moderate compliance, it was usually in areas not impacting its core responsibilities. IPART commented that, in particular, State Water had implemented a major organisational restructure during 2008-09, involving centralisation of core business activities and significant workforce adjustments. IPART noted that it expected the new structure should result in improved performance once fully implemented.

The 2008-09 operational audit is the first compliance audit against the Corporation's current operating licence. IPART conducted a comprehensive audit (including low risk clauses) with a view to providing a foundation for their future audits. It is anticipated that a risk-based approach similar to other major public water utilities will be adopted for the Corporation once its new business systems are fully operational and its level of licence compliance has further improved.

IPART released its 2008-09 report in November 2009. The audit assessed the Corporation's performance against its Operating Licence standards.

OTHER INFORMATION

I identified opportunities to improve the accounting and internal control procedures and reported them to management. These mainly related to information technology, approvals of project costs, project capitalisations and accruals at year-end.

Dam Safety Compliance

The Corporation continued to work on the first phase of its dam safety compliance project. The Corporation spent \$58.0 million (excluding borrowing costs of \$3.0 million) on this project during the year. The table below shows the timing of the works and estimated cost for the major components of the project.

Year Ended 30 June	Original Cost Estimate \$m	Forecast Estimate \$m	Original Completion Date	Estimated Completion Date
Blowering	39	39	June 2010	June 2011
Keepit	117	115	November 2011	May 2013
Burrendong	29	36	July 2012	December 2014
Copeton	48	62	February 2013	December 2012
Split Rock	5	9	May 2013	June 2012
Wyangala	34	45	October 2012	June 2014
Chaffey	13	15	August 2012	January 2011

Source: State Water Corporation (unaudited).

The variation in completion dates is largely due to a re-scheduling and re-prioritisation of works to help ensure efficiency of delivery using work packaging, where possible.

Cost variations are emerging as the Corporation awards the contracts. The variation between original cost estimate and forecast estimate for Burrendong dam is due to the tender crystallising the expected costs. The variation for Copeton dam works is due to higher than expected tender prices for park facilities and an updated cost estimate for the spillway works.

The Corporation will upgrade 18 of its 20 dams to comply with Dams Safety Committee requirements. All the Corporation's dams are safe for day-to-day operation, but need upgrading to meet current safety requirements for large to extreme floods and earthquakes.

Excessive Annual Leave balances

The Corporation improved its management of employees' excessive annual leave balances during the year. At 30 June 2010, 35 (63) employees had accrued more than 40 days of annual leave entitlements. This represents approximately 12 per cent (22 per cent) of all employees.

Excessive annual leave entitlements, if not managed well, can increase financial costs to the Corporation because it will pay out the entitlements at higher salary rates in the future. There are also occupational health and safety risks associated with employees deferring leave.

Overtime

I recommend the Corporation review the effectiveness of its existing policies for managing overtime work and analyse the underlying reasons for overtime payments that are significantly more than base pay.

The Corporation incurred overtime costs during 2009-10 of \$573,000 (\$465,000). These costs represent three per cent (two per cent) of total employees' base pays during the year.

Although overtime costs are not significant, 138 (115) employees received overtime payments. This represents 40.6 per cent (31.2 per cent) of the Corporation's employees. Either this suggests a gap between the number of employees and work requirements of the Corporation or inefficiencies in the delivery of those work requirements.

Most employees who received overtime received less than 10 per cent of their base salary as overtime. However, one employee received 41.5 per cent of base salary as overtime.

Workforce Ageing

The age of the Corporation's work force is more evenly spread between 20 and 65 than is common for many entities in the public sector. It, therefore, does not appear to be facing the same challenges as those entities with aged workforces skewed towards and over 50. The following statistics support this view:

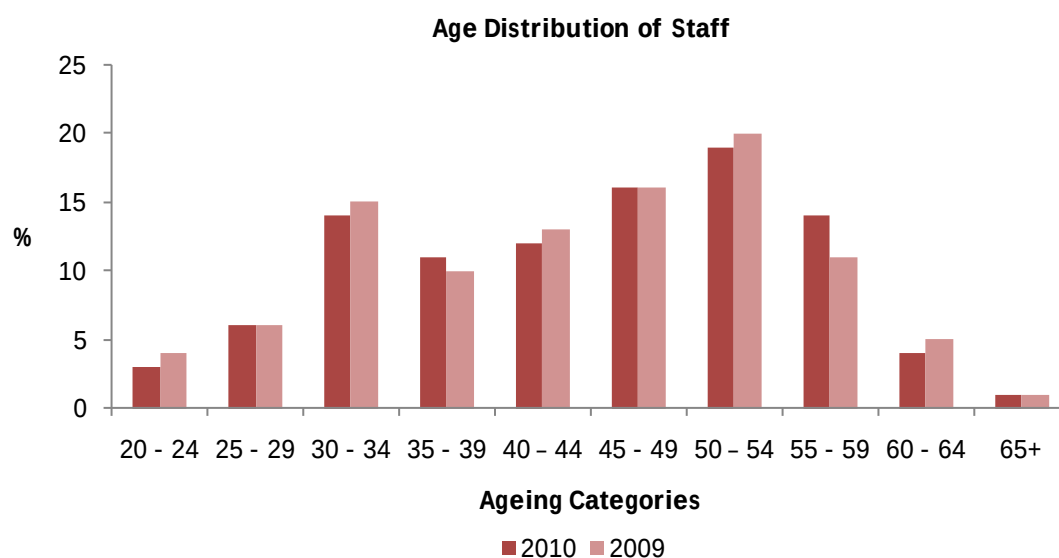
- 18.8 per cent are aged 55 years and over
- 38.3 per cent are aged 50 years and over.

Year ended 30 June Age Group	2010		2009	
	Number of Employees*	%	Number of Employees*	%
20 – 49	193	61.7	194	63.2
50 – 54	61	19.5	62	20.2
55 – 59	43	13.7	34	11.0
60 – 64	13	4.1	15	4.9
65+	3	1.0	2	0.7
Total	313	100	307	100

Source: State Water Corporation (unaudited).

* Full-time equivalent employees.

The graph below further demonstrates the age structure of staff:



Source: State Water Corporation (unaudited).

To help ensure the Corporation continues to have a workforce whose ages are evenly spread, it will need to actively monitor its workforce age profile and have strategies to develop, attract and retain staff whose skills are aligned with the strategic direction of the Corporation.

Employment of Contract Employees

I recommend the Corporation:

- create and maintain a single record of all contractors engaged by it
- using this record, periodically review the roles and responsibilities of all its contractors to ensure:
 - its reliance on contractors is not excessive
 - use of contract employees instead of permanent employees is appropriate
 - contractors do not become de facto employees by virtue of being with the Corporation for an extended period of time
 - use of a contractor continues to represent good value for money.

The Corporation does not maintain a single register for all contractors. Each division engages contractors separately. This increases the risk of non-compliance with taxation and other employment laws and regulations.

The Corporation had 38 (69) contractors during the year for a total cost of \$945,000 (\$3.1 million). The longest engagement of one contractor is more than six years. The retention of contractors for extended periods may result in additional costs to the Corporation. The Corporation should review its practices relating to contractors to help ensure they are appropriate to achieve desired outcomes and comply with employment related legislation.

Inter-jurisdictional Water Trades

Last year I reported that the Corporation had difficulty recovering usage charges for water traded interstate. There is no operational inter-jurisdictional agreement for managing, monitoring and correctly assigning recoverable costs associated with the delivery of water. In 2009-10, the Corporation forwarded a draft inter-jurisdictional agreement to NSW Office of Water which is the lead agency in executing any agreement.

In the interim, the Corporation is collecting the water charges at the time of trade. In 2009-10, the Corporation successfully collected approximately \$1.0 million from interstate trade. This represents 275,000 megalitres of water traded during the year. The Corporation wrote off \$1.8 million interstate usage charges billed in 2008-09.

FINANCIAL INFORMATION**Abridged Statement of Comprehensive Income**

Year ended 30 June	2010 \$'000	2009 \$'000
Revenue from storage and delivery of water	34,110	34,558
Infrastructure operation, maintenance and construction	20,570	13,231
Government contributions	22,828	21,430
Other revenue	3,791	3,237
OPERATING REVENUE	81,299	72,456
Operational costs	9,682	117,926
Depreciation	7,387	8,301
Finance costs	3,724	3,408
OPERATING EXPENDITURE	20,793	129,635
PROFIT/(LOSS) BEFORE INCOME TAX	60,506	(57,179)
Income tax (expense)/benefit	(15,461)	17,282
PROFIT/(LOSS) AFTER TAX	45,045	(39,897)
OTHER COMPREHENSIVE INCOME		
Net superannuation actuarial (losses)	(2,663)	(13,300)
Net revaluation increment of property, plant and equipment	--	1,473,904
Net impairment reversal/(loss) relating to revalued assets	9,911	(1,433,498)
TOTAL OTHER COMPREHENSIVE INCOME	7,248	27,106
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	52,293	(12,791)

Infrastructure operation, maintenance and construction revenue increased due to the Corporation completing more work on behalf of the Murray-Darling Basin Authority during the year.

Operational costs decreased mainly due to the reversal of a \$55.8 million impairment loss recorded in the previous year and recognition of \$55.1 million impairment gain at 30 June 2010. This resulted from a change in asset values due to higher water prices and sales.

Abridged Statement of Financial Position

Year ended 30 June	2010 \$'000	2009 \$'000
Current assets	34,185	21,930
Non-current assets	558,731	420,413
TOTAL ASSETS	592,916	442,343
Current liabilities	54,616	32,257
Non-current liabilities	171,041	92,050
TOTAL LIABILITIES	225,657	124,307
NET ASSETS	367,259	318,036

The increase in current assets is mainly due to a \$10.0 million funding draw down close to year-end.

The increase in non-current assets is due to higher water prices and sales impacting the recoverable amount of the infrastructure assets.

The increase in current liabilities is due to the additional spending during the year on the dam safety upgrade program. Non-current liabilities include borrowings of \$107 million (\$53.8 million) from the New South Wales Treasury Corporation to fund capital projects.

The Corporation changed its accounting policy for certain government grants to comply with The Treasury's accounting policy mandate. This change increased the Corporation's loss and decreased net assets reported at 30 June 2009 by \$6.4 million and at 1 July 2008 by \$1.7 million.

CORPORATION ACTIVITIES

The Corporation is a statutory State owned corporation. It incorporates all of New South Wales' bulk water delivery services outside of the areas of operation of Sydney Catchment Authority, Sydney Water Corporation, Hunter Water Corporation and other water supply authorities.

The Corporation delivers water to irrigation corporations, country town water supply authorities, farms, mines and electricity generators, by releasing flows from its dams into rivers to be accessed by water users. It also provides water for stock and domestic users and is responsible for delivering environmental flows on regulated rivers.

For further information on the Corporation, refer to www.statewater.com.au.

Sydney Catchment Authority

AUDIT OPINION

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

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

PERFORMANCE INFORMATION

The Authority's performance against the following key non-financial performance measures met or exceeded targets.

Year ended 30 June	2010		2009	
	Target %	Actual %	Target %	Actual %
Health related compliance with the Australian Drinking Water Guidelines	100	100	100	100
Compliance with Bulk Water Supply Agreement with Sydney Water	>95	99.7	>95	99.4
Compliance with Dams Safety Committee requirements and Australian National Committee on Large Dams guidelines	100	100	100	100
Environmental release compliance with Water Management Licence	100	100	100	100

Source: Sydney Catchment Authority (unaudited).

Independent Pricing and Regulatory Tribunal (IPART) Operational Audit

The audit found the Authority managed its resources to achieve predominantly full compliance. The results of the 2008-09 audit are summarised below. At the time of writing, IPART has not issued the results of its 2009-10 operational audit.

Compliance with Operating Licence Year ended 30 June	2009 %
Full compliance	82
High compliance	11
Moderate compliance	6
Insufficient information	1

Source: IPART Sydney Catchment Authority Operational Audit 2008-09.
Prior year compliance not similarly reported.

IPART commented that moderate compliance for some clauses of its licence does not present a high risk to water quality or the provision of bulk raw water to the Authority's customers. Further, on one clause with insufficient information, IPART stated that this should not be interpreted as a lack of cooperation on the part of the Authority. The review of this clause is yet to be finalised. The Authority is making sufficient progress with other aspects of this review.

Maintenance Activities

The table below shows the Authority completed the majority of its planned maintenance of water supply facilities for 2009-10.

Year ended 30 June	2010	2009	2008
Total planned maintenance completed for facility assets (%)	99	98	98
Total planned maintenance completed for critical assets (%)*	99	100	101
Maintenance work completed on time (%)	89	88	90
Budgeted maintenance expenditure (\$m)	4.6	4.6	4.7
Actual maintenance expenditure (\$m)	4.8	5.0	4.6
Backlog maintenance (number of jobs)	83	83	92
Backlog maintenance (\$m)	0.1	--	--

Source: Sydney Catchment Authority (unaudited).

* Included jobs carried over from previous year.

At 30 June 2010, 29 backlog maintenance jobs valued at \$55,000 were waiting for either plant shutdown/isolation or project works to be completed before maintenance can occur.

Backlog maintenance is calculated only for planned maintenance. Backlog data is the number and value of uncompleted works at the last day of the financial year. With an average of over 7,000 preventative maintenance jobs issued each year, the Authority advises that the number of backlog jobs is well within an acceptable range. The Authority advises a small amount of backlog maintenance is kept available to assist in getting the best value from maintenance contracts at those times when planned maintenance work cannot be undertaken.

The Authority's strategy to manage backlog maintenance is to undertake monthly monitoring, have regular meetings (fortnightly) with the Authority's operators and maintenance contractors to address issues including backlog works. The Authority advises that if necessary additional maintenance resources are arranged through the contractors and the maintenance schedules are reviewed to even out workloads if uneven workloads have contributed to the backlog. The Authority also advises there has been no instance of excessive backlog maintenance over the past 11 years.

OTHER INFORMATION

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

Information Technology

The Authority's capital program includes information technology projects, some of which are outlined with their key deliverables in the table below:

Project	Original Budget \$m	Revised Budget \$m	Original Service Delivery Date	Revised Service Delivery Date
Statutory Planning Business Systems Upgrade (NorBe)	0.8	0.8	6 August 2010	24 December 2010
SCADA - upgrade	2.5	2.5	30 June 2010	30 June 2012

Source: Sydney Catchment Authority (unaudited).

The 'Neutral or Beneficial Effect Electronic Assessment Tool' (NorBE) is a web-based decision making tool designed to help Local Government councils and landholders determine whether proposed developments have a neutral or beneficial effect on water quality.

Landholders only need to demonstrate a neutral or beneficial effect on water quality for new developments, expansions of existing developments, or changes in activity on their land where these require consent under a Council local environmental plan. The neutral or beneficial effect on water quality test does not apply to existing land uses.

The Supervisory Control and Data Acquisition (SCADA) upgrade project relates to the design, installation and commissioning of an integrated SCADA system. The proposed SCADA will provide:

- remote control and monitoring of the water supply infrastructure from head office and regional offices
- secure access to the SCADA facilities from within the corporate network for authorised staff.

The fully integrated SCADA solution will incorporate the functionality and capabilities of a number of systems. The Authority expects that this will improve operational efficiencies and productivity.

Metropolitan Water Plan

The Authority has continued to deliver projects under the New South Wales Government's Metropolitan Water Plan.

In 2009-10, the Authority completed part of a \$39.0 million project on the Upper Nepean dams and weirs to allow water released from the Avon, Cordeaux, Cataract and Nepean dams to pass through weirs and provide fish passage down the length of the river.

These works allow for variable environmental flows. A new variable flow regime commenced mid 2010 to improve the health of the river.

Leakage and Loss Management in the Water Supply System

The Authority estimates that leakage and other losses from its water supply system amounted to 0.5 per cent (0.2 per cent in 2008-09) of water sold in 2009-10. This compares to an average across Australian water utilities of seven per cent to 35 per cent. In addition to leakage, the Authority estimates 12 per cent of water inflows during the year were lost because of evaporation.

The Authority has measures in place to address water leakage and loss from the water supply system. These include dam surveillance and collection of data on evaporation to provide consistent measurements and explanations of future changes in local climate conditions.

Some losses can be an intentional and inherent part of an asset's design. For example, dams and the upper canal are designed to seep for structural safety and to prevent excessive build up of water pressure within or beneath the wall. Other water supply system losses cannot be prevented. The largest losses of this type include evaporation and groundwater surface interactions.

Water Storage

The table below shows how the recent drought conditions have affected the Authority's water storages over time.

At 30 June	Full operating storage (megalitres)	Available storage as % of full operating storage				
		2010	2009	2008	2007	2006
Total storage	2,608,730	57.6	61.4	66.7	54.4	41.7

Source: Sydney Catchment Authority (unaudited).

The decrease of 3.8 per cent since 30 June 2009 reflects lower than average rainfall. At the end of October 2010 total storage had increased to 58.1 per cent as a result of rainfall in the catchment.

Coal Mining

The Authority actively contributes to planning processes where there is a potential impact on water resources. The Authority's mining principles provide a framework for consideration in the assessment and management of any current or proposed mining activity and impacts on the Authority's assets. The principles were detailed in a submission to the Planning Assessment Commission (PAC).

Underground coal mining projects are generally assessed under Part 3A of the *Environmental Planning and Assessment Act 1979* and determined by the Minister for Planning.

During 2008-09, the Metropolitan Coal Project was referred to the PAC for examination of the mine's likely impact on the supply of drinking water.

The PAC assessed potential subsidence impacts on catchment yields in the Woronora Reservoir and determined the risk of significant water loss as very low. The Minister for Planning approved the proposal on 22 June 2009. The approval requires the mining company to adopt an adaptive management approach which includes changes to the mine layout, if considered necessary. Mining commenced on 18 May 2010.

The approval provides for a further 23 years of production at the Metropolitan Coal Mine. The Metropolitan Coal Mine is located in the township of Helensburgh in the Southern coalfields of New South Wales. The mine is approximately 50 kilometres south of Sydney and 30 kilometres north of Wollongong.

The Bulli Seam Operations Project is currently being assessed by the Department of Planning. The proposal is yet to be determined. In late October 2010, the Department of Planning released the PAC's assessment report of the project and the amended Preferred Project Report (PPR) by BHP Billiton Illawarra Coal in response to the PAC report.

In the amended PPR, the Northcliff and Appin Area 2 mining domains, the majority of the Appin Area 3 mining domain, and two longwalls from the West Cliff Area 5 mining domain have been removed from the proposal. These amendments have resulted in exclusion of all mining domains located within the Sydney drinking water catchment and Special Areas managed by the Authority. However, mining is still proposed in the vicinity and under the Upper Canal water supply system.

The Bulli Seam Project includes: augmenting, upgrading and using the existing infrastructure at the Appin and West Cliff coal mines; extracting up to 10.5 million tonnes of run-of-mine coal a year from the Bulli coal seam for a period of 30 years using longwall mining methods; processing run-of-mine coal at both the West Cliff and Dendrobium washeries; transporting product and run-of-mine coal from the site by road; disposing of coal rejects on site; and rehabilitating the site.

Employment of Contractors

I recommend the Authority:

- create and maintain a single record of all contractors engaged by it
- using this record, periodically review the roles and responsibilities of all its contractors to help ensure:
 - its reliance on contractors is not excessive
 - use of contract employees instead of permanent employees is appropriate
 - contractors do not become de facto employees by virtue of being with the Authority for an extended period of time
 - use of a contractor continues to represent good value for money.

The Authority does not maintain a central register for all contractors. Each division engages contractors separately. This increases the risk of non-compliance with taxation and other employment laws and regulations.

The Authority engaged 17 contractors during the year for a total cost of \$1.1 million. The longest engagement of a contractor was for 6 years. The highest contract payment during the year was \$362,000. This contractor provided expert knowledge to the Authority's submission on the New South Wales Government's 2010 Metropolitan Water Plan.

The retention of contract employees for extended periods may result in additional costs to the Authority. The Authority should review its practices relating to contract employees to ensure they are appropriate to achieve desired outcomes and comply with employment related legislation.

Ageing of Staff

The Authority may face challenges from the potential loss of a large number of retiring staff as supported by the following Authority's statistics:

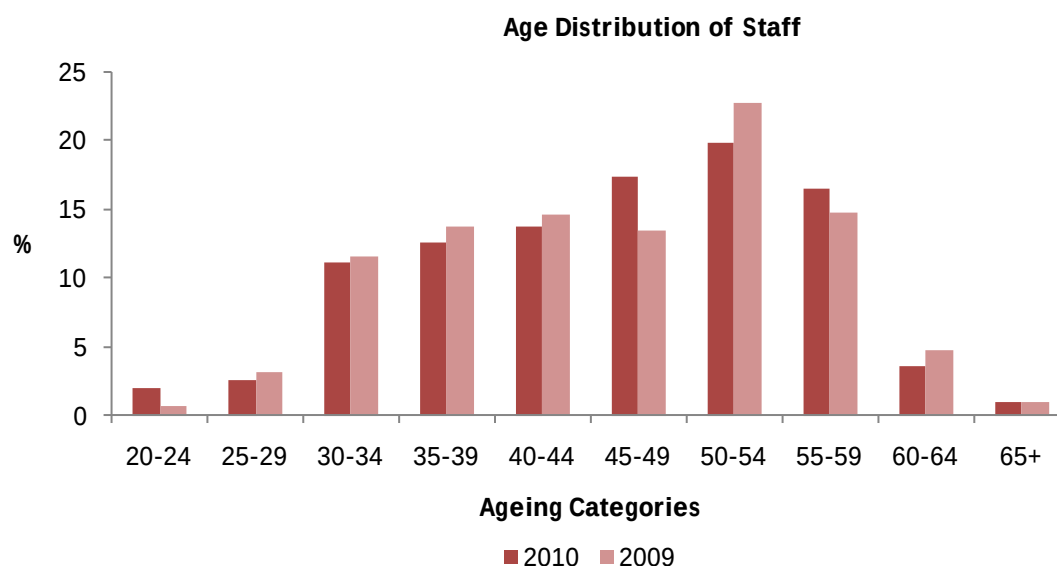
- 21 per cent are aged 55 years and over
- 41 per cent are aged 50 years and over.

As at 30 June	2010		2009	
	Number of Employees*	%	Number of Employees*	%
Up to 49	151	59	157	57
50-54	50	20	63	23
55-59	42	16	40	14
60-64	9	4	13	5
65+	3	1	2	1
Total	255	100	275	100

Source: Sydney Catchment Authority (unaudited).

* full-time equivalent employees.

The graph below further demonstrates the age structure of staff in the Authority.



Source: Sydney Catchment Authority (unaudited).

To help ensure it has sufficient appropriately skilled staff in the future, the Authority needs to actively monitor its workforce's age profile and develop strategies to train, attract and retain staff whose skills are aligned with the strategic direction of the Authority.

The Authority advised it has already recognised this emerging issue and had commenced an entry level employment program in January 2010 to assist in offsetting the ageing profile of staff.

Excessive Annual Leave Balances

At 30 June 2010, 77 employees (88) have accrued more than 40 days of annual leave entitlements. This represents 31.3 per cent (31.2 per cent) of the Authority's total number of employees. The highest employee leave balance was 277 days (277 days).

From 1 May 2011, the Authority will require all staff to reduce their annual leave entitlements to a maximum of 40 days at the leave balance review periods (November and May) each calendar year. The Authority advised all staff during the year that sufficient leave is to be taken to help ensure their annual leave entitlements do not exceed 40 days at 1 May 2011.

The Authority has written to all employees on this new arrangement.

The accumulation of excessive annual leave entitlements may result in increased financial costs to the Authority because the cost generally increases over time in line with increases in rates of pay. There are also increased occupational health and safety risks if employees do not take some time off work each year. Allowing excess annual leave balances also means employees performing key control functions may not be rotated regularly, which is a preventive control against fraud.

Overtime

The Authority incurred overtime costs during the year of \$1.2 million (\$1.2 million). These costs represent 5.7 per cent (5.2 per cent) of total employees' base pays for the year.

The Authority advised it has already established a working group to address this matter.

The number of employees and overtime paid as a percentage of base pay are as follows:

Year ended 30 June	2010		2009	
Overtime paid as a percentage of base pay	Number of employees	Overtime paid \$'000	Number of employees	Overtime paid \$'000
%				
41 - 100+	--	--	--	--
31 - 40	2	81	4	100
21 - 30	55	435	20	368
11 - 20	24	444	39	503
0 - 10	84	232	100	194
Total	165	1,192	163	1,165

Source: Sydney Catchment Authority (unaudited).

The number of employees receiving more than 20 per cent of their base pay as overtime more than doubled when compared with the previous year. The number of employees who received overtime during the year represents 67.1 per cent (57.8 per cent) of the Authority's total employees. These suggest that either there is a significant gap between the number of employees and work requirements of the Authority or there are inefficiencies in delivery of those work requirements. Constant high levels of overtime worked by employees may increase occupational health and safety risks.

Flex Leave

I recommend the Authority continue its efforts to help ensure accumulated flex leave is taken rather than forfeited

During the year, employees forfeited approximately 70.2 (80.5) flex days.

The Authority advised it examined the situation during the year and the majority of employees were not forfeiting large amounts of excess flex time. For those employees who were forfeiting excess flex leave, the Authority advised it has was taking action to address the issue.

At 30 June 2010, no employee had accrued more than 4 days, which are the maximum flex days an employee can accumulate.

Healthy Catchment Program

Highlights of the Authority's Healthy Catchments Strategy activities in 2009-10 include:

- completion of the \$18.5 million Bundanoon Sewerage Scheme upgrade in partnership with Wingecarribee Shire Council and the Department of Environment, Climate Change and Water. Wastewater is now treated to a much higher standard and local sewerage infrastructure will be able to cope with expected population growth
- the Authority is providing \$37.7 million under the Accelerated Sewerage Program to Councils to ensure more reliable, modern sewerage systems in the catchments to protect water quality
- subsidised training on best management practices for sustainable grazing was provided for 422 graziers throughout the catchments in partnership with local landholders and the Department of Industry and Investment
- worked with DairyNSW and the Department of Industry and Investment to provide soil nutrient risk and budgeting training for dairy farmers in the catchments. The Authority also participated in research and grant applications with DairyNSW, and developed a template for dairy effluent operation and management plans
- The Authority is developing online tools, guidelines and training for Councils to assess the neutral or beneficial effect on water quality of development applications in the catchments. They are also providing training and electronic models for stormwater management and assessment to Councils and developers to help them meet the requirements of planning regulations and legislation.

In 2009-10, the Authority spent over \$21.0 million on catchment improvement and protection.

FINANCIAL INFORMATION**Abridged Statements of Comprehensive Income**

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'0 00	2010 \$'000	2009 \$'000
Water sales	196,274	176,277	196,274	176,277
Other revenue	3,732	7,657	3,732	7,657
OPERATING REVENUE	200,006	183,934	200,006	183,934
Employee related	30,887	37,149	243	256
Contractors	21,412	22,312	56,772	70,597
Financing charges	35,605	31,755	35,605	31,755
Other expenses	53,161	52,327	53,162	52,327
OPERATING EXPENSES	141,065	143,543	145,782	154,935
PROFIT BEFORE TAX	58,941	40,391	54,224	28,999
Income tax expense	15,911	1,219	15,911	1,219
PROFIT AFTER TAX	43,030	39,172	38,313	27,780
OTHER COMPREHENSIVE INCOME				
Superannuation actuarial losses	(4,717)	(11,392)	--	--
Revaluation and impairment of property, plant & equipment	60,424	--	60,424	--
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	55,707	(11,392)	60,424	--
TOTAL COMPREHENSIVE INCOME	98,737	27,780	98,737	27,780

The increase in water sales is due mainly to price increases in water volumetric charges as determined by IPART.

The decrease in employee related expenses is mainly due to a corporate restructure in the previous year that resulted in reduced employee numbers.

Abridged Statements of Financial Position

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	50,579	45,529	50,193	45,250
Non-current assets	1,332,738	1,216,574	1,332,738	1,216,574
TOTAL ASSETS	1,383,317	1,262,103	1,382,931	1,261,824
Current liabilities	89,710	83,387	109,833	99,029
Non-current liabilities	585,515	538,131	565,006	522,210
TOTAL LIABILITIES	675,225	621,518	674,839	621,239
NET ASSETS	708,092	640,585	708,092	640,585

Non-current assets increased mainly due to a revaluation of property, plant and equipment.

Current liabilities increased mainly due to an increase in the current tax liability by \$6.5 million

The increase in non-current liabilities is largely due to a \$17.0 million increase in borrowings and a \$25.5 million increase in the deferred tax liability as a result of the revaluation of non-current assets. The Authority used increased borrowings to assist with funding property, plant and equipment.

AUTHORITY ACTIVITIES

The Authority is a statutory body under the *Sydney Water Catchment Management Act 1998*.

Its principal role is to manage and protect catchment areas and infrastructure works; to be a supplier of raw water; and to regulate certain activities within catchment areas.

For further information on the Authority, refer to www.sca.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	Website
Sydney Catchment Authority Division	*

* This entity does not have a website.

Sydney Water Corporation

AUDIT OPINION

The audit of the Corporation's financial statements for the year ended 30 June 2010 resulted in a qualified Independent Auditor's Report. The qualification related to assets and liabilities of the Build-Own-Operate (BOO) schemes not being recognised in the Corporation's statement of financial position. The audit report for 2008-09 was similarly qualified.

The audits of the financial statements of Sydney Desalination Plant Pty Limited (Sydney Desalination), Australian Water Technologies Pty Ltd and its controlled entity for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

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

KEY ISSUES

Desalination Plant

The Corporation completed commissioning the Kurnell desalination plant in June 2010. Commissioning of the plant occurred over time, commencing in January 2010. The plant delivered 20,301 megalitres of desalinated water from January 2010 to 30 June 2010. The plant will operate at full capacity for the first two years as part of the commissioning process.

The desalination plant is a source of 'New Water' under the *Water Industry Competition Act 2006*. The 'New Water' designation is significant because private sector participants are able to establish retail water businesses provided they obtain sufficient quantities of water from 'New Water' sources.

The plant is owned by Sydney Desalination. The Minister for Water granted Sydney Desalination a network operating licence and a retail supplier's licence. The licences were issued under the *Water Industry Competition Act 2006*.

During 2009-10, the Corporation entered into a 30 year water supply agreement with Sydney Desalination.

The plant cost approximately \$90.0 million less than the June 2008 revised forecast. The project costs are outlined in the table below.

Deliverable	Actual Costs (June 2010) \$b	Revised Forecast (June 2008) \$b	Approved Budget# (July 2007) \$b
Desalination plant cost	1.00	1.00	1.00
Water delivery pipeline cost	0.63	0.65	0.57
Development and project management cost	0.17	0.24	0.26
Total project cost	1.80	1.89	1.83

Source: Sydney Water (unaudited).

Based on 250 megalitre per day desalination plant.

The plant will operate at full capacity when dam levels are below 70 per cent and will continue until dam levels are 80 per cent. The Corporation finalised the plant operating regime in September 2010.

The desalination plant has the capacity to provide over 15 per cent of Sydney's current water consumption by producing 250 megalitres of water per day. It has the possibility of scaling up to 500 megalitres (up to 30 per cent of Sydney's drinking water) in the future, if needed.

Information Technology Projects

The Corporation's IT department delivered a capital spend of approximately \$62.0 million during 2009-10 and completed nine major projects. The larger projects delivered are shown in the following table:

Project	Original Budget \$m	Actual Cost \$m	Original Service Delivery Date	Actual Service Delivery Date
Sydney Water Information Management Phase 1	6.9	9.9	June 2010	June 2010
Field Resources Management Phase 2	7.9	7.4	July 2009	November 2009
Email System Replacement	5.9	5.0	June 2010	June 2010
Customer Business Intelligence	2.8	2.8	February 2010	December 2009
Enterprise Portal Integration	3.6	3.7	March 2010	June 2010

Source: Sydney Water (unaudited).

The main reason for the increase in the cost of the Sydney Water Information Management Phase 1 was the need to purchase software as a single software suite. This required a licence in Phase 1, which will be offset, at a program level, by a reduction to the Phase 2 software budget.

The Corporation's capital program includes a number of significant information technology projects still being delivered. Some of these projects and their key deliverables are detailed below.

Project	Original Budget \$m	Revised Budget \$m	Original Service Delivery Date	Revised Service Delivery Date
Customer Management System – Stage 1	21.0	55.3	August 2009	February/ March 2011
Maximo consolidation	18.4	31.3	August 2009	na
Sydney Water Information Management Program	24.0	24.0	June 2011	June 2011

Source: Sydney Water (unaudited).

na: Revised delivery date currently being reassessed.

The Customer Management System (CMS) is a two stage project expected to cost \$68.9 million. The design phase of the project is complete and on track for delivery in March 2011. The design phase of the project is within the revised budget of \$55.3 million. The original budget for this stage of the project was found to be inadequate after receiving quotes from prospective service providers. The project objectives are to improve customer service, reduce reliance on multiple unsupportable systems and reduce operating costs. Once implemented, the Corporation expects the system to reduce operating costs over \$1.9 million a year as well as significantly reducing the cost of replacing the Corporation's billing system, due in the next five years.

The first phase of the Maximo consolidation project has been completed and became operational on 20 September 2010. The final phase of the project is delayed and will not be delivered in October 2010 as reported last year. The main cause for the revised delivery date is the additional effort required for the development and testing of Hydra, Sydney Water's geographic information system. The Corporation's IT department is preparing a business case variation to account for a further increase in the revised budget of approximately \$9.0 million (not included in the above table) and a delay in the service delivery date. At the time of writing, an assessment of the service delivery date is being made.

The Corporation's Information Management Program will replace a number of disparate document management systems and deliver new systems to better access and share information. The Corporation advises that this project is on track to the approved schedule and budget.

PERFORMANCE INFORMATION

Independent Pricing and Regulatory Tribunal (IPART) Operational Audit

This audit found the Corporation managed its resources to achieve full compliance. The results of the last five operational audits are summarised in the table below. The table shows the Corporation's performance is stable. At the time of writing, IPART has not issued the results of its 2009-10 operational audit.

Compliance with Operating Licence Year ended 30 June	2009 %	2008 %	2007 %	2006 %	2005 %
Full compliance	100	100	97	86	71
High compliance	--	--	3	12	19
Partial compliance	--	--	--	2	6
Low compliance	--	--	--	--	1
Non-compliance	--	--	--	--	--
Insufficient information	--	--	--	--	3

Source: IPART Sydney Water Corporation Operational Audit 2008-09.

Water Conservation

Under its Operating Licence, the Corporation must reduce total water consumption to 329 litres per capita per day by 30 June 2011. Water consumption over time is detailed in the table below.

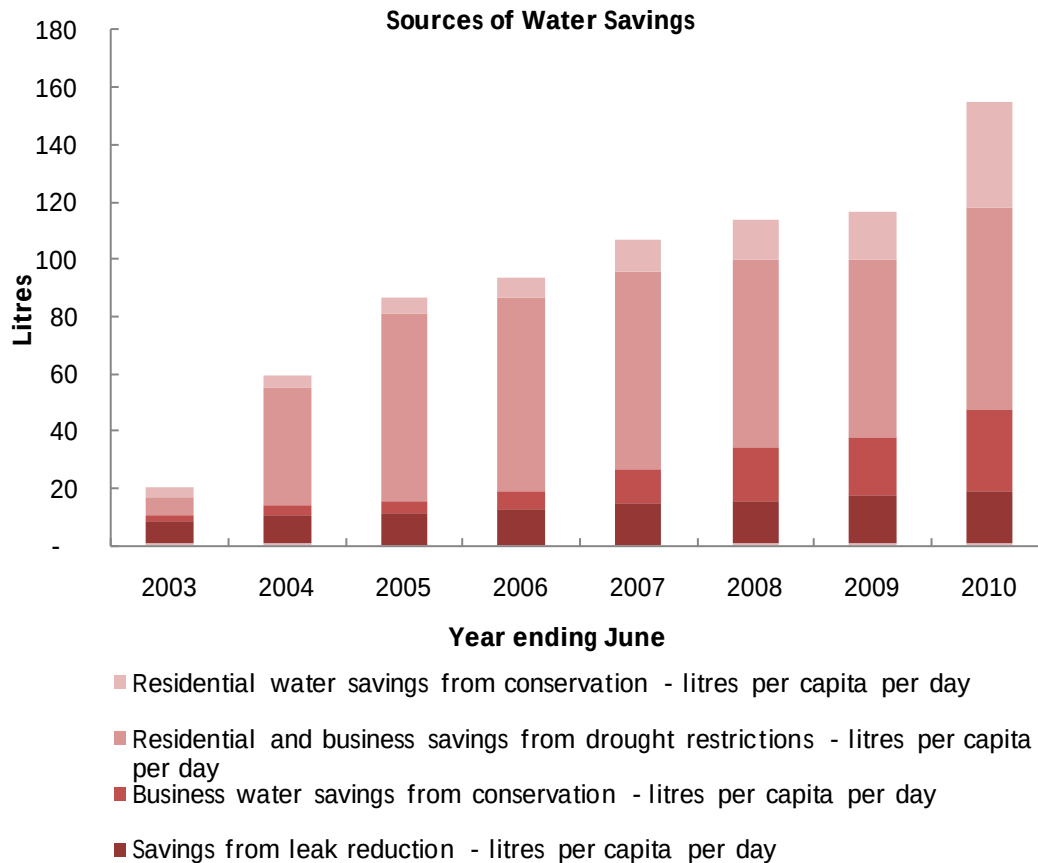
Year ended 30 June	Target	Actual				
	2011	2010	2009	2008	2007	2006
Water consumption per capita per day (litres) including the effect of water restrictions	329	309	310	308	326	335

Source: Sydney Water (unaudited).

Water consumption remained fairly stable from 2007-08 to 2009-10. This is despite a hot and dry summer and 2009-10 being the first full year without drought restrictions since 2002-03. The Corporation attributes this year's water consumption to retained customer behaviours and the Corporation's initiatives to install and encourage water efficient appliances.

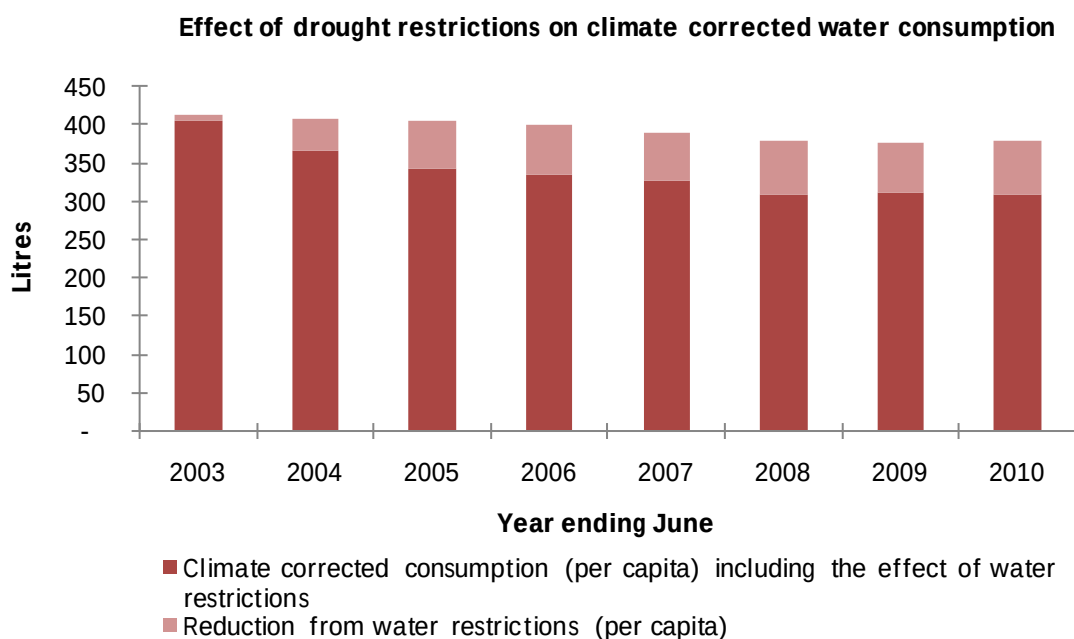
Consumption is currently well below the 2011 target of 329 litres per capita per day. Given the residual effect of drought restrictions so far, the Corporation expects only a small increase in consumption in 2011. The Corporation believes it should still meet the 2011 target and that there will be residual savings of around 90 per cent of the previous Level 3 water restrictions savings during 2010-11.

Water consumption and savings achieved from water restrictions and water conservation initiatives over the last eight years are illustrated in the graph below.



Source: Sydney Water (unaudited).

The following graph demonstrates the significant impact of water restrictions and water wise rules. In the absence of water restrictions, water consumption would have been 380 litres per capita per day. The Corporation estimates that water restrictions resulted in saving about 113,000 megalitres in 2009-10.



Source: Sydney Water (unaudited).

The introduction of mandatory water restrictions from 1 October 2003 has led to significant water savings over the period to June 2009. Savings of 63,000 megalitres in 2003-04 increased to 100,000 megalitres in 2004-05 following the introduction of tighter level 2 water restrictions in June 2004. Level 3 restrictions were introduced in June 2005 increasing savings to 104,000 megalitres in 2005-06. Savings have remained at around 100,000 megalitres a year since then, a trend that has continued following the lifting of the level 3 restrictions and the introduction of water wise rules in 22 June 2009.

In 2009-10, excluding the impact of water wise rules, the biggest contributor to water savings under the Corporation's water conservation strategy was the non-residential sector.

Recycling

The table below shows the volume of water recycled to replace potable water use by the Corporation over the last three years.

Year ended 30 June	2010	2009	2008
Volume of recycled water (gigalitres)	33.7	25.4	24.2
Recycled water as a percentage of total effluent discharged (%)	7.5	5.3	4.4

Source: Sydney Water (unaudited).

The New South Wales Government's '2010 Metropolitan Water Plan' target is for about 70 gigalitres of wastewater to be recycled for industry, irrigation and residential use.

Total recycled water supplied in 2009-10, from all sources, was about 35.8 gigalitres (27.2 gigalitres), all of which represented savings in potable supply.

Most recycling projects need to be commercially viable and it is difficult to obtain customer commitment over the long life of recycling projects. IPART ordinarily excludes the cost of recycling projects from water charges. The exception is when the Minister for Water directs the Corporation to participate in the project. The Minister directed the Corporation to participate in the Western Sydney Recycled Water Initiative Replacement Flows project and the Camellia Recycled Water project.

During 2008-09, the Corporation entered into a public private partnership agreement for a recycled water project in the Rosehill Camellia area. This project is expected to deliver a minimum of 10.5 megalitres per day. The planned initial plant capacity is 20 megalitres per day, the plant can be expanded by a further five megalitres per day as demand increases.

The Corporation also commenced work in 2008-09 on the Western Sydney Recycled Water Initiative Replacement Flows project. This is a major recycled water plant at St Mary's in western Sydney. It is designed to replace 18,000 megalitres per year of dam water currently used to provide environmental flows in the Hawkesbury river system. Commissioning of the plant commenced in late March 2010 and it had produced almost 2,000 megalitres of water by June 2010.

The Corporation is also constructing the Hoxton Park Recycled Water Scheme in south western Sydney. The scheme will supply about 900 million litres of recycled water to businesses and about 7,000 homes by 2015. This major recycled water scheme will be commissioned in two stages from 2013 and will eventually serve Edmondson Park, Middleton Grange, Ingleburn Gardens, Yarrunga Industrial Area and Panorama Estate. The Minister directed the Corporation to participate in this project.

Construction of the Hoxton Park Recycled Water Scheme's recycled water pipelines started in May 2008 and much of this work is now complete.

Since 1995, the Corporation has increased the amount of recycled water used in its sewage treatment plants from 17 to 45 megalitres per day, significantly reducing the volume of drinking water used at the plants.

Water Loss from the Water Distribution System

Water loss from the water distribution system has reduced from 68,652 megalitres in 2002-03 to 35,323 in 2009-10, a reduction of 48.5 per cent.

The table below summarises water losses because of breaks and leaks in the water distribution system.

Year ended 30 June	2010	2009	2008
Volume of water loss (megalitres)	35,323	38,445	42,995
Water loss compared to water supplied* (%)	7.0	7.3	8.2
Costs incurred to reduce water loss (\$m)	139.1	140.0	121.2

Source: Sydney Water (unaudited).

* Compared to the baseline water supplied in 2005-06.

Under its Operating Licence, the Corporation had to reduce water loss to no more than 105 megalitres per day (38,325 megalitres per year) by 30 June 2009. The Corporation met this target this year.

In 2009-10, the Corporation's Active Leak Detection Program inspected and repaired 21,195 kilometres of pipeline (21,021 kilometres). It believes this annual inspection program is the main reason for the significant decrease in water loss since 2002-03.

To extend its water efficiency efforts, the Corporation has continued its pilot programs targeting business and residential water efficiency. The HiRise pilot involves 20 high rise buildings, saving about 85 megalitres per year. The Corporation sent 1,063 letters to residents with suspected leaks and identified 106 concealed leaks as part of Residential Concealed Leak Detection and Repair pilot.

To reduce water loss further, the Corporation relies primarily on savings from its water pressure management program and systematic renewals of the water delivery network. The water pressure program involves setting up multiple pressure control zones to reduce pressure, which in turns reduces breaks, leaks and water usage. To 30 June 2010, the Corporation estimates the program reduced water loss by approximately 4,800 megalitres per year and is forecast to reduce water loss by a total of over 10,000 megalitres per year by 2012.

The Corporation is currently operating near the middle of its assessed economic level of leakages. The Corporation believes the economic level of reducing water loss is at the point where costs associated with water loss reduction equal the benefits derived from water savings. Reducing water loss beyond this point would cost more than producing the lost water from another source. The Corporation reassesses the economic level of leakage each year as understanding improves and circumstances change. In 2008-09, the economic level of leakage was assessed to be in the range of 34,000 to 46,000 megalitres per year.

Response Times

The table below shows the percentage of calls reporting water main breaks and leaks responded to by the Corporation within the target time. The response times and targets are set out in the Corporation's Operating Licence.

Year ended 30 June	Target %	Actual		
		2010 %	2009 %	2008 %
Priority 6 (stop water loss within 2 hours)	70	82.0	78.3	77.9
Priority 6 (stop water loss within 3 hours)	90	93.0	90.8	91.6
Priority 5 (stop water loss within 3 hours)	65	75.7	73.1	72.1
Priority 5 (stop water loss within 6 hours)	85	95.0	93.7	92.9
Priority 4 (stop water loss by the end of next working day)	50	82.2	80.5	76.4
Priority 4 (stop water loss within 5 days)*	100	98.7	98.3	96.6

Source: Sydney Water (unaudited).

* the Operating Licence recognises that Sydney Water will not be able to respond to 100 per cent of jobs within five days and requests all instances of non-compliance be reported along with the reason for non-compliance.

In 2009-10, the Corporation met response time targets except for the requirement to stop the loss of water from Priority 4 leaks within five days. Only 22 out of 1,714 Priority 4 breaks and leaks did not meet the target during 2009-10.

A Priority 6 is defined as a high flow of water causing an immediate danger to people, property or the environment. Typically this involves water gushing from the ground and results in a major water loss. A leak is classified as Priority 5 when it is running at a rate greater than the full flow of a garden tap. Priorities 6 and 5 have tiered response time measures and targets.

Performance Report

The table below shows the Corporation's performance over the past five years on some key indicators.

Year ended 30 June	2010	2009	2008	2007	2006
Volume of water consumed (kilolitres per residential property)	204.6	197.7	182.0	199.0	203.0
Water quality complaints per 1,000 properties	0.3	0.6	0.9	0.8	0.8
Average frequency of unplanned water interruptions per 1,000 properties	4.3	4.5	5.2	5.7	6.1
Water main breaks and leaks per 100 km	28.4	33.7	30.0	35.1	42.5
Sewer main breaks and chokes per 100 km	56.0	51.1	64.2	90.1	87.1
Water recycled (% of total effluent)	7.3	5.3	4.4	4.4	3.2
Water leakage (Infrastructure Leakage Index) (%)	1.3	1.4	1.5	1.5	1.5

Source: Figures for 2006 to 2009 from National Performance Report 2008-09. The 2009-10 figures provided by Sydney Water (unaudited).

The volume of water consumed in 2009-10 is in line with the trend in recent years. This is attributed to Sydney's weather conditions and the impact of the Corporation's water conservation strategies.

There were 56 sewer main breaks and chokes per 100 kilometres in 2009-10 compared with approximately 51 in 2008-09. The Corporation's performance has averaged around 77 sewer main breaks per 100 kilometres of sewer mains over the past 14 years. It varies considerably from lows of around 51 to peaks of up to 112.

The Corporation's water leakage index improved slightly to 1.3. Further information on this is provided under the heading 'Water Loss from the Water Distribution System'. The International Water Association believes an infrastructure leakage index between 1.0 and 2.9 indicates an entity is making a substantial effort to manage and maintain its infrastructure, and to ensure all detected leaks and breaks are promptly repaired.

Wastewater Services

The Corporation operates its sewerage treatment plants and sewer pumping stations in accordance with licence conditions set by the Department of Environment, Climate Change and Water (DECCW). The table below highlights the Corporation's compliance with those licence conditions.

Year ended 30 June	2010	2009	2008	2007
Total number of Penalty Infringement Notices issued by DECCW (usually relating to prior year non-compliances)	--	2	--	2
Total number of licence non-compliances	180	131	155	243

Source: Sydney Water (unaudited).

DECCW issued no penalty infringement notices to Sydney Water during 2009-10 (2 in 2008-09). The majority, 119 licence non-compliances, related to overflows from the reticulation networks, with tree roots being the major cause. Sydney Water also had 27 monitoring non-compliances, which largely related to being unable to collect sea urchins for toxicity testing.

Under its Operating Licence, Sydney Water must ensure no more than 25,000 properties are affected by an uncontrolled dry weather overflow each year. In 2009-10, 17,263 private properties were affected by sewage overflows, compared with 16,028 in 2008-09.

Maintenance Activities

The table below shows the Corporation completed most of its planned maintenance for 2009-10. The results are not significantly different from the previous year.

Year ended 30 June	2010	2009	2008
Total planned maintenance completed for network and treatment assets (%)	104.1	103.2	97.4
Total planned maintenance completed for critical assets (%)	100.0	100.6	96.8
Maintenance work completed on time (%)	80.0	84.0	92.0
Budgeted maintenance expenditure (\$m)	223.0	212.4	187.7
Actual maintenance expenditure (\$m)	229.8	211.6	196.6
Backlog maintenance (number of jobs)	4,123	5,046	6,924
Backlog maintenance (\$m)	8.9	9.3	8.8

Source: Sydney Water (unaudited).

The Corporation's strategy is to optimise the maintenance of assets to ensure service delivery occurs at the lowest life cycle cost within acceptable risk.

During 2009-10, the Corporation completed 205,005 (208,020) maintenance jobs.

Backlog maintenance declined to approximately 4,100 jobs (5,046) in 2009-10. The decline is due to an increase in maintenance expenditure that resulted in a reduction of backlog maintenance. The Corporation believes this level of backlog maintenance is acceptable as it allows efficient scheduling and continuation of workflow. Backlog maintenance is lower priority maintenance work. No formal plan is in place to reduce backlog maintenance by a certain date and/or by a certain percentage. The Corporation monitors backlog maintenance each month to ensure critical work is not delayed.

Maintenance work completed on time declined to 80 per cent (84 per cent) in 2009-10. The decline is due to the temporary suspension of waste water traverses due to a safety incident. The resulting backlog was not fully cleared in 2009-10, and is expected to be cleared in the 2010-11 financial year.

For pipework, the Corporation uses a maintenance risk assessment to split assets into 'Avoid-Fail' and 'Run-to-Fail'. 'Avoid-Fail' assets are subject to a preventative maintenance program to deliver lowest life cycle costs. 'Run-to-Fail' categorised assets have a low consequence of failure and to manage these effectively and cost efficiently, the Corporation has a full time response capability. The Corporation renews the assets when the cost of maintenance exceeds the renewal costs.

For facilities, the Corporation's planned maintenance Work Programmes are shifting from a 'time basis' to condition assessment approach, which factors in the risk of failure and the consequence the failure would have on customers. Condition assessments are based on inputs from the Corporation's Operations, Maintenance Reliability Engineering and Maintenance Delivery teams, applying the relevant asset decision frameworks to develop forward maintenance or renewal Work Plans.

Carbon Neutrality

The Corporation is committed to being carbon neutral by 2020 for its energy and electricity use.

The Corporation offset approximately 44.9 per cent of its CO₂ equivalents from its energy and electricity use during 2009-10 and estimates its emissions from energy and electricity use were 463,954 tonnes of CO₂ equivalents. Of this amount, the Corporation surrendered internally generated New South Wales Greenhouse Gas Abatement Certificates equal to 208,311 tonnes of CO₂ equivalents.

Capital Structure

The Corporation has established capital structure targets to help it achieve a credit rating of BBB+ no later than June 2016. The Corporation's most recent rating from Moody's is Baa2. This is an investment grade rating, but is slightly lower than the previous Fitch rating of BBB+.

The Corporation advises the capital structure needed to achieve the higher credit rating will provide more resilience against any adverse change in the economic environment.

The board last reviewed the Corporation's capital Structure in February 2010.

OTHER INFORMATION**Rouse Hill Dispute**

The Corporation will pay \$1.3 million to a contractor engaged by the Corporation in 2004 to procure the finance and design, supply, construct and commission water related infrastructure in the Rouse Hill Stage 3 Area. This was the outcome of an independent arbitration and was less than the contractor's claim of approximately \$2.1 million. I first commented on this matter in my 2009 Report to Parliament.

I understand the same contractor also believes it has the right to complete all water related infrastructure works in the North West Growth Sector under the Other Stages Deed signed in 1992. The Corporation disputes this and the matter remains unresolved.

Review of Major Capital Projects

The Corporation's capital expenditure in 2009-10 was \$1.1 billion (excluding capitalised interest). The Corporation's Statement of Corporate Intent (SCI) had a target of \$1.1 billion for capital expenditure.

The original and current cost estimates and service delivery dates for all capital projects with an original cost above \$50.0 million are listed in the table below.

Project	Original Cost Estimate (and year) \$m	Current Cost Estimate \$m	Original Service Delivery Date	Achieved/ estimated Service Delivery Date
Completed during 2009-10:				
Desalination Project	1,833 (2007)	1,806	Late 2009/ Early 2010	January 2010 ¹
North Head Sewerage Treatment Plant	106 (2003)	146	Mid 2009	December 2009
In progress at 30 June 2010:				
Replacement Flows	265 (2006)	210	Late 2009	October 2010
Freemans Reach, Glossodia, Wilberforce Sewerage Scheme	138 (2008)	126	Late 2011	March 2011 ²
North West Growth Centre (Package 1)	133 (2007)	99	Late 2010	Early 2011
Hoxton Park Recycled Water	65 (2006)	99	Mid 2009	Mid 2013
Hawkesbury Heights, Yellow Rock Sewerage Scheme	56 (2008)	57	Late 2010	July 2010 ²

Source: Sydney Water (unaudited).

1 - first water was pumped into the distribution network in January 2010 and final completion was achieved in June 2010

2 - service delivery date to complete sewerage reticulation and available for connection to properties.

Most projects in progress are tracking within original cost estimates or are forecast to spend less than the original cost estimate.

The increase in the cost of the:

- North Head Sewerage Treatment Plant project is due to a re-evaluation of the design development, cost escalation and tender prices
- Hoxton Park Recycled Water Scheme is largely due to a revised scope of works
- Hawkesbury Heights and Yellow Rock Sewerage Scheme is based on the New South Wales Government's directive to extend the service area.

The delays in service delivery are mainly due to scope changes and delays in obtaining regulatory approvals.

The Corporation achieved approximately \$94.0 million of capital efficiencies in 2009-10 largely from the Desalination Project. Efficiencies resulted from savings achieved from the Desalination water delivery alliance and the reduction of contingencies.

The Corporation considers the overall risk profile of its capital program to be low.

Excess Annual Leave balances

At 30 June 2010, 782 (880) employees have accrued more than 40 days of annual leave entitlements. This represents 25 per cent (27 per cent) of all employees. The accumulation of excessive annual leave entitlements results in increased financial costs to Sydney Water because these entitlements will be paid out at higher salary rates in the future and may have occupational health and safety implications. Allowing excess annual leave balances means staff performing key control functions may not be rotated regularly, which is a preventive control against fraud.

Under the Corporation's new Enterprise Agreement, Sydney Water has implemented a policy that all employees must take their full entitlement to annual leave each year. Employees are being encouraged to take at least 20 days annual leave. They can cash in balances over 20 days as long as they have cleared at least 20 days of annual leave in the previous year. Elections to cash in annual leave must be made in writing. The Corporation is yet to see the full effect of this new Agreement on its employees' leave balances.

Overtime

I recommend Sydney Water review the effectiveness of its existing policies for managing overtime.

The Corporation incurred overtime costs during 2009-10 of \$24.3 million (\$26.3 million). These costs represent eight per cent (nine per cent) of total employee related expenses and 13 per cent (13.3 per cent) of total employees' base pays during the year.

The number of employees and overtime paid as a percentage of base pay are as follows:

Year ended 30 June	2010		2009	
Overtime paid as a percentage of base pay	Number of employees earning overtime	Overtime paid \$'000	Number of employees earning overtime	Overtime paid \$'000
100+	13	811	14	908
91 - 100	9	428	13	627
81- 90	25	1,123	20	973
71 - 80	37	1,447	47	1,882
61 - 70	72	2,650	96	3,453
51 - 60	113	3,534	119	3,800
41 - 50	148	4,182	151	4,156
31 - 40	139	3,220	130	3,018
21 - 30	180	3,120	176	2,936
11 - 20	206	2,151	248	2,547
>0 - 10	728	1,599	785	2,010
Total	1,670	24,265	1,799	26,310

Source: Sydney Water (unaudited).

Our review identified employees who received more than their base salary as overtime. The number of employees who received overtime during the year represents 52.5 per cent (56.1 per cent) of the Corporation's total employees. This suggests that either there is a significant gap between the number of employees and work requirements of the Corporation or there are inefficiencies in delivery of those work requirements. High levels of overtime worked by employees may also lead to occupational health and safety issues.

Workforce Ageing

I recommend Sydney Water continue to implement and monitor its existing Workforce Planning policies for managing its ageing workforce.

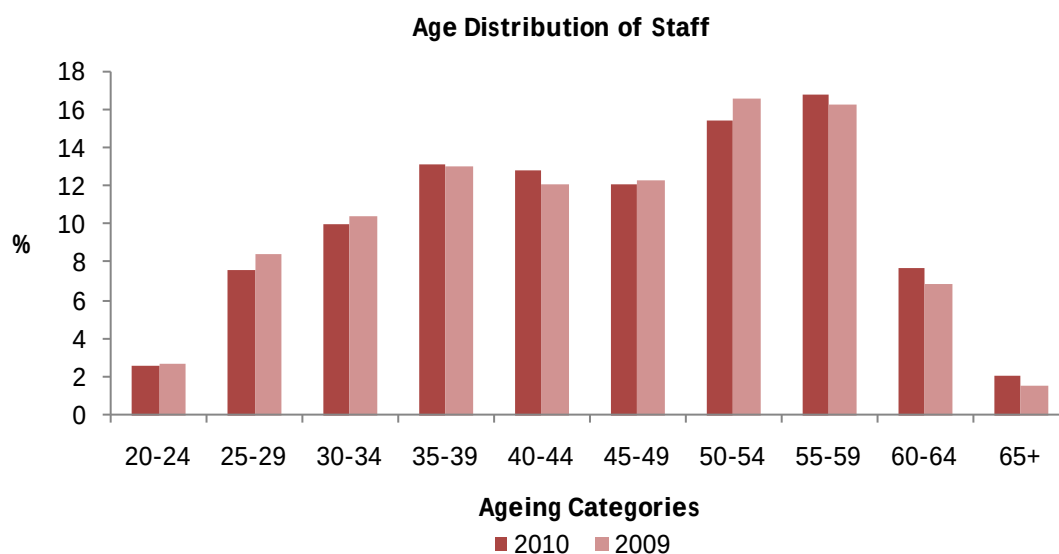
The Corporation faces challenges from the potential loss of a large number of retiring employees as supported by the following Corporation's statistics:

- 26.5 per cent are aged 55 years and over
- 41.9 per cent are aged 50 years and over.

Year ended 30 June Age Group	2010		2009	
	Number of Employees	%	Number of Employees	%
20 - 49	1,757	58.1	1,868	58.9
50 - 54	467	15.4	524	16.5
55 - 59	509	16.8	514	16.2
60 - 64	232	7.6	219	6.9
65+	63	2.1	48	1.5
Total	3,028	100	3,173	100

Source: Sydney Water (unaudited).

The graph below further demonstrates the age structure of employees:



Sydney Water has a low voluntary staff turnover. When combined with forecast retirements, Sydney Water predicts that total staff turnover will peak in 2016 at between 8 and 10 per cent per annum.

Sydney Water has Workforce Plans in place to manage the effects of ageing staff in the workforce. During 2009-10, Sydney Water improved workforce capability through the employment of apprentices, trainees and graduates. The recruitment program aims to transfer knowledge to the next generation. Phased retirements also help to accommodate the loss of experienced staff aged over 55 who have critical skills and knowledge.

To help ensure an adequate supply of employees in the future, the Corporation should actively monitor its workforce age profile and the strategies in place to develop, attract and retain staff whose skills are aligned with the strategic direction of the Corporation.

Employment of Contract Employees

I recommend Sydney Water:

- create and maintain a single register for contracted employees
- using this register, review the effectiveness of its existing policies for employment of contract employees to ensure:
 - reliance on contractors is not excessive
 - use of contract employees instead of permanent employees is appropriate
 - contractors do not become de facto employees by virtue of being with the Corporation for an extended period of time
 - use of contract employees continues to represent value for money.

I understand the Corporation uses contract employees, particularly in Information Technology (IT). IT has a recurring process to review the IT agencies it uses to hire contractors, but not at contract employee level. IT has nine agencies who have been working with it to engage contractors for three or more years.

The lack of a central register for contract employees increases the risk of Corporation not being able to determine, monitor and analyse:

- the total cost of contract employees
- the total number of contract employees
- the period of service for all contract employees.

The Corporation needs to review its practices for managing to contract employees to help ensure it achieves the desired outcomes and complies with all applicable laws and regulations.

FINANCIAL INFORMATION

Abridged Consolidated Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Service charges	950,527	880,496	950,527	880,496
Usage charges	943,988	787,911	943,988	787,911
Other	292,866	289,326	305,197	303,365
OPERATING REVENUE	2,187,381	1,957,733	2,199,712	1,971,772
Employee related expenses	311,877	284,610	313,458	287,525
Bulk water	195,374	175,135	230,823	175,135
Water treatment	104,420	104,515	104,420	104,515
Maintenance and operational services	223,835	189,317	225,838	199,970
Finance costs	291,153	234,839	287,960	235,014
Depreciation and amortisation	169,581	158,073	167,809	158,073
Other	253,447	353,408	260,495	354,246
OPERATING EXPENSES	1,549,687	1,499,897	1,590,803	1,514,478
PROFIT BEFORE INCOME TAX	637,694	457,836	608,909	457,294
Income tax expense	191,840	207,072	192,710	206,866
PROFIT AFTER TAX	445,854	250,764	416,199	250,428
OTHER COMPREHENSIVE INCOME				
Gains/(Losses) on revaluation of assets	23,543	(1,163,163)	23,543	(1,163,163)
Superannuation actuarial losses	(51,450)	(243,253)	(51,450)	(243,253)
Other gains/(losses)	37	1,052	(5)	868
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	417,984	(1,154,600)	388,287	(1,155,120)

The increase in service and usage charges is consistent with the increase in prices determined by IPART.

The increase in borrowing expenses is due to an increasing debt portfolio used to fund its capital works program. The decrease in other expenses is due to a reversal in the impairment loss of property plant and equipment during the year.

Abridged Consolidated Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	322,537	263,918	319,184	259,414
Non-current assets	13,633,870	12,449,572	12,411,160	11,446,710
TOTAL ASSETS	13,956,407	12,713,490	12,730,344	11,706,124
Current liabilities	978,615	1,005,180	956,030	940,727
Non-current liabilities	7,410,547	6,326,983	6,244,190	5,391,560
TOTAL LIABILITIES	8,389,162	7,332,163	7,200,220	6,332,287
NET ASSETS	5,567,245	5,381,327	5,530,124	5,373,837

The increase in non-current assets is mainly due to the capitalisation of project costs particularly for the desalination plant.

The increase in non-current liabilities is due to additional borrowings of \$724 million to fund major projects. There is also an increase in deferred tax liabilities by \$65.1 million, which is consistent with the tax effect of movements in the asset revaluation reserve and an increase in unfunded defined benefits superannuation of \$64.0 million.

THE CORPORATION'S ACTIVITIES

The Corporation is a statutory State owned corporation established under the *Sydney Water Act 1994*. It provides sustainable water services to the communities it services, and has as its principal objectives the protection of public health, the protection of the environment, and to be a successful business.

For further information on the Corporation, refer to www.sydneywater.com.au.

CONTROLLED ENTITIES**Sydney Desalination Plant Pty Limited**

Year ended 30 June	2010 \$'000	2009 \$'000
Loss	2,304	12
Assets	1,306,985	1,084,627
Liabilities	1,214,540	1,015,286
Net assets (at 30 June)	92,445	69,341

The company is a wholly owned subsidiary of the Corporation and owns the desalination plant. It is the contracting party for the plant construction and operation including the renewable energy contract.

The company's assets and liabilities increased as construction of the plant was completed.

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

Entity Name	Website
Australian Water Technologies Pty Ltd	*
AWT International (Thailand) Limited	*

* This entity does not have a website.

Wyong Water Supply Authority

AUDIT OPINION

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

KEY ISSUES

Central Coast Water Corporation

The *Central Coast Water Corporation Act 2006* is expected to commence late 2010 and be implemented in 2011. Under this Act, the water supply and sewerage activities of Wyong Shire and Gosford City Councils will merge into a single entity to be known as the Central Coast Water Corporation (the Corporation). The Corporation will be established in planned stages over approximately five years. The initial phase of the Corporation will be strategic planning, strategic operational controls, and auditing and strategic monitoring, with the progressive transfer of staff and assets/liabilities to the Corporation until it is fully operational.

The merger is expected to increase efficiencies in a number of areas such as planning, environmental issues and drought management whilst maintaining benefits to the Central Coast community.

Dividend

The Authority paid a dividend of \$342,000 (\$342,000 in 2008-09) to Wyong Shire Council. Local government water and sewerage supply businesses are permitted to pay annual dividends to councils from operating surpluses.

PERFORMANCE INFORMATION

The table below shows the Authority's performance over the past five years on some key indicators.

Year ended 30 June	2010	2009	2008	2007
Average volume of water consumed (kilolitres) per residential property	153	141	146	139
Water quality complaints per 1,000 properties	4.9	4.9	3.4	7.2
Average frequency of unplanned water supply interruptions per 1,000 properties	59.9	58.8	39.0	33.0
Water main breaks per 100 km of water main	6.0	8.6	4.0	4.0
Water losses (kilolitres/water main kilometre/day)	1.5	1.5	1.5	1.4
Total connection sewer main breaks and chokes per 100 kilometres of sewer main	47.4	47.7	46.6	38.0
Percentage of sewage treated to a secondary level	93.0	91.0	92.0	91.0
Percentage of sewage treated to a tertiary level	7.0	9.0	8.0	9.0

Source: Figures for 2006 to 2009 from National Water Commission Reports. The 2009-10 figures provided by Wyong Water (unaudited)

The average volume of residential water usage in 2009-10 reflects a continuing recovery in usage from the recent drought.

The current trend in water quality complaints per 1,000 properties reflects the impact of significant Central Coast water supply augmentation works undertaken in Wyong Shire over the last two years. These works required major system operational adjustments in the water supply network which have resulted in changes to flow patterns in pipe work and can at times destabilise pipe sediment resulting in water quality complaints. At the completion of the current augmentation works the Authority expects the level of complaints to reduce.

Although the frequency of unplanned water supply interruptions per 1,000 properties increased the Authority has in place programs to progressively renew older sewerage mains, particularly root damaged vitreous clay pipe work.

The number of connection sewer main breaks and chokes per 100 kilometres of sewer main changed slightly from last year. To minimise blockages the Authority has in place a programme to progressively renew older sewerage mains particularly root damaged vitreous clay pipe work.

While all sewage is treated to a secondary quality standard some of this undergoes further treatment to a tertiary standard for subsequent distribution for non-potable outdoor water use, such as golf course watering. As non-potable use is highly weather dependent, the relative proportion of its use when compared to secondary quality water can vary from year to year. This situation is ongoing.

OTHER INFORMATION

Review of Major Capital Projects

The Authority's capital expenditure in 2009-10 was \$69.6 million for water supply and \$5.9 million for sewerage projects. The Authority had targets of \$93.0 million for water supply and \$9.9 million for sewerage projects. The variances between actual and target capital expenditure were due to delays in tender processes of water supply projects and development process of sewerage projects.

The original and current cost estimates and service delivery dates for capital projects with an original cost above \$10.0 million are listed in the table below.

Project	Original Cost Estimate (and year) \$m	Current Cost Estimate \$m	Original Service Delivery Date	Achieved/ estimated Service Delivery Date
In progress at 30 June 2010:				
Mardi to Mangrove Link	110 (2008)	121	June 2010	June 2011
Mardi Suite of Works	59 (2008)	56	August 2010	November 2010

Source: Wyong Water (unaudited).

The revised estimates represent successful the tender prices achieved for these projects. The revised delivery dates are due to the preconstruction delays mentioned earlier and normal site delays, such as wet weather.

The aim of the Mardi to Mangrove Link project is to increase yield and drought security on the Central Coast. It includes a 21.1 kilometre buried water pipeline, new pumps and other associated works.

The Mardi Suite for Works project will provide additional transfer capacity between Mardi Dam and Mardi Water Treatment Works and a larger capacity to transfer bulk water to Gosford.

The Authority considers the overall risk profile of its capital program to be low.

FINANCIAL INFORMATION**Abridged Statement of Comprehensive Income**

Year ended 30 June	2010 \$'000	2009 \$'000
Service charges	37,485	30,672
Usage charges	22,464	20,358
Other	27,236	7,872
TOTAL REVENUE	87,185	58,902
TOTAL EXPENSES	79,262	81,192
SURPLUS/(DEFICIT)	7,923	(22,290)
OTHER COMPREHENSIVE INCOME		
Gain on revaluation of infrastructure, property, plant and equipment	91,017	31,041
TOTAL OTHER COMPREHENSIVE INCOME	91,017	31,041
TOTAL COMPREHENSIVE INCOME	98,940	8,751

The increase in service and usage charges is mainly due to increased water charges during the year in line with the IPART determination. Other revenue increased mainly due to \$12.8 million in grants to fund the Mardi-Mangrove link project.

The Authority revalued water and sewerage assets at 30 June 2010 using cost indexation factors provided in the NSW Office of Water's Rates Reference Manual. This increased the values of these assets by \$91.0 million.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	82,534	56,517
Non-current assets	1,145,900	1,024,102
TOTAL ASSETS	1,228,434	1,080,619
Current liabilities	32,990	40,452
Non-current liabilities	161,949	105,270
TOTAL LIABILITIES	194,939	145,722
NET ASSETS	1,033,495	934,897

The increase in current assets is due to increased grants and additional funds borrowed during the year.

The increase in non-current assets was due to a revaluation of water and sewerage assets and infrastructure addition.

The increase in liabilities was mainly due to increases in accrued expenses and interest bearing loans of \$39.7 million for capital works program.

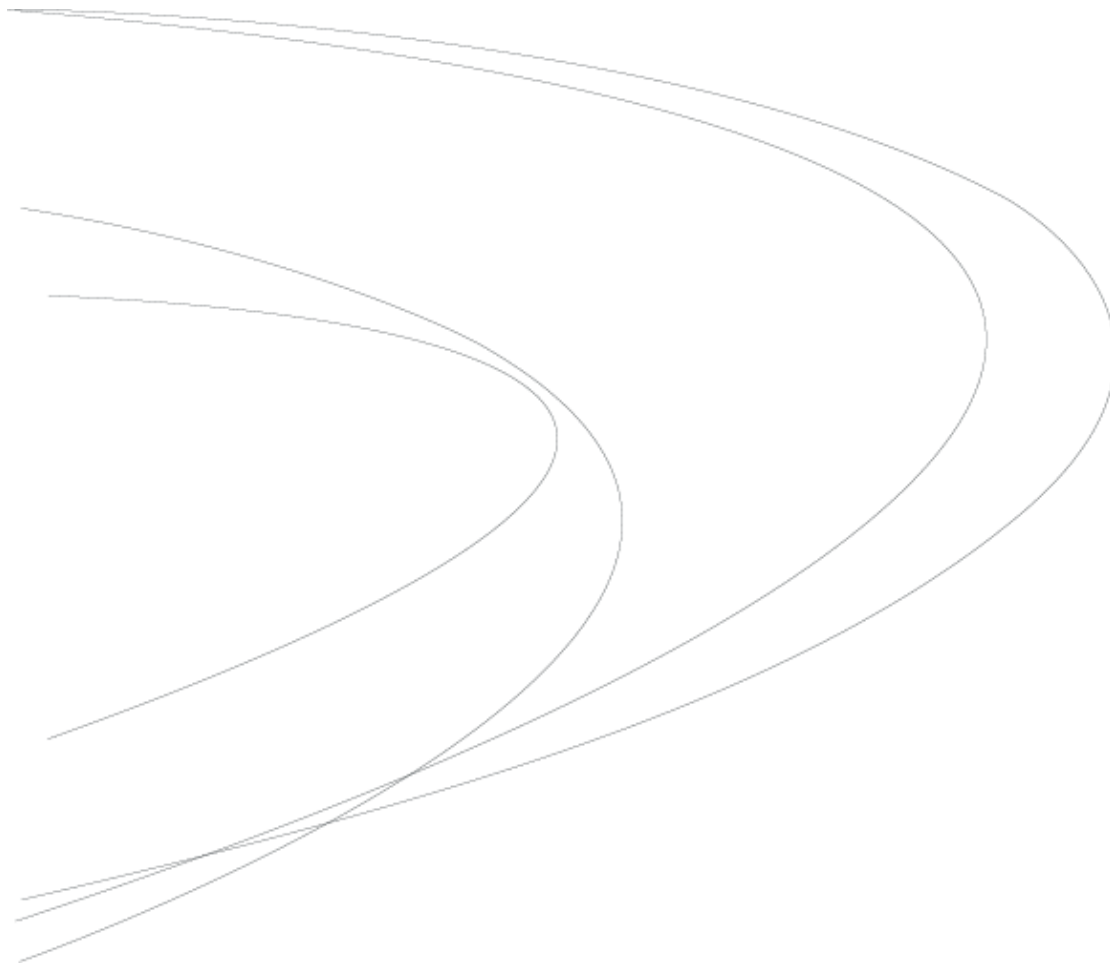
AUTHORITY ACTIVITIES

Wyong Water Supply Authority is part of Wyong Shire Council and provides water, sewerage and related services.

For further information on Wyong Shire Council, refer to www.wyong.nsw.gov.au.

Appendix

Appendix 1 Agencies not reported elsewhere in this Volume



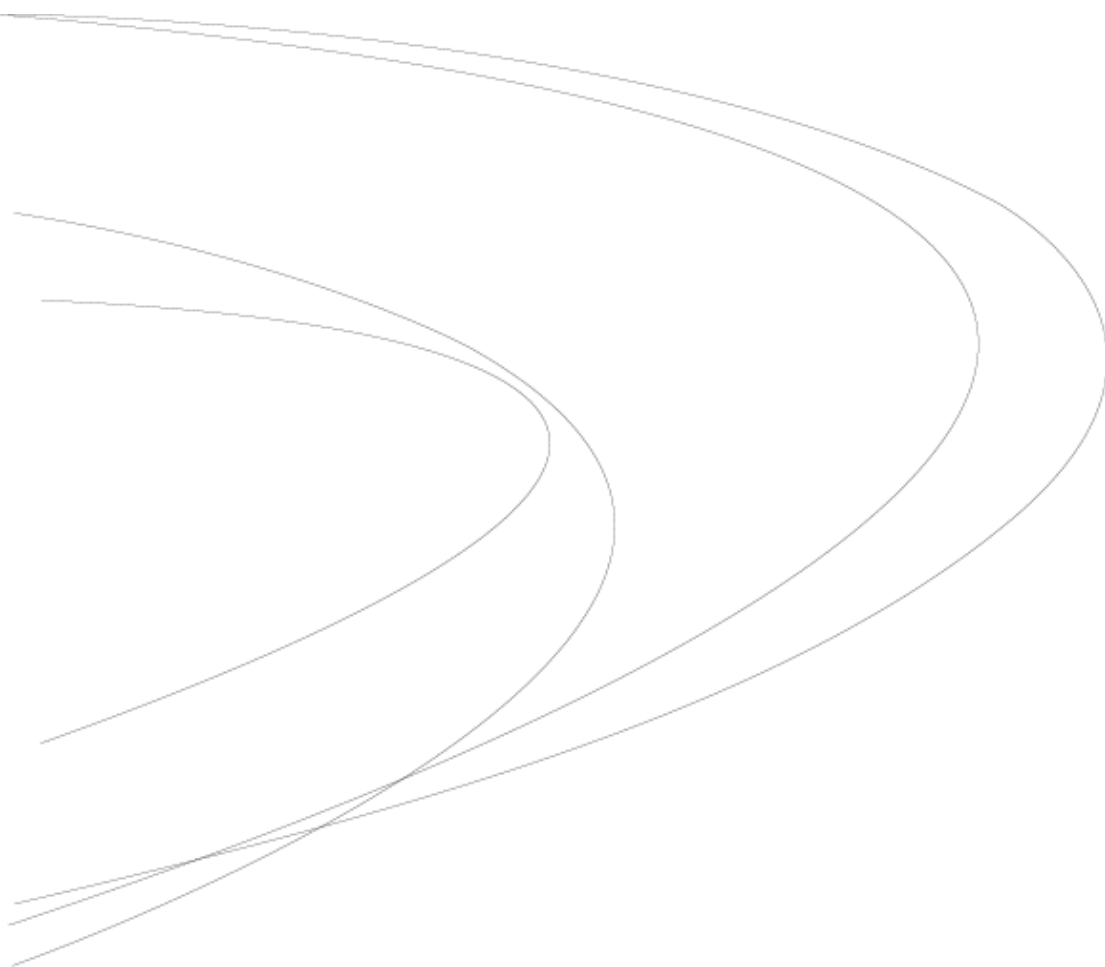
Appendix 1 - Agencies not reported elsewhere in this Volume

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

Entity Name	Website	Period/Year Ended
Border Rivers-Gwydir Catchment Management Authority	www.brg.cma.nsw.gov.au	30 June 2010
Central West Catchment Management Authority	www.cw.cma.nsw.gov.au	30 June 2010
Dams Safety Committee	www.damsafety.nsw.gov.au	30 June 2010
Dumaresq-Barwon Border Rivers Commission	www.brc.gov.au	30 June 2010
Hawkesbury-Nepean Catchment Management Authority	www.hn.cma.nsw.gov.au	30 June 2010
Hunter-Central Rivers Catchment Management Authority	www.hcr.cma.nsw.gov.au	30 June 2010
Jenolan Caves Reserve Trust	www.jenolancaves.org.au	30 June 2010
- Jenolan Caves Reserve Trust Division	*	30 June 2010
Lachlan Catchment Management Authority	www.lachlan.cma.nsw.gov.au	30 June 2010
Lord Howe Island Board	www.lordhoweisland.info/	30 June 2010
Lower Murray – Darling Catchment Management Authority	www.lmd.cma.nsw.gov.au	30 June 2010
Marine Parks Authority	www.mpa.nsw.gov.au	30 June 2010
Murray Catchment Management Authority	www.murray.cma.nsw.gov.au	30 June 2010
Murrumbidgee Catchment Management Authority	www.murrumbidgee.cma.nsw.gov.au	30 June 2010
Namoi Catchment Management Authority	www.namoi.cma.nsw.gov.au	30 June 2010
Northern Rivers Catchment Management Authority	www.northern.cma.nsw.gov.au	30 June 2010
Office of Hawkesbury-Nepean	www.ohn.nsw.gov.au	30 June 2010
Southern Rivers Catchment Management Authority	www.southern.cma.nsw.gov.au	30 June 2010
Sydney Metropolitan Catchment Management Authority	www.sydney.cma.nsw.gov.au	30 June 2010
Upper Parramatta River Catchment Trust	www.uprct.nsw.gov.au	30 June 2010
- Upper Parramatta River Catchment Trust Division	*	30 June 2010
Western Catchment Management Authority	www.western.cma.nsw.gov.au	30 June 2010

* This entity does not have a website.

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AUDITOR-GENERAL'S REPORT FINANCIAL AUDITS

Volume Eight 2010



The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

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

Peter Achterstraat
Auditor-General

Sydney
December 2010

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Significant Items

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Emergency services agencies have 85,000 participating volunteers, but no detailed volunteer workforce plans.	5
Law and Order Overview	
The backlog of Local and District Courts' civil cases is increasing and clearance rates are generally below those of other states and territories.	7
In 2008, 45.1 per cent of people believed there was a problem with crime in their neighbourhood, a decline from 55.4 per cent in 2001.	10
Eighty one per cent of people feel safe or very safe at home alone during the day, but only 68 per cent feel the same after dark. Few people feel safe or very safe using public transport alone or walking alone in their own neighbourhood after dark.	11
The Legislature	
The number of Legislative Assembly sitting days increased from 45 in 2007 to 64 in 2010, and the number of questions on notice increased from 1,545 to 3,869 over the same period.	15
Department of Justice and Attorney General	
The Department has a backlog of 18,118 pending claims for victim compensation at 30 June 2010, which it estimates will result in payments of \$222 million.	24
The rate of imprisonments per 100,000 adults rose to 11.6 per cent above the national rate in 2008-09.	28
Fifteen offenders escaped from custody in 2008-09 compared to seven in 2007-08.	29
For every 100 offenders there were 12.8 prisoner on prisoner assaults in 2008-09.	29
Community Correction Orders successfully completed continue to exceed the national average.	30
The State's rate of individuals who return to prison of 42.9 per cent, continues to exceed the national average of 39.3 per cent.	30
At 27 June 2010, there were 10,258 offenders in custody, representing an occupancy rate of 93.2 per cent.	31
The Lifelink IT project, which was expected to cost \$8.2 million, and be completed by 2008, is now expected to cost \$20.2 million and be completed by March 2012.	34
Corrective Services NSW reduced its overtime costs to \$32.8 million from \$40.7 million, as well as the number of staff earning more than 50 per cent of base salary in overtime from 232 to 114.	38

Legal Aid Commission of New South Wales

Almost 33 per cent of the Commission's employees are aged 50 or over, and are likely to retire over the next five to ten years, increasing the risk of loss of corporate knowledge and skills. 44

Office for the Director of Public Prosecutions

Almost 35 per cent of the Office's employees are aged 50 or over, and are likely to retire over the next five to ten years, increasing the risk of loss of corporate knowledge and skills. 60

New South Wales Fire Brigades

The Brigades is implementing a major program of workplace reform to address workplace-related issues affecting its ability to effectively manage its workforce. 69

NSW Police Force

Partial and Permanent Disability Scheme liabilities have grown to \$190 million, the number of claims has increased by 315 per cent since 2007, and the average value of each claim has increased from \$373,307 to \$421,958. 85

Effective controls are not in place to ensure quality and value for money is obtained for all work performed by an outsourced property manager. 86

At 30 June 2010, there were 11,848 full time equivalent (FTE) police officers, 489 short of the 12,337 authorised FTEs, and of these, 1,833 were either on restricted duties or absent. There are approximately 4,000 non-commissioned staff, bringing the total workforce to 15,287. 87
93

The number of crimes against people for 2008-09 was stable or fell compared to the previous year. 88

Finalisation of investigations within 30 days for all crime categories remains below the national average. 89

The Force continues to experience delays in settling workers compensation claims with its insurer. 91

New South Wales Electoral Commission

152,000 penalty notices were issued to citizens forfeiting to vote in the 2007 State election. 115

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	Page
Emergency Services Overview	
I recommend the emergency services agencies develop volunteer workforce management plans to ensure they have the right volunteer resources.	5
 Department of Justice and Attorney General	
I recommend:	
▪ the Department completes the integration of policies, operations and systems between its divisions and appoint a Chief Financial Officer to oversight and monitor its operations.	23
▪ the Department review the effectiveness of its policies for managing excessive annual leave balances.	37
▪ Corrective Services NSW should continue its efforts in reducing overtime work and continuously reassess the effectiveness of its policies.	38
▪ the Department create and maintain a single record of all contractors engaged by it.	
▪ the Department should also periodically review the roles and responsibilities of all its contractors to ensure:	
□ its reliance on contractors is not excessive	
□ use of contractors instead of permanent employees is appropriate	
□ contractors do not become de facto employees by virtue of being with the Department for an extended period of time	
□ use of contractors continues to represent value for money.	39
 Legal Aid Commission of New South Wales	
I recommend the Commission:	
▪ develop strategies to manage its ageing workforce.	44
▪ develops mechanisms to centrally review flex time records to ensure excessive flex time is not being accrued and forfeited by employees.	47

NSW Trustee and Guardian

I recommend:

- the NSW Trustee and Guardian develop performance indicators and targets to:
 - measure the benefits of the merger of the former Public Trustee NSW and the former NSW Trustee and Guardian, and
 - monitor the progress, costs and timeliness of implementing the new information technology systems to replace the existing Trust Estate and Asset Management System and the Client Information System.50
- the NSW Trustee and Guardian finalise the distribution of the Interest Suspense Account before 30 June 2011. 51
- the NSW Trustee and Guardian implement appropriate measures and processes to facilitate identification of beneficiaries of estates within reasonable periods of time. 51
- documented agreements relating to service delivery and occupation of the Justice Precinct Office be finalised to avoid disagreements and disputes on charges. 54
- the NSW Trustee and Guardian continue liaising with other states to establish national benchmarking of performance across Public Trustees. 54

Office of the Director of Public Prosecutions

I recommend the Office develop strategies to manage its ageing workforce. 60

New South Wales Fire Brigades

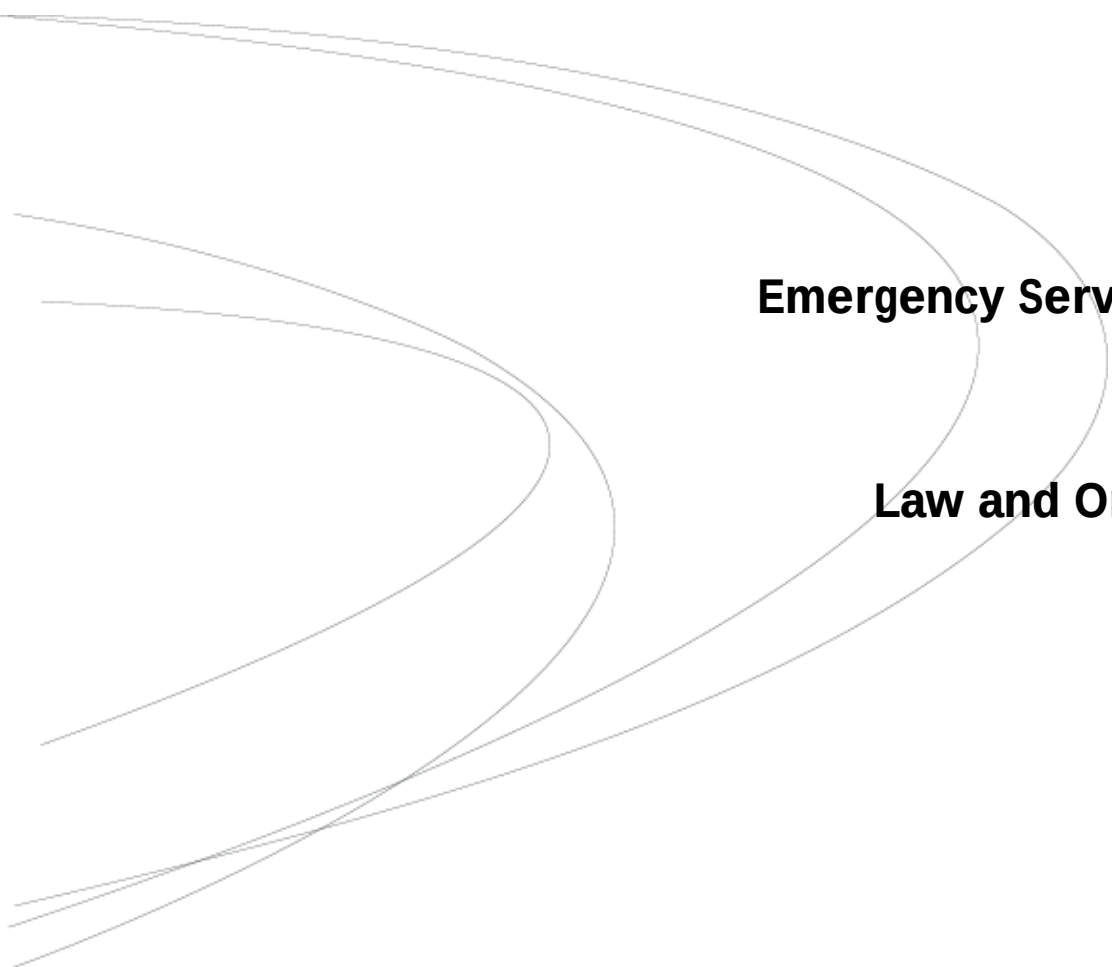
The Brigades is facing significant challenges managing its workforce. I recommend the Brigades establish a workforce management plan immediately to address these challenges. 69

NSW Police Force

I recommend the Force:

- continues monitoring its liquidity closely to ensure it has sufficient funds to meet the increasing costs of the scheme. 85
- should review the underlying causes for the increasing number of partial and permanent claims and urgently develop and implement strategies to address the unfavourable trend. 85
- allocate appropriate resources to implement the outstanding internal audit recommendations as soon as possible to minimise the potential for fraud/misappropriation of funds and to maximise the effectiveness of its maintenance spend. 86
- should also ensure the shortcomings of the existing contract are not repeated when it goes to the marketplace for a new contract in 2011. 86
- reviews processing of its workers compensation claims to minimise delays in recouping claims from the insurer. 91
- should continue its efforts in managing excessive leave balances and continuously reassess the effectiveness of its policies. 94
- develop mechanisms to centrally review flex time to help ensure excessive flex time is not being accrued and forfeited by unsworn officers. 94
- create and maintain a single record of all contractors engaged by it. 95

Section One



Emergency Services Overview and Law and Order Overview

Emergency Services Overview

EMERGENCY SERVICES AGENCIES AND AUDIT OPINIONS

An emergency is an actual or imminent event that poses a threat to the safety or health of persons or animals, or to property. Emergencies include naturally occurring and man-made events that require significant and co-ordinated responses.

The State Disaster Plan clearly identifies the New South Wales Government agencies with responsibilities for responding to emergencies. The following table outlines some key emergency service agencies and their responsibilities.

Agency	Type of Emergency
New South Wales Fire Brigades (NSWFB)	Fire (urban), hazardous materials (land based and inland waters)
NSW Rural Fire Service (RFS)	Fire (rural)
State Emergency Service (SES)	Flood, storm, tsunami

The audits of these agencies' financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

OTHER INFORMATION

Funding Arrangements

Last year, I recommended the Government follow up on the Public Accounts Committee's (PAC) recommendations about funding arrangements for emergency service agencies. In its response to the final recommendations of the Victorian Bushfires Royal Commission, the Government confirmed its commitment to existing funding arrangements.

In 2004, the PAC reported on fire services' funding arrangements in New South Wales. Whilst the PAC recommended retention of the existing funding arrangements, it acknowledged flaws relating to potential inequity and inefficiency and recommended the Government continue to investigate ways to eliminate those flaws.

The following reports recommend replacement of insurance based funding arrangements with a property based levy:

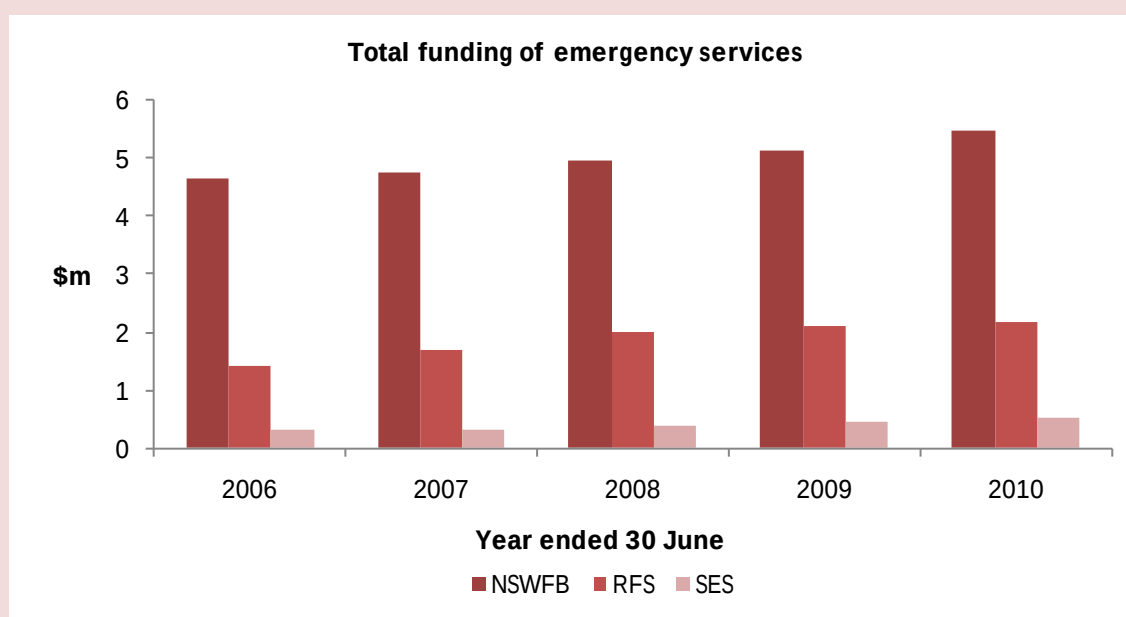
Year	Report
2008	Independent Pricing and Regulatory Tribunal's Review of State Taxation
2009	Australia's Future Tax System Review (Henry Tax Review)
2010	2009 Victorian Bushfires Royal Commission – Final Report

Emergency service agencies are funded via contributions from the insurance industry and local and State governments. From 1 July 2009, the Government implemented changes to the funding sources that result in consistency across the agencies.

The proportion and amount of funding by contributors in 2009-10 was:

	%	\$m
Insurance companies	73.7	602.1
Local government councils	11.7	95.6
State government	14.6	119.3

The total contribution amount is determined by the Minister for Emergency Services and subject to the Treasurer's agreement. Total contributions are based on the agencies' estimated expenditure. A summary of contributions appears in the graph below:



Source: New South Wales Fire Brigades, NSW Rural Fire Service, State Emergency Service (unaudited).

Estimated expenditure excludes most of the costs incurred by the agencies in relation to natural disasters. Instead of funding via contributions, these costs are reimbursed through relief arrangements between the State and Australian Governments.

The three emergency services agencies incurred \$107 million in 2009-10 (\$45.4 million in 2008-09) on natural disasters.

Natural Disasters

The following natural disasters were declared:

	No. of Declarations		No. of Local Government Areas affected	
	2009-10	2008-09	2009-10	2008-09
Bushfires	24	8	57	16
Floods	13	6	55	33
Storms	5	4	9	7
Dust Storm	1	--	1	--
	43	18	122	56

Source: Emergency Management NSW (unaudited).

Natural disasters are declared when damage to public assets and the disaster recovery costs exceed \$240,000. The declaration, amongst other things, allows the emergency services agencies to recover costs incurred on the natural disaster from the Crown Entity. These costs are then recovered from the Australian Government.

Staffing and Volunteering Arrangements

I recommend the emergency services agencies develop and implement comprehensive volunteer workforce management plans to ensure they have the right volunteer resources.

The agencies use a range of human capital to achieve their objectives.

	Full-time		Retained (Part-Time)		Volunteers	
	2010	2009	2010	2009	2010	2009
NSWFB	3,927	3,893	3,429	3,387	6,070	5,800
RFS	785	715	--	--	70,552	70,701
SES	204	205	--	--	10,000	10,500

Source: New South Wales Fire Brigades, NSW Rural Fire Service, State Emergency Service (unaudited).

Volunteers are a key resource used by emergency services agencies. Without effective plans to manage their volunteer base, there is a risk these agencies will not have the right resources to achieve their objectives. None of the emergency services agencies have detailed volunteer workforce plans.

Recent data reported by the Australian Bureau of Statistics shows that whilst the number of volunteers in Australia is increasing, the median number of hours spent volunteering is declining.

Recent research on the topic of volunteering in emergency services has identified strategies to improve recruitment and retention of volunteers. These include:

- making the most of volunteer hours
- exploring alternative training mechanisms
- broadening the scope of training to include leadership
- ensuring volunteers are not out of pocket
- consistent and heightened recognition of volunteers
- addressing any negative perceptions of equipment suitability
- promoting the personal and social aspects of volunteering.

These and any other strategies should be considered by the emergency services agencies.

Administrative Restructures

On 7 April 2010 the Government abolished the Police and Emergency Services super Department that was created on 27 July 2009. The reason given for the abolition was to recognise the variety of reforms and differences in service delivery requirements between those needed in the NSW Police Force and those in the emergency services agencies. Staff that had transferred to the super Department were re-deployed back into their respective agencies.

Throughout the administrative restructures, the emergency services agencies retained their status as separate entities and continued with existing objectives and functions.

Other Emergency Services Entities

A range of other entities are involved in ensuring co-ordinated and effective emergency services in New South Wales. High level information on these entities appears below. For further information, refer to www.emergency.nsw.gov.au.

Emergency Management NSW

Emergency Management NSW (EMNSW) provides policy and executive support to the Minister for Emergency Services as well as support to the:

- State Emergency Management Committee
- State Rescue Board
- State Emergency Operations Controller
- State Emergency Recovery Controller.

From 1 July 2009, EMNSW was also responsible for the centralised billing and collection of funding contributions on behalf of the NSWFB, RFS and SES.

RFS is the host agency for EMNSW.

State Emergency Management Committee

The State Emergency Management Committee is responsible for emergency planning at a State level. Its functions include:

- continually reviewing the effectiveness of the State Disaster Plan and related plans
- advising the Minister on changes to these plans
- creating and distributing educational material on managing emergencies.

State Rescue Board

The principal function of the Board is to ensure the maintenance of efficient and effective rescue services throughout New South Wales.

In July 2005, the previous Auditor-General published a performance audit on the coordination of rescue services in New South Wales. He made the following recommendations:

- develop a strategic approach to rescue
- introduce service standards
- enhance accreditation criteria
- improve information on performance
- improve compliance with accreditation standards.

The recommendations were endorsed by the State Rescue Board. The Board advises they are continuing to implement the recommendations.

Law and Order Overview

LAW AND ORDER SERVICES

The following Government agencies provide, facilitate and regulate the State's Law and Order services. The work of these agencies is closely interrelated and initiatives in one agency can have significant flow on effects for the other agencies. For example, increased policing and investigative activities increases the case load in the court system, which in turn increases the number of offenders managed by the corrective system.

Agencies

- Department of Justice and Attorney General
- New South Wales Crime Commission
- Independent Commission Against Corruption
- Judicial Commission of New South Wales
- Legal Aid Commission of New South Wales
- NSW Police Force
- Office of the Director of Public Prosecutions
- Police Integrity Commission.

As a result of the Public Sector Employment and Management (Departmental Amalgamation) Order 2009, effective 1 July 2009:

- the former Attorney General's Department (AGD) and the former Department of Corrective Services (DCS) became divisions of the new Department of Justice and Attorney General (DJAG)
- the Ministry for Police was abolished and all branches of the Ministry were transferred to either the Department of Police and Emergency Services or the Department of Premier and Cabinet.

On 7 April 2010, the Government abolished the Department of Police and Emergency Services and transferred the staff back to their original agency. The reason for the abolition was to recognise the variety of reforms and differences in service delivery requirements between those needed in the NSW Police Force and those in the emergency services agencies.

AUDIT OPINIONS

The audits of the above agencies' financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

PERFORMANCE INFORMATION

A high level summary of performance for the two largest Law and Order agencies is included below. This information is based on performance in 2008-09 which is the latest publicly available national data.

Department of Justice and Attorney General

- Most criminal court jurisdictions appropriately managed their case load, clearing approximately as many cases as were lodged during the year. However, the backlog of cases is increasing for civil matters in the Local and District Courts and clearance rates are generally below those of other States and Territories.
- New South Wales continued to record some of the best results for court timeliness compared to other States and Territories.

- The net administration costs per matter in New South Wales Supreme and District Courts were below national average. The Local Courts' net costs were higher than the national average.
- Slightly more than a third of the costs of operating civil courts are recovered through court fees. New South Wales passes on more costs to the users of the courts than other States and Territories.
- In New South Wales, the proportion of the adult population sent to prison was 11.6 per cent above the national rate.
- New South Wales consistently performs better than the national rate for the successful completion of community correction orders, 80.0 per cent compared to 71.2 per cent.
- The State's rate of an individual's return to prison, 42.9 per cent, continues to be higher than the national average of 39.3 per cent.

NSW Police Force

- Generally the number of crimes against people in New South Wales was stable or has fallen when compared to previous years. According to a report from the NSW Bureau of Crime Statistics and Research, property crime has declined 5.6 per cent over the past 24 months, while personal crime and alcohol related assault remained stable over the same period.
- A report on a national survey of community satisfaction with Police July 2005-June 2010 revealed that problem with louts or gangs; speeding cars or dangerous drivers; drunken or disorderly behaviour; graffiti or other vandalism remained stable over the past two years.

Further comment on each agency's activities and performance is included elsewhere in this Report.

State Plan

The New South Wales Government released its latest performance report on the 'State Plan: Investing in a better future' on 26 March 2010. Among other things, it defined future strategies and priorities that Law and Order organisations will need to address. These include:

- reducing rates of crime, particularly violent crime:
 - reduce property crime by 15 per cent by 2016
 - reduce personal crime, particularly violent crime by 10 per cent by 2016
 - reduce alcohol related crime
- reducing the level of antisocial behaviour:
 - reduce the proportion of people who perceive problems in their local area with:
 - louts
 - noisy neighbours
 - public drunkenness
 - vandalism
 - hoon drivers
- reducing re-offending:
 - reduce the proportion of all offenders who re-offend within 24 months of being convicted by a court or having been dealt with at a conference by 10 per cent by 2016
- improve the efficiency of the court system
 - in the Local Court: 90 per cent of the pending criminal matters will be less than six months old
 - in the District Court: 75 per cent of pending civil matters will be less than 12 months old.

The NSW Police Force (the Force) is the lead agency responsible for co-ordinating responses to the first two priorities listed above.

The Force advised that strategies and initiatives in place to address these two priorities include:

- enhanced police capability and visible presence via:
 - increase police officer strength by 750 by December 2011
 - target crime hot spots
 - equip police officers with new technology
- bring recidivists to justice via:
 - target repeat offenders
- detect and disrupt criminal and antisocial activities via:
 - target criminal gangs
 - target hoon drivers
 - target alcohol related crime
 - target drug related crime
 - strengthen response to domestic and family violence
- early intervention and crime prevention via:
 - NSW Crime Prevention Framework
 - work in partnership with Indigenous communities
 - case management of children and young people.

DJAG is the lead agency responsible for the second two priorities.

The Bureau of Crime Statistics and Research released statistics in October 2010 on the percentage of people convicted in 2005 who were reconvicted of another offence within the next two years. For all offenders the rate of re-offending was 28.8 per cent compared to 29.2 per cent in 2003.

Re-offending statistics are based on both juvenile and adult populations and, therefore, some elements are beyond DJAG's control and are dependent upon other State Government agencies.

The key strategies in 2009-10 for DJAG towards achieving this goal included:

- continuing to move resources from correctional centres out into the community, to create more opportunities to reduce re-offending and strengthening supervision in the community
- offering Australia's largest range of correctional rehabilitation programs
- increasing the State's number of diversionary programs.

The Department has advised that a number of initiatives have been put in place and future actions planned to achieve the target. These include:

- expanding the Community Compliance Group (CCG) to improve community supervision of serious offenders. The CCG is involved with electronic and compliance monitoring of offenders on periodic detention, home detention and community services orders. The CCG also monitors imprisoned offenders who are participating on external leave programs
- increasing the number of Community Offender Support Program Centres (COSPS) across New South Wales. COSPS provide short-term supported accommodation for offenders released from custody and under supervision in the community
- a community residential intervention program at Tabulam (Balund-a)
- a community based residential program at Biyani for female offenders with a mental health disorder and co-existing substance issues.

At 30 June 2010, these strategies and initiatives had been developed and are in various stages of implementation and delivery.

DJAG advises that the impact of government initiatives on reducing re-offending will not yet be apparent, as the State Plan was not implemented until late 2007, and it may take several years to see results from the initiatives that have been implemented.

The responsibility for improving the court system also rests with DJAG. DJAG advised the results of 2008-09 are at the high end of the target range. In its 2010 annual report DJAG reported:

- 88.5 per cent of pending criminal cases were less than six months old, the best performance in Australia and just below the 90 per cent target
- in the District Courts in New South Wales, 79 per cent of pending civil matters were less than 12 months old up from 71 per cent last year and above the 75 per cent target.

OTHER INFORMATION

Community perception of crime and safety

A research report 'A statistical snapshot of crime and justice in New South Wales: Statistical indicators 5/10' published by the NSW Parliamentary Library Research Service reveals that the proportion of people who believe there is a problem with crime in their neighbourhood has declined since 2001 from 55.4 per cent to 45.1 per cent in 2008. The same report states that the sort of crime that is seen as a problem in a particular locality varies. In 2008, 26 per cent of people thought vandalism, graffiti and/or damage to property was a problem in their neighbourhood (not necessarily the main problem) and 25 per cent thought dangerous, noisy driving was an issue.

The following table shows the proportion of people who perceived a crime or public nuisance problem in their neighbourhood in New South Wales in recent years.

Proportion of people who perceive a crime or public nuisance problem in their neighbourhood	Year							
	1999 %	2000 %	2001 %	2003 %	2004 %	2006 %	2007 %	2008 %
Perceived problem	52.9	51.4	55.4	49.7	48.1	46.9	46.5	45.1
No perceived problem	47.1	48.6	44.6	50.3	51.9	53.1	53.5	54.9

Source: NSW Parliamentary Library Research Service publication 'A statistical snapshot of crime and justice in New South Wales: Statistical Indicators 5/10' (unaudited)

People's perception of safety at home alone during the day is slightly lower than the Australian average, and lower than all other States and Territories, with the exception of the Northern Territory. The research report reveals that 81 per cent of people in New South Wales feel safe or very safe at home alone during the day. However, the percentage of people who feel safe or very safe drops to 68 per cent after dark. The report also states that few people feel safe or very safe when using public transport alone after dark, or when walking alone after dark in their own neighbourhood throughout Australia.

The table below depicts perception of crime and safety in Australia.

Percentage of people who feel safe or very safe, 2008/09	States								
	NSW %	VIC %	QLD %	SA %	WA %	TAS %	NT %	ACT %	AUS %
At home alone during the day	80.9	84	84.6	84.2	83	85.2	76.7	87.5	83
At home alone after dark	67.8	71.2	71	71.4	65.1	75.3	62.9	74.8	69.5
Using public transport alone after dark	16.8	16.7	14	11.5	9.8	7.2	6.8	17.3	14.8
Walking alone after dark in own neighbourhood	37.1	39.4	34.5	37.2	31.5	39.6	22.5	43.8	36.7

Source: NSW Parliamentary Library Research Service publication 'A statistical snapshot of crime and justice in New South Wales: Statistical Indicators 5/10' (unaudited).

Section Two

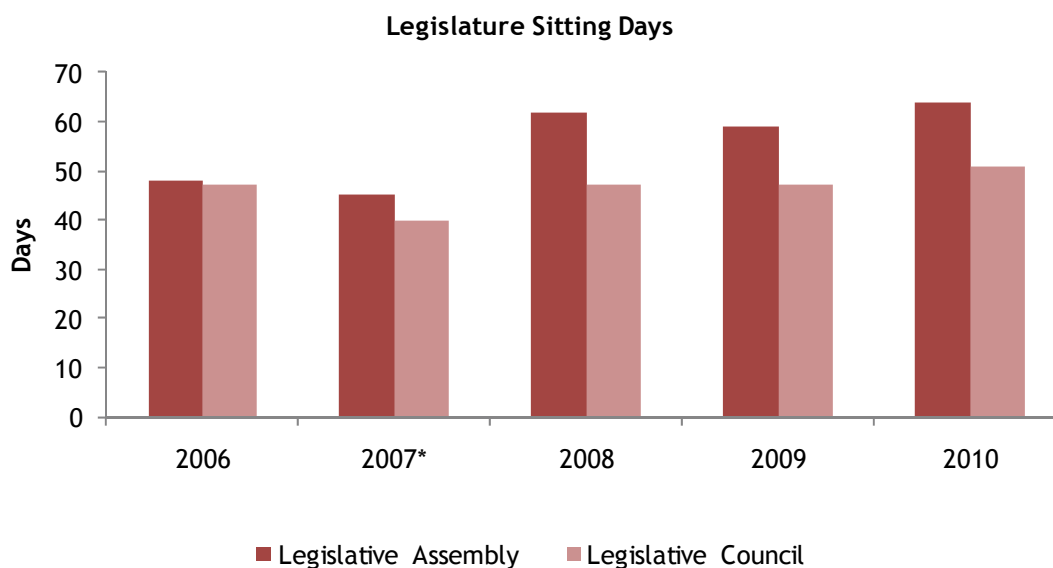
The Legislature

The Legislature

AUDIT OPINION

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

PERFORMANCE INFORMATION



* an election was held in this year.

Year ended 30 June	Legislative Assembly				Legislative Council			
	2010	2009	2008	2007	2010	2009	2008	2007
Sitting days held	64	59	62	45	51	47	47	40
Sitting hours	475	430	469	388	389	361	343	324
Bills								
Introduced	114	103	118	119	<i>na</i>	na	na	na
Initiated in Council	<i>na</i>	na	na	na	35	24	38	11
Received from Assembly	<i>na</i>	na	na	na	107	92	106	103
Passed	101	96	118	105	125	108	128	107
Disposed of/lapsed	15	10	--*	32	2	11	11	1
Questions asked								
On notice (written)	3,869	3,518	3,005	1,545	1,211	1,333	1,849	585
Without notice	517	480	482	384	980	825	908	718

Source: The Legislature (unaudited).

na: not applicable.

* Note: nine bills were rejected at the Agreement in Principle Stage.

Parliamentary sitting days are determined by the Government, with the number of sitting days reflecting the legislative and policy programs of the Government. The Legislative Assembly's sitting days increased by 8.5 per cent from the previous year and exceeded the five year average of 56 days. The Legislative Council's sitting days also exceeded the five year average of 46 days.

The Legislature's activities and costs are linked to the activities of the Parliament. The Legislature views comparisons with other jurisdictions as not meaningful due to structural differences in the method of operations.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Employee related	56,258	53,582
Other expenses	70,442	70,306
OPERATING EXPENSES	126,700	123,888
OPERATING REVENUE	5,435	6,504
Loss on disposal of non-current assets	47	30
NET COST OF SERVICES	121,312	117,414
Government contributions	120,056	117,687
SURPLUS/(DEFICIT)	(1,256)	273
OTHER COMPREHENSIVE INCOME		
Net increase/(decrease) in property, plant and equipment asset revaluation reserve	5,355	(14,627)
TOTAL OTHER COMPREHENSIVE INCOME	5,355	(14,627)
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	4,099	(14,354)

Employee related expenses included salaries and wages of \$42.6 million (\$41.2 million in 2009) and \$4.2 million paid to contract staff (\$3.1 million). Employee related expenses increased due to a rise of four per cent in salaries and wages and unbudgeted redundancy payments and workers compensation insurance premiums.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	4,362	5,155
Non-current assets	184,698	178,932
TOTAL ASSETS	189,060	184,087
Current liabilities	11,312	10,444
Non-current liabilities	50	44
TOTAL LIABILITIES	11,362	10,488
NET ASSETS	177,698	173,599

Non-current assets increased primarily due to a \$5.4 million revaluation of property, plant and equipment.

Abridged Service Group Information

The Legislature's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2010 Budget \$'000	2010 Actual \$'000	2009 Actual \$'000	2010 Actual \$'000	2009 Actual \$'000
Chamber and Committee Support	15,300	16,014	15,498		--
Members' Support	96,941	98,747	95,575		--
Community Access	6,361	6,551	6,341		--
Non-attributable	--	--	--	177,798	173,599
Total all service groups	118,602	121,312	117,414	177,698	173,599

Note: The assets and liabilities of the Legislature are such that they cannot be attributed to specific groups.

LEGISLATURE ACTIVITIES

The Legislature provides the Parliamentary Government for New South Wales. Its main function is to make laws or amend existing laws for the peace, welfare and good government of the State in all matters not specifically reserved for the Australian Parliament. It also has a role in holding Executive Government accountable for its use of taxpayers' moneys, powers and resources.

Under the doctrine of the separation of powers, the Parliament of New South Wales, as the Legislature, is a sovereign body that is distinct from the Executive Government.

The Parliament fulfils its role as a representative and legislative body by ensuring that:

- the two Houses and their committee systems operate effectively to debate and pass legislation and complete inquiries with recommendations to Government
- there is increased awareness of the role and functions of the Parliament including community access to Members and Parliament House.

The Legislature is responsible for providing administrative and support services for parliamentary representation comprising the Members of the Legislative Assembly and the Legislative Council. Support services comprise House Departments and the Department of Parliamentary Services. The Department of Parliamentary Services provides support and ancillary services to members in the use of their entitlements and for the operations of the two Houses and the Parliamentary House building.

For further information on the Legislature, refer to www.parliament.nsw.gov.au.

Section Three

Commentary on Government Agencies

Attorney General

Department of Justice and Attorney General

Legal Aid Commission of New South Wales

NSW Trustee and Guardian

Office of the Director of Public Prosecutions

Public Trustee NSW - Common Fund (2008)

Refer to Appendix 1 for:

Judicial Commission of New South Wales

Legal Profession Admission Board

***Office of the Protective Commissioner - Common Fund
(2008, 2009 & 2010)**

***Public Trustee NSW - Common Fund (2009)**

***NSW Trustee and Guardian - Common Fund (2010)**

*The audit was incomplete at the time of compiling this Volume

The comment will be included in a later Volume

Department of Justice and Attorney General

AUDIT OPINION

The audit of the Department of Justice and Attorney General's financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

KEY ISSUES

Creation of the Department

I recommend the Department completes the integration of policies, operations and systems between its divisions and appoints a Chief Financial Officer to oversee and monitor its financial operations.

The Department of Justice and Attorney General (DJAG) was created effective 1 July 2009 by merging the former Department of Corrective Services (DCS) and the former Attorney General Department (AGD).

To date, there has been limited progress on the integration of policies, operations and systems. For example, the Corrective Services NSW division has a low working capital ratio, which is affecting its ability to pay its creditors on time. The division's poor liquidity cannot be sustained in the longer term and it will need to closely monitor its actual and projected cash position at all times to ensure it can pay its debts as they fall due. The Department has not appointed a Chief Financial Officer to oversee and monitor the financial operations of the Department. Chief Financial Officers from the Attorney General's division and from Corrective Services NSW have continued to provide financial oversight for their respective divisions, and collaborated on achieving overall Departmental financial control and reporting.

The Department was unable to provide information on additional costs associated with the amalgamation, or cost savings expected to be achieved.

Victims Compensation

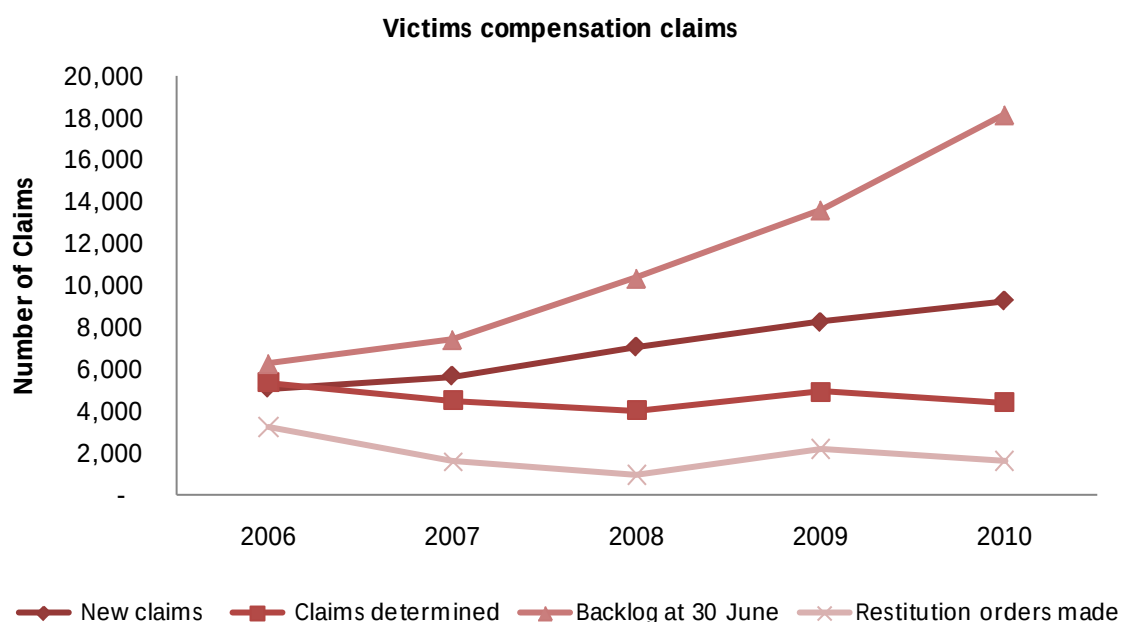
Last year, I recommended the Department seek additional funding from the Consolidated Fund to ensure the backlog of claims is processed in a reasonable timeframe. The Department advised it has instead pursued more sustainable options to fund the scheme, including restructuring the scheme to significantly reduce its operational costs and increase the proportion of funds directly payable to victims of crime.

The Department is also implementing initiatives to increase the scheme's revenue. Levies which are collected from people convicted of a crime and paid into the scheme had previously been doubled and offenders not convicted of an offence that carries a jail term will also be required to pay the levy. Legislation has been enacted to improve the collection of proceeds of crime funds and unexplained wealth. The *Criminal Assets Recovery Amendment (Unexplained Wealth) Act 2010* was assented to on 10 September 2010. This act expands the existing regime for the confiscation of assets derived from criminal activity. The act also requires that half of any proceeds from confiscated assets go into the Victims Compensation Fund. The Department is also currently developing proposals with the State Debt Recovery Office (SDRO) to improve the collection of restitution debt.

The Government also recently announced further changes, including an expansion of support for victims of violent crime who are not eligible for compensation because their injuries do not reach the threshold for compensation.

During the year the Department awarded \$62.6 million (\$63.5 million in 2008-09) in compensation to victims. It recognised only \$4.2 million in restitution from offenders. At 30 June 2010, \$289 million (\$290 million at 30 June 2009) was recorded as restitution debt, but only \$18.7 million (\$18.4 million) was considered likely to be received.

The Department has 18,118 (13,384) pending claims for victims' compensation at 30 June 2010, which it estimates will result in payments of \$222 million (\$155 million). Based on the number of claims determined during 2009-10, this backlog represents more than four years of claims and has tripled since 2006 as shown in the following graph.



Source: The Department of Justice and Attorney General (unaudited).

The number of new claims made each year is increasing while the number determined and paid has remained at similar levels over the last five years. Claims are determined each year to the extent of the budget allocation, and claims in excess of the allocation add to the projected future liability. The budget for 2010-11 is \$68.1 million, which is unlikely to meet the liability for new claims lodged much less reduce the backlog.

The Department advised the average length of time to process a claim, with all relevant evidence provided, is 18 to 24 months. This is because not all claims can be processed until outstanding information is received from other parties or before other matters (such as workers compensation proceedings or clients seeking adjournment) have been resolved.

Victims of violent crime are entitled to receive compensation for injuries, even if the offender is unknown or not convicted. Where offenders are convicted, restitution orders can be raised to recover the compensation paid from the offender. Levies are also collected from people convicted of a crime to assist in funding the compensation.

Restitution

Restitution orders occur in about half the cases where compensation has been awarded, as shown in the graph above. Where offenders are convicted, a debt is raised for the amount of the compensation paid to the victim.

It is difficult to recover restitution from convicted offenders because they are frequently:

- hard to find once released from prison
- from low socio-economic backgrounds with few assets
- serving prison sentences and do not earn much money
- former prisoners, which lowers their employment capacity and income
- unemployed and on social security payments
- living in State housing with dependants that would be affected.

The restitution an offender must pay can be reduced, normally where this will encourage payment of the debt. This has reduced the amounts provisionally ordered by 30 per cent on average.

If an offender defaults, their restitution payment can be enforced under the *Civil Procedure Act 2005*, but this is not always cost effective, except where the Department can register restitution orders against an offender's property.

PERFORMANCE INFORMATION

Attorney General's Division

Clearance Rates

Clearance rates indicate how efficiently and effectively courts are clearing workloads and measures the number of cases finalised as a percentage of the cases registered in the same period. A clearance rate above 100 per cent indicates a court is clearing its backlog of cases, whereas a percentage below 100 per cent indicates the backlog is increasing.

Clearance rates for the NSW Supreme Courts criminal jurisdiction have increased for the third year in a row with clearance rate of 111 per cent. Similarly, the NSW local criminal court has also cleared some of its backlog. It has the second lowest clearance rate when compared with other States and Territories, which is consistent with the prior year.

The backlog of cases is increasing for civil matters in Local and District courts and clearance rates are generally below those of other states. For civil matters the NSW Supreme Court has reduced the backlog of cases and has the third highest clearance rate when compared with other States and Territories.

Year ended 30 June	2009 Clearance Rate							
	NSW %	Vic %	Qld %	WA %	SA %	Tas %	ACT %	NT %
Criminal								
Local/Magistrates courts	100.2	103.3	100.5	103.1	101.6	125.1	100.3	96.1
District/County courts	99.3	96.8	100.3	126.9	85.2	na	na	na
Supreme/Federal courts	111.0	111.8	101.2	99.5	100.0	98.3	86.1	89.5
Civil								
Local/Magistrates courts	91.2	99.4	99.7	88.2	99.5	99.1	124.6	87.8
District/County courts	93.5	91.1	105.0	107.2	94.0	na	na	na
Supreme/Federal courts	104.9	116.9	87.7	87.0	97.7	98.7	93.2	106.2

Source: Productivity Commission's Report on Government Services 2010 (unaudited).
na: not applicable.

Case Completion Times

The backlog measures a court's pending case load against agreed time standards. An indicator of this is the percentage of cases pending for more than twelve months. For criminal non-appeal matters New South Wales performs very well in comparison with other States and Territories. The Supreme Court halved its percentage of cases older than 12 months since 2008 (29.5 per cent).

The civil non-appeal backlog in the Supreme Court of New South Wales was third lowest when compared with other States and Territories. The case-mix in New South Wales includes a greater proportion of complex and time consuming murder and manslaughter cases than other States. The backlog of criminal matters for Local and District Courts has been significantly lower than other States and Territories for the past few years.

The table below shows the percentage of non-appeal pending cases older than 12 months.

Year ended 30 June	2009 Backlog							
	NSW %	Vic %	Qld %	WA %	SA %	Tas %	ACT %	NT %
Criminal								
Local/Magistrates courts	2.6	8.0	14.3	7.2	11.8	20.4	6.0	23.7
District/County courts	6.7	31.5	19.8	10.6	21.4	na	na	na
Supreme/Federal courts	14.9	26.7	12.6	9.7	12.8	9.6	31.1	7.1
Civil								
Local/Magistrates courts	nav	12.7	6.2	4.4	12.5	3.7	13.9	10.2
District/County courts	20.6	24.7	20.6	20.4	41.8	na	na	na
Supreme/Federal courts	25.0	9.8	20.7	30.7	29.5	33.6	44.0	39.4

Source: Productivity Commission's Report on Government Services 2009 (unaudited).
nav: not available.
na: not applicable.

Average Cost per Case Finalised

The net administration costs per matter in NSW Supreme and District Courts were below the national average. The Local Courts' net costs were higher than the national average.

The table below shows the average net cost per finalisation (civil and criminal) in 2008-09 (latest available data).

Court Costs per Finalisation (Average Net Cost per Case Finalised)	2009*		2008	
	NSW (\$)	National Average (\$)	NSW (\$)	National Average (\$)
Local	368	338	338	302
District	4,034	4,981	4,053	4,699
Supreme	3,290	5,515	3,316	5,779
All courts	651	680	676	663

* Source: Productivity Commission's Report on Government Services 2010 (unaudited).
Excludes payroll tax.

Cost Recovery from Court Fees Collected (Civil Courts)

Court fees are not determined on a cost recovery or user pays basis. New South Wales passes on more costs to the users of the courts than other States and Territories.

Year ended 30 June	2009 Civil court fees collected as a proportion of civil recurrent expenditure							
	NSW %	Vic %	Qld %	WA %	SA %	Tas %	ACT %	NT %
Supreme (excludes probate)/Federal court	38.6	30.5	33.0	18.2	25.8	12.9	24.8	4.2
District/County courts	38.6	30.4	32.4	16.6	21.1	na	na	na
Local/Magistrates courts	44.5	32.8	24.8	na	25.6	37.4	5.2	7.6

Source: Productivity Commission's Report on Government Services 2010 (unaudited).
na: not applicable.

Corrective Services NSW

Offender and Imprisonment Rates

The number of persons and length of sentences of offenders managed by Corrective Services NSW is the direct result of the activities of the NSW Police Force and sentencing authorities. They are not performance measures of Corrective Services NSW, but they drive several Corrective Services NSW performance measures.

Year ended 30 June	Rate per 100,000 adult population					
	2009		2008		2007	
	NSW	National	NSW	National	NSW	National
Imprisonment	184.8	165.6	179.5	162.6	178.6	162.0
Periodic detention*	13.9	4.8	13.7	4.8	14.1	--
Community corrections	334.5	341.8	338.7	337.5	342.8	329.4
Included within the above categories are Indigenous adults. The rates within this group are:**						
- Imprisonment	2,391.4	2,211.9	2,350.5	2,156.6	2,329.7	2,142.2
- Community corrections	3,531.5	3,349.8	3,760.9	3,288.2	3,731.5	3,179.6

Source: Productivity Commission's Report on Government Services 2010 (unaudited).

* Only applicable to New South Wales and Australian Capital Territory.

** Rate per 100,000 indigenous adult population.

Indigenous people are significantly over-represented in New South Wales correctional facilities. Of the total prison population at 30 June 2009, 21.6 per cent of male and 29.4 per cent of female offenders were indigenous. Corrective Services NSW is committed to addressing the causes of high indigenous incarceration rates by implementing a number of initiatives to reduce indigenous offending and imprisonment. This includes the Rekindling the Spirit program, the Walking Together Aboriginal Pathways program and the Balun-a (Tabulam) program, which is Australia's first program to divert young Aboriginal offenders from custody. The program requires young offenders to rebuild their community and family relationships.

In New South Wales, the proportion of the adult population imprisoned per 100,000 adults climbed from 2.1 per cent above the national rate in 1997-98 to 11.6 per cent above the national rate in 2008-09.

Safety and Containment

The table below shows assaults by prisoners on other prisoners and officers is reducing in New South Wales. However, the number of escapes in New South Wales doubled in 2009 to 15 (seven).

Year ended 30 June	Rate per 100 offenders					
	2009		2008		2007	
	NSW	National	NSW	National	NSW	National
Type of Assault						
Prisoner on prisoner*:						
Serious assault	0.26	0.68	0.31	0.48	0.49	0.59
Assault	12.83	8.66	13.07	8.52	13.26	8.47
Prisoner on officer*:						
Serious assault†	--	0.03	--	0.02	0.01	0.02
Assault†	0.59	0.53	0.92	0.63	0.71	0.60
Apparent unnatural death	0.04	0.04	0.04	0.03	0.07	0.05
Escapes/absconds rates:						
Open perimeter†	0.31	0.57	0.16	0.51	0.17	0.60
Secure perimeter†	0.06	0.02	0.02	0.09	--	0.03

Source: Productivity Commission's Report on Government Services 2010 (unaudited).

* The Productivity Commission acknowledges that data on assaults are not directly comparable across all states. 'Serious assaults' refer to acts of physical violence resulting in actual bodily harm involving hospitalisation, including sexual assault. Assaults refer to violence resulting in physical injury but not involving hospitalisation.

† Information not available for every jurisdiction.

New South Wales inmates average fewer out of cell hours than many other jurisdictions. However, differences in recording practices make this comparison difficult.

Year ended 30 June	Out of cell hours per day					
	2009		2008		2007	
	NSW	National	NSW	National	NSW	National
Open perimeter†	13.4	14.7	11.9	13.6	12.6	13.5
Secure perimeter†	7.1	9.2	7.2	9.2	7.6	9.5

Source: Productivity Commission's Report on Government Services 2010 (unaudited).

† Information not available for every jurisdiction.

Community Correction Orders

Year ended 30 June	Rate per 100 offenders					
	2009		2008		2007	
	NSW	National	NSW	National	NSW	National
Orders successfully completed:						
Restricted movement*	79.7	78.2	87.5	78.6	82.8	76.4
Reparation	82.3	65.9	81.2	63.1	79.9	66.3
Supervision (compliance)	79.3	73.6	80.2	73.7	81.3	71.4
All orders	80.0	71.2	80.6	70.2	81.0	69.6

Source: Productivity Commission's Report on Government Services 2010 (unaudited).

* Not applicable to all jurisdictions.

In 2008-09, the percentage of restricted movement orders successfully completed fell to 79.7 per 100 offenders. This still remains higher than the national average of 78.2 per 100 offenders. Community correction orders are sentences not involving imprisonment. They comprise:

- restricted movement orders, which subject offenders to a system of restricted movement including supervision or electronic monitoring
- reparation orders, which involve community service orders requiring unpaid work or fine options
- supervision (compliance) orders such as good behaviour bonds and parole orders.

A key effectiveness measure for offenders serving community correction orders is the proportion of orders successfully completed. Corrective Services NSW consistently performs better than the national rate for the successful completion of community correction orders.

Rate of Return to Prison or Community Correction

Rate of return is a broader justice-wide outcome and is not only related to the activities of Corrective Services NSW, but also to police, court and community activities. Rate of return is counted as an individual's return to prison or community corrections following conviction by a court within two years of release from corrective services. It is a partial measure of the performance of the justice system in improving public safety by reducing the incidence of crime. The risk factors for returning to corrective services include criminal history, antisocial behaviour, family factors and social achievement.

The table below shows the percentage of prisoners returning to prison and corrective services within two years of release. The State's rate of return continues to be higher than that of most other Australian jurisdictions.

Year ended 30 June	Per cent					
	2009		2008		2007	
	NSW	National	NSW	National	NSW	National
Per cent of individuals returning to:						
Prison [†]	42.9	39.3	43.0	38.2	43.8	37.5
Corrective services ^{†*}	44.9	44.6	45.2	44.0	46.3	43.6

Source: Productivity Commission's Report on Government Services 2010 (unaudited).

[†] Australian Capital Territory not provided.

* Includes prison sentence or a community based order.

Prisoner Costs

Year ended 30 June	Cost per Offender per Day					
	2009		2008		2007	
	NSW \$	National \$	NSW \$	National \$	NSW \$	National \$
Open prisons* (including periodic detention)	187	191	188	189	187	178
Secure prisons*	217	218	225	214	202	191
All prisons	206	210	211	207	196	187
Community corrections	20	17	12	13	12	13

Source: Productivity Commission's Report on Government Services 2010, 2009 and 2008 (unaudited).

The figures include the cost of offender containment with rehabilitation, reparation and prisoner transport. The costs are adjusted to eliminate jurisdictional differences.

* Information not available for the Northern Territory.

While the cost per offender per day reduced to \$205.94 in 2009, the cost per offender in community corrections increased by 63.1 per cent to \$20.23. Corrective Services NSW advised this was due to the introduction of new community based services and operations, including an increase in staffing and support services.

Offenders in custody compared to capacity of Correctional Centres

The average daily number of offenders in custody increased from 9,634 in 2007-08 to 10,068 in 2009-10. This increase is affecting Corrective Service's ability to accommodate offenders in its centres, though the increase of beds mentioned above will ease the pressure. The occupancy rate at the end of June was 93.2 per cent (96.6), which whilst high, is within its optimal operating level. The table below shows the number of offenders at each level of security facilities.

At 30 June Correctional Centre	Offenders in custody 2010*	Capacity 2010*	Offenders in custody 2009**	Capacity 2009**
Maximum Security Facilities	3,673	4,001	3,901	4,055
Medium Security Facilities	2,919	3,088	2,786	2,879
Minimum Security Facilities	3,666	3,922	3,628	3,745
Total	10,258	11,011	10,315	10,679

Source: Corrective Services NSW (unaudited).

* at midnight 27 June 2010

** at midnight 28 June 2009

OTHER INFORMATION

Major Projects

JusticeLink project costs and implementation

JusticeLink has been a long term information technology project that has suffered delays and required increases in its budget. During 2010, the following components of JusticeLink were implemented:

- Local Court Criminal in August 2009
- Supreme Court Civil in December 2009
- District Court Civil in April 2010
- JusticeLink eServices in May 2010
- Local Court Civil in June 2010.

The Department advised that the JusticeLink project was completed during June 2010 costing \$54.5 million, including many enhancements to the original project. All components are now operating within the business. When originally commissioned the project was limited to the superior courts of the State. Subsequent approvals extended this to lower courts and included related services. Budget increases were approved for these changes. During the course of the JusticeLink project many enhancements were required to reflect changes to legislation, new business practices and the results of various business re-engineering initiatives. These types of changes will be an on-going requirement for the enhancement and maintenance of the system applications.

The Department has advised that in addition to the budget of \$48.2 million, an additional \$6.3 million has been spent from its minor works capital appropriations for further enhancements that were outside the scope of the project. A number of maintenance releases will also be delivered during 2010-11.

I have been reporting information on JusticeLink for a number of years. The Department has advised that it considers the differences in scope and design between the original Courtlink project from 2001 and the JusticeLink project from 2006 are so significant that the projects costs and budgets should be separated. However as these projects are related I have included a summary of the projected completion dates and costs of the project(s) in the table below.

Year	JusticeLink major works budget forecasts						
	2001	2005	2006	2007	2008	2009	2010
Expected Completion	2006	2007	2007	2008	2009	2010	2010
Capital cost of Project to date (\$m)	ns	28.7	33.5	ns	43.5	45.6	48.2
Total Expected Cost (\$m)	30.3	41.5	44.8	48.2	48.2	48.2	48.2

Source: 2005 to 2009 Auditor-General's Reports to Parliament and information provided by the Department for 2010 (unaudited).
ns: not stated

Year	Enhancements (from minor works appropriation)		
	2008	2009	2010
Expected Completion	2009	2010	Completed
Capital cost of Original Project to date (\$m)	3.2	3.1	6.3
Total Expected Cost (\$m)	3.2	3.1	6.3

Source: Information provided by the Department for 2010 (unaudited).

The Department advised that the main reasons for the delays, revisions and budget increases were due to:

- the original package, as tendered by the supplier, not being able to satisfy the Department's requirements
- the complexity and design requirements of the New South Wales Court system
- the design specifications not being sufficiently clear and well defined
- the Department's needs changing in response to new legislation, re-engineering of processes, and the emerging needs of other agencies to link with JusticeLink.

According to the Department, JusticeLink provides the following benefits:

- it is a single case management system for all jurisdictions that register cases, lodges court documents, schedules and list matters and records outcomes. It replaces many internal computer systems, some of which were over 20 years old
- it streamlines court processes and allows files and data to be transferred securely and seamlessly between the court, the registry and other jurisdictions
- it provides the platform to deliver eServices to court users and expand the electronic exchange of information between justice agencies.

The implementation of the final modules of JusticeLink in 2009-10 created issues for the Department including:

- The inability to automatically refer debts to the State Debt Recovery Office (SDRO) for collection once an initial collection period has passed. This resulted from unresolved interface issues between the Department and SDRO. At 30 June 2010, approximately \$31.4 million of debts greater than 90 days were not referred to the SDRO in a timely manner.

The Department advised that since 30 June 2010, \$9.5 million of the previously outstanding \$31.4 million has been referred to the SDRO. A large part of the debt noted above relates to debts excluded from automatic enforcement due to data quality issues in the migration of data from the old system into JusticeLink. A court registrar has been dedicated to the task and has developed a data augmentation and cleansing plan. This process is underway and will eliminate any backlog over the next four months.

- The Department's bank reconciliations were also affected by changed procedures for JusticeLink. A significant number of ledger and bank entries could not be matched in a timely manner. The Department is addressing these issues and a number have already been resolved.

New IT Projects

LifeLink

The focus of this project is to replace the registry system at the Registry of Births, Deaths and Marriages (the Registry). The project commenced in 2006 and was expected to cost \$8.2 million and to be completed by 2008. The Department advised the total expected cost is now \$20.2 million, including \$8.8 million already spent on phase one and another \$11.4 million expected to be spent on phase two.

The Registry terminated its contract with the initial supplier of the LifeLink project during November 2009 for failure to deliver its milestones on time. A dispute resolution process following the termination recently found that the Department was entitled to damages of \$2.6 million. Upon termination, some of the components of LifeLink were incomplete. The Registry has selected a new supplier to complete the remainder of the project, including phase two.

Based on the information provided by the Registry the project is now expected to be completed by March 2012.

The table below provides the details of the expected costs of the project. The Department has assessed that the benefits from this project will significantly exceed the costs.

Year	LifeLink project expected costs and benefits						
	Phase 1	Phase 2		Ongoing maintenance			
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Total Cost (to date for 2009-10 and expected cost 2010-16) (\$m)	8.8	7.8	3.7	0.5	0.5	0.5	0.5

Source: Registry of Births Deaths and Marriages LifeLink Program August 2010 Business Case (unaudited)

Joined Up Justice

This project will enable New South Wales courts to expand and improve the electronic exchange of information with other organisations. The Department advised the total expected cost of the project remains at \$9.9 million with \$3.0 million spent during 2009-10. The project is expected to be completed in June 2012 and it is tracking on target without major delays.

Legal eServices

This two year project will reduce waiting times in courts and provide secure internet access to information only available in courts. The Department advised the total expected cost of the project remains at \$10.0 million. The Department has spent \$3.1 million in 2009-10 and expects to complete the project in December 2011 on target and without major delays.

Major Capital Projects

To accommodate the growing inmate population, Corrective Services NSW:

- continued work on the 250-bed expansion of Cessnock Correctional Centre during 2009-10. Completion is expected in 2012
- continued work on a new 600-bed multi-classification facility on the South Coast. Commissioning is scheduled for December 2010
- completed the new \$5.0 million Visits Centre at Silverwater Women's Correctional Centre. This was the final stage of the six-year \$53.0 million upgrade of the maximum security facility.

The 'Way Forward' strategies and achievements

Corrective Services had implemented most components of its 'Way Forward' workplace reform program at 30 June 2010. The main objective of the program is to improve custodial safety, security and cost-effectiveness. Corrective Services NSW advised the program is achieving savings in line with forward estimates. Recent key achievements under the 'Way Forward' program include:

- implementing the casual correctional officers strategy to most correctional centres (December 2008)
- introducing a new absenteeism policy (January 2009)
- implementing the Way Forward management plans to all traditional correctional centres (August 2009)
- outsourcing the operations of Parklea Correctional Centre (November 2009)
- centralising all custodial and industrial staff rostering with the transfer of Court Escort Security Units rosters (November 2009)
- introducing casual correctional officers to Court Escort Security Units (December 2009).

Property, Plant and Equipment

In previous years, I reported that the level of detail in asset records did not facilitate efficient and effective management and stewardship of Corrective Services NSW assets. While acknowledging that ancillary procedures exist, some of these procedures are not operating as intended, such as the annual stocktake process. Management advised a comprehensive review and update of the asset records has started, which it expects to complete by 31 December 2010.

Human Resources

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

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- management of excessive flex leave balances
- extent of overtime
- extent of contract staff.

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

Workforce Ageing

The Department has 25 per cent of its employees over 55 years of age and 40 per cent of its employees over 50. This represents a large number of employees who are likely to retire over the next five to ten years. This potential loss of knowledge and skills is a risk for the Department.

As at 30 June	2010		2009	
Age Group	No. Of Employees	%	No. Of Employees	%
Up to 49	7,362	60	7,272	58
50-54	1,813	15	1,827	15
55-59	1,636	13	1,704	14
60-64	954	8	995	8
65+	546	4	648	5
Total	12,310	100	12,446	100

Source: Information provided by Department of Justice and Attorney General (Unaudited).
Includes staff of agencies for which the Department is technically the employer.

The graph below further demonstrates the age profile of employees.



Source: Information provided by Department of Justice & Attorney General (Unaudited)

Corrective Services NSW advises that a career development program has been established to assist with succession planning. This 18 month program is designed to equip staff with the necessary leadership capabilities and experience to assume leadership positions within the organisation. Additionally Corrective Services NSW has established entry level recruitment campaigns and the JumpSTART cadetship program to address ageing workforce concerns.

Annual Leave Balances

I recommend the Department review the effectiveness of its policies for managing excessive annual leave balances.

Managing excessive annual leave balances remains a challenge for the Department. While it appears the Department is actively managing this issue, there are still a high number of officers who have excessive leave balances at 30 June 2010.

Corrective Services NSW had 2,326 employees (2,580 employees) with more than 40 days of accrued annual leave. The following table shows the breakdown of entitlements for Custodial and Non-Custodial Staff.

Entitlement (days)	Custodial Staff		Non-Custodial Staff	
	2010 No of Personnel	2009 No of Personnel	2010 No of Personnel	2009 No of Personnel
Annual Leave				
> 120	27	77	3	9
91 – 120	92	183	15	19
61 – 90	474	726	61	110
41 – 60	1,203	1,042	451	414
Total	1,796	2,028	530	552
TOTAL EMPLOYEES	4,125	4,265	2,900	2,594

Source: Corrective Services NSW (unaudited)

At the Attorney General's Division 12 people (0.23 per cent) out of its total workforce of 5,285 people had annual leave balances in excess of 80 days. There were 294 people (5.5 per cent) with annual leave balances in excess of 40 days.

Excess leave balances can adversely affect an organisation. Liabilities for annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave. The highest employee leave balance at Corrective Service is 238 days and 158 days at Attorney General.

Corrective Services NSW advises they have the following established strategies to reduce excess annual leave entitlements:

- issue of Commissioner's Memorandums advising managers and staff to commit to reducing annual leave to below permissible maximum
- fortnightly reports are produced for all managers to identify employees with excessive annual leave balances
- 'Excess Recreation leave' letters are automatically produced after the pay run which are forwarded to employees
- Recreation Leave balances are printed on fortnightly payslips to inform employees of their current balance and facilitate leave planning.

The Attorney General's Division advises the following strategies have been implemented during the year to address excessive annual leave balances:

- regular reports are provided to business centre managers (BCMs) about staff with recreational leave balances above 30 days
- periodic correspondence is sent to BCMs highlighting staff with excess leave and setting out strategies for reducing leave with the award requirements. This includes advising that staff should not have flex leave approved when they have excess recreation leave
- a two week close down over Christmas and New Year is imposed in non-essential services.

Flex Leave

Employees can take up 18 days of flex leave per year per the Attorney General's Division's flexible working agreement. Employees can accrue a maximum of 35 hours of flex leave in a year, which can be rolled forward into the following year, if the leave is not taken. If employees exceed the maximum accrual, additional hours are forfeited. The employees are paid out their flex leave to a maximum of 10 hours when they leave the Department.

The Department has an internal control system that ensures leave taken is correctly recorded in the HR system. The BCMs are required to reconcile flex leave taken against payroll records on a regular basis.

For Corrective Services NSW, non-custodial employees can take up to 26 days of flex leave a year and can accrue and rollover a maximum of 35 hours flex from one settlement period to another. If employees exceed the maximum accrual, any additional hours are forfeited.

Overtime

Corrective Services NSW should continue its efforts in reducing overtime work and continuously reassess the effectiveness of its policies.

Corrective Services NSW incurred overtime costs during 2009-10 of \$32.8 million (\$40.7 million), representing 4.6 per cent (5.8 per cent) of total employee related expenses. Some of the initiatives implemented under the 'Way Forward' program, such as the use of casual officers instead of offering overtime, have contributed to the decrease. While overtime has reduced across the organisation, 114 employees (232 employees) received overtime payments equal to or exceeding 50 per cent of their base pay. The number of employees and overtime paid as a percentage of base pay are as follows:

Year ended 30 June	2010		2009		2008	
Overtime paid as a percentage of base pay	Number of employees paid overtime	Overtime paid \$'000	Number of employees paid overtime	Overtime paid \$'000	Number of employees paid overtime	Overtime paid \$'000
> 100%	5	398	15	882	11	626
90% - 100%	3	184	6	287	4	203
80% - 89%	7	357	15	651	13	557
70% - 79%	11	488	22	870	12	472
60% - 69%	25	996	54	1,874	41	1,424
50% - 59%	63	2,117	120	3,523	98	2,835
40% - 49%	102	2,828	205	4,855	219	5,235
30% - 39%	227	4,833	376	7,008	460	8,428
20% - 29%	484	7,322	643	8,467	702	9,197
10% - 19%	810	7,248	936	7,451	930	7,339
>0% - 9%	2,654	6,041	2,141	4,825	1,615	3,288
Total	4,221	32,812	4,533	40,693	4,105	39,604

Source: Corrective Services NSW (unaudited)

The review identified the most overtime paid to an individual employee during the year was \$95,436 (\$77,380).

Employment of Contractors

I recommend the Department create and maintain a single record of all contractors engaged by it.

The Department should also periodically review the roles and responsibilities of all its contractors to ensure:

- its reliance on contractors is not excessive
 - use of contractors instead of permanent employees is appropriate
 - contractors do not become de facto employees by virtue of being with the Department for an extended period of time
- use of contractors continues to represent value for money.

The Attorney General's Division does not maintain a central registry for all contractors it has engaged during the year and cannot provide the following information at 30 June 2010:

- the number of contractors engaged
- the period of service of contractors engaged
- top three highest contractor payments made during the year.

However, the Division advises total contractor payments reduced from \$15.9 million in 2009 to \$9.4 million in 2010. This resulted from the mini-budget and salary wage gap savings implementation initiatives. All applications for hiring contractors are subject to and approval by the Director General.

Corrective Services NSW advises it maintains a central registry for all contractors engaged during the year; however, this is not reviewed regularly. At 30 June 2010, Corrective Services NSW had 445 contractors filling vacant positions, working on projects or completing short term work assignments. Of the 445 contractors, 33 had been employed for more than six years. The number of contractors and their employment duration is shown in the table below.

Year end 30 June	Number of contractors*	
	2010	2009
Duration since current hire contract start date		
Over 6 years	33	34
5 - 6 years	5	6
4 - 5 years	11	13
3 - 4 years	12	15
2 - 3 years	9	25
1 - 2 years	241	60
less than 1 year	134	321
Total	445	474

*Within Corrective Services NSW, the term contractor is used to identify a wide variety of individuals who provide a service. Whilst most are short term contractors others such as private security provide services over many years.

Source: Corrective Services NSW (unaudited)

While the use of contractors has its benefits, particularly on projects, extensive reliance on this employment source may result in higher employment costs and less ownership and commitment to organisational goals and objectives.

FINANCIAL INFORMATION

The Department, as a reporting entity, was created on 1 July 2009 and therefore no comparative financial information is provided.

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000
Employee related	1,188,426
Compensation to victims of crime	62,650
Other expenses	577,070
OPERATING EXPENSES	1,828,146
OPERATING REVENUE	295,375
Other losses	6,301
NET COST OF SERVICES	1,539,072
Government contributions	1,542,348
SURPLUS	3,276
OTHER COMPREHENSIVE INCOME	
Increase in revaluation reserve	48,399
Superannuation actuarial loss	(10,030)
TOTAL OTHER COMPREHENSIVE INCOME	38,369
TOTAL COMPREHENSIVE INCOME	41,645

During the year, Corrective Services NSW spent \$3.6 million of capital appropriation for recurrent purposes. Corrective Services NSW advises this resulted from unavoidable cost overruns, which it will redress in 2010-11.

Abridged Statement of Financial Position

At 30 June	2010 \$'000
Current assets	149,278
Non-current assets	3,175,092
TOTAL ASSETS	3,324,370
Current liabilities	343,951
Non-current liabilities	151,538
TOTAL LIABILITIES	495,269
NET ASSETS	2,829,101

Abridged Service Group Information

The net cost of services on a service group basis is detailed below:

Year end 30 June	Net Cost of Services		Net Assets
	2010 Budget \$'000	2010 Actual \$'000	2010 Actual \$'000
Legal, Policy and Regulatory Services	39,125	31,651	19,815
Court Services	271,913	284,021	1,059,745
Court Support Services	84,701	85,154	52,653
Crime Prevention and Community Services	99,155	91,968	14,055
Registry of Births, Deaths and Marriages	(8,535)	(5,745)	6,804
Crown Solicitors Office	24,943	42,212	12,206
Business and Personnel Services	841	(6,185)	(117)
Custody Management	660,247	733,496	1,593,957
Supervision of Offenders in the Community	115,037	144,701	45,033
Offenders Program	134,520	137,800	2,896
Not Attributable	--	--	22,054
Total	1,421,947	1,539,072	2,829,101

Note: The Budget figures above exclude transfer payments of \$7.3 million

The Department's expenditure for core funded legal work exceeded budget by \$17.3 million due to an increase in demand by agencies for this activity. Core funded legal work is legal work delivered by the Department's Crown Solicitor's Office for New South Wales government agencies. The Department received supplementation of \$17.2 million to fund this increase in legal fees and disbursements. The largest contributors to this increase were child protection and coronial matters.

Business and Personnel Services achieved a net cost of services \$7.0 million better than budgeted due to a change in accounting treatment of actuarial losses on superannuation.

Net Cost of Services for Custody Management exceeded budget due to increased hiring of casual staff. During the year, 401 casual correctional officers were recruited and their training costs were not budgeted for. Of these officers, 173 were employed after the Budget papers had been formulated. Treasury has also funded only 2.5 per cent of the wage increases over the last two years.

DEPARTMENT ACTIVITIES

The Department of Justice and Attorney General delivers legal, court and custodial and community supervision services to the people of New South Wales by:

- managing courts and justice services to resolve civil and criminal matters
- promoting social harmony through programs to reduce crime and re-offending, and to protect rights and community standards
- managing correctional services in centres and in the community and
- advising on law reform, legal representation and legal matters.

The Department comprises two divisions: the Attorney General's Division and Corrective Services NSW. The Attorney General's Division manages and supports the State's court registries and legal jurisdictions, implements crime prevention programs and supports victims of crime. It also provides research data and legal and policy advice to the New South Wales Government and the community.

Corrective Services NSW provides custodial and community-based correctional services, conducts programs and services that reduce the risk of re-offending, prepares offender reports to assist sentencing and releasing authorities, and supplies prisoner security services at a number of courts.

Department services also include those provided by the Registry of Births, Deaths and Marriages and the Crown Solicitor's Office.

The Department supports the Attorney General as the Crown's First Law Officer.

For further information on the Department of Justice and Attorney General, refer to www.lawlink.nsw.gov.au.

Legal Aid Commission of New South Wales

AUDIT OPINION

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

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

PERFORMANCE INFORMATION

Applications for Legal Aid

The table below shows applications for legal aid that were refused as a percentage of the total decisions made.

Year ended 30 June	Percentage of Applications Refused*					
	2010	2009	2008	2007	2006	2005
Criminal law program	11.3	8.5	6.2	6.6	7.2	7.3
Family law program	24.2	27.3	22.7	21.5	24.0	27.2
Civil law program	42.4	41.6	35.1	36.4	37.5	42.1

* The introduction of new grant and case management systems during 2008-09 improved the Commission's recording and reporting capabilities. Consequently comparisons from 2008-09 onwards with previous years may not be valid.
Source: Legal Aid Commission of New South Wales (unaudited).

The Commission advised that it changed its methodology for classifying case applications from 1 July 2009, resulting in fewer applications meeting the criteria for legal aid case grants. Because of this, criminal law case refusals (as a percentage of decisions made) increased significantly to 11.3 per cent (8.5 per cent in 2008-09). The Commission advised this increase does not reflect movements in actual workloads or decision patterns.

Client Services

The Commission provides services such as case grants, duty appearances, legal advice, information services and community legal education. It works in partnership with private practitioners who receive funding from the Commission to represent legally aided clients. The percentage of total case and duty services provided by private solicitors in 2009-10 was 44.3 per cent (43.8 per cent). The table below shows total client services by law type over the past five years.

Year ended 30 June	Year ended 30 June				
	2010	2009	2008	2007	2006
Criminal law program	408,500	375,399	296,217	265,660	227,698
Family law program	181,974	185,858	160,865	163,329	131,727
Civil law program	210,882	216,571	184,802	162,736	142,483
Total	801,356	777,828	641,884	591,725	501,908

* Excludes community legal education.
Source: Legal Aid Commission of New South Wales (unaudited).

The increase in overall services delivered during 2009-10 was primarily due to greater demand for criminal law duty, advice and information services. The actual net cost of services for the criminal law program was \$67.5 million (\$64.7 million).

The decline in family and civil law service volumes was largely due to less demand for information and duty services. This was partly offset by an increase in advice and minor assistance services. As information is the least resource-intensive service provided by the Commission, it is subject to the most volatility.

OTHER INFORMATION

I identified opportunities for the Commission to improve its accounting and internal control procedures and have reported them to management.

Human Resources

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

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies
- management of excessive flex leave balances
- extent of overtime
- extent of contract staff.

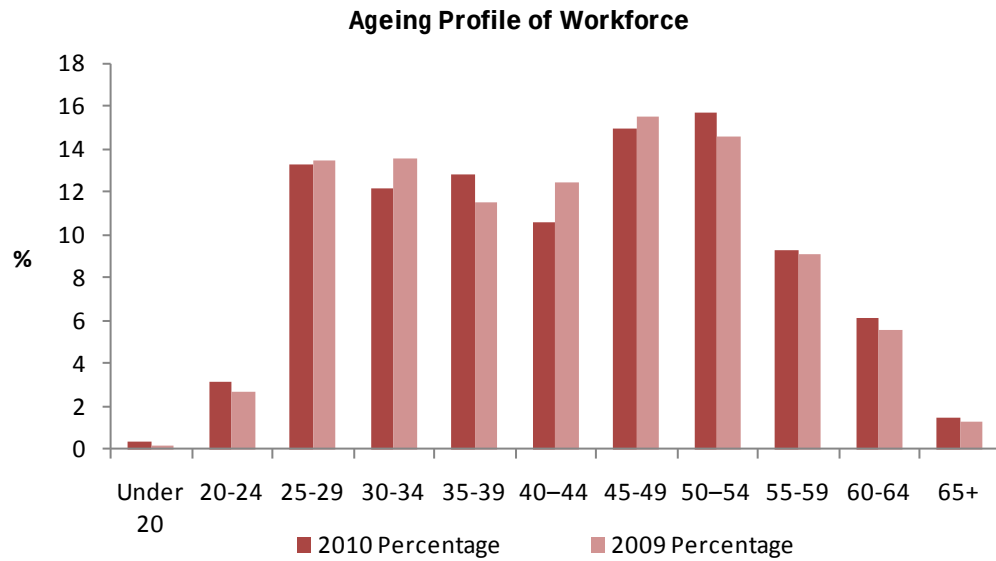
Issues identified from my review will be reported in a management letter to the Commission. A summary of the results of my review follows.

Workforce Ageing

I recommend the Commission develop strategies to manage its ageing workforce.

The Commission is facing challenges from the potential loss of a large number of retiring employees. At 30 June 2010, 32.5 per cent per cent (30.6 per cent) of its employees are 50 years of age or older. This potential loss of knowledge and skills is a risk for the Commission.

The Commission advised it does not have any specific strategies in place to manage the risks associated with an ageing workforce. The age profile of the Commission's employees is shown below:

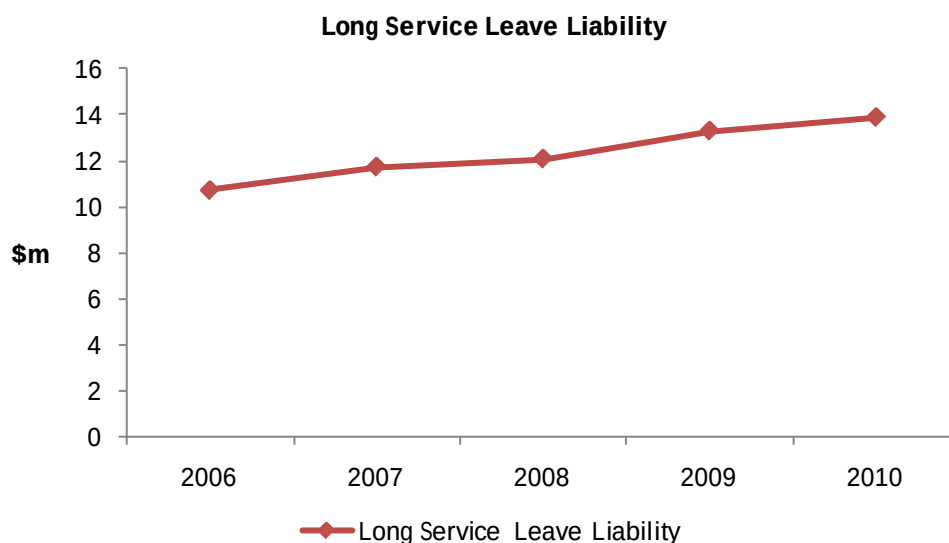


At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
Up to 34	241	29.1	247	30.0
35-39	106	12.8	95	11.5
40-44	88	10.6	102	12.4
45-49	124	15.0	128	15.5
50-54	130	15.7	121	14.6
55-59	77	9.3	75	9.1
60-64	50	6.1	46	5.6
65+	13	1.4	11	1.3
Total	829	100.0	825	100.0

Source: Legal Aid Commission of NSW (unaudited).

Long Service Leave Liability

The Commission's liability for long service leave entitlements at 30 June 2010 was \$13.9 million (\$13.3 million). This liability has increased by 30.0 per cent over the last five years.



Although the Commission has a good working capital ratio, it will need to ensure it has an adequate plan to fund these liabilities, which generally increase over time with increases in employee remuneration levels. The Commission advised that its annual budgets are set with a view of maintaining sufficient funds to cover employee entitlements at all times.

Annual Leave Balances

The Commission actively manages employees with excessive annual leave balances. The number of employees with annual leave balances in excess of 40 days at 30 June 2010 has remained steady at 67 employees. This represents 8.0 per cent of total employees at 30 June 2010.

The Commission advised that leave balances are monitored regularly. Employees with excessive balances are issued with a formal letter requesting them to submit a plan to reduce their balances to an acceptable level.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

Overtime

Overtime payments in 2009-10 amounted to \$443,190 (\$457,039), around one per cent of the base salary expense for the year. Sixteen per cent (20 per cent) of the Commission's employees worked overtime and on average received \$3,099 (\$2,484) in overtime payments. The highest amount paid to a single employee in 2009-10 was \$42,601 (\$36,340).

The Commission advised most overtime relates to legal services provided to weekend bail courts.

Flex Time Balances

I recommend the Commission develops mechanisms to centrally review flex time records to ensure excessive flex time is not being accrued and forfeited by employees.

The Commission does not know the extent of flex time being accrued and forfeited by employees, as it does not record this information centrally. Records are decentralised and manually maintained by each branch.

The Commission advised employees can take up to 26 days of flex leave a year and can accrue and rollover a maximum of 45 hours flex leave from one settlement period to another. If employees exceed the maximum accrual, any additional hours are forfeited.

FINANCIAL INFORMATION**Abridged Statement of Comprehensive Income**

Year ended 30 June	Consolidated		Commission	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	77,903	75,674	186	890
Personnel services	--	--	82,608	95,043
Grants and subsidies	23,596	21,902	23,596	21,902
Other expenses	116,190	118,352	116,190	118,352
OPERATING EXPENSES	217,689	215,928	222,580	236,187
Sale of goods and services				
- Commonwealth Government funding	--	36,505	--	36,505
- Other	3,944	4,097	3,944	4,097
Grants and contributions:				
- Law Society of New South Wales	43,109	43,431	43,109	43,431
- Commonwealth Government	8,772	9,733	8,772	9,733
- Other	1,036	890	1,036	890
Other revenue	5,298	5,719	5,298	5,719
OPERATING REVENUE	62,159	100,375	62,159	100,375
Loss on disposal of non-current assets	18	6	18	6
NET COST OF SERVICES	155,548	115,559	160,439	135,818
State Government contributions	152,939	108,979	152,939	108,979
DEFICIT	(2,609)	(6,580)	(7,500)	(26,839)
OTHER COMPREHENSIVE INCOME				
Superannuation actuarial losses	4,891	20,259	--	--
TOTAL COMPREHENSIVE EXPENSE	(7,500)	(26,839)	(7,500)	(26,839)

The funding arrangement with the Australian Government changed in April 2010. This funding now goes to The Treasury and the Commission receives it as State Government contributions. This explains the increase in State Government contributions.

Superannuation actuarial losses were lower this year as a result of improvements in financial markets.

Abridged Statement of Financial Position

At 30 June	Consolidated		Commission	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	81,433	88,268	81,433	88,268
Non-current assets	17,465	17,391	17,465	17,391
TOTAL ASSETS	98,898	105,659	98,898	105,659
Current liabilities	59,254	58,117	59,254	58,117
Non-current liabilities	3,644	4,042	3,644	4,042
TOTAL LIABILITIES	62,898	62,159	62,898	62,159
NET ASSETS	36,000	43,500	36,000	43,500

The decrease in current assets reflects a lower level of cash held at year end, mainly due to higher than budgeted expenses, which were funded using the Commission's cash reserves.

Abridged Service Group Information

The Commission's net cost of services and net assets on a service group basis is detailed below.

Year ended 30 June	Net Cost of Services			Net Assets	
	2010 Budget \$'000	2010 Actual \$'000	2009 Actual \$'000	2010 Actual \$'000	2009 Actual \$'000
Family law	56,902	61,333	29,871	19,714	13,910
Criminal law	59,562	67,464	64,739	14,653	26,475
Civil law	13,583	12,966	9,849	1,271	1,944
Community partnerships	13,450	13,785	11,100	362	1,171
Total all service groups	143,497	155,548	115,559	36,000	43,500

The primary reason for the actual net cost of services exceeding the budget amount relates to a change in the funding arrangements with the Australian Government where funds are now received as an appropriation rather than as grant income. The Commission advised Family Law cases and in-house duty services for Indigenous people increased to 12.2 per cent (9.8 per cent), while Criminal Law services increased by 8.8 per cent compared to 2008-09.

COMMISSION ACTIVITIES

The Commission is primarily responsible for providing legal aid and other legal services in accordance with the *Legal Aid Commission Act 1979*. Legal aid services are provided by the Commission's officers or by private legal practitioners. A means test applies to most applications for assistance while some are also subject to a legal merit test. A legally assisted person may be required to make an initial contribution towards the Commission's costs and, if successful in a civil action, to meet the balance of any costs from moneys recovered.

For further information on the Commission, refer to www.legalaid.nsw.gov.au.

CONTROLLED ENTITIES

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

Entity Name	Website
Legal Aid Commission Temporary Staff Division	*
Office of the Legal Aid Commission	*

* This entity does not have a website.

NSW Trustee and Guardian

AUDIT OPINION

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

KEY ISSUES

Merger of the Public Trustee NSW and the Office of the Protective Commissioner

I recommend the NSW Trustee and Guardian develop performance indicators and targets to:

- measure the benefits of the merger, and
- monitor the progress, costs and timeliness of implementing the new information technology systems to replace the existing Trust Estate and Asset Management System and the Client Information System.

Last year, I reported that under the *NSW Trustee and Guardian Act 2009* (the Act), the Public Trustee NSW was merged with the Office of the Protective Commissioner and became known as the NSW Trustee and Guardian (NSWTG) from 1 July 2009. The legislation abolished the Public Trustee NSW and the Office of Protective Commissioner and their assets and liabilities were transferred to the NSWTG on 1 July 2009.

Management advised that the merger has largely progressed as planned. Some projects are incomplete, including:

- one financial system
- some information technology infrastructure
- new service models.

Discussion with management also identified that key performance indicators were not set before or after the merger; and planned activities of the merger were not quantified.

The Parliamentary second reading speech on the NSW Trustee & Guardian Bill suggested that NSWTG would continue to deliver the full range of services previously provided by the two former organisations. A key priority for the NSWTG is to enhance the provision of disability support services. The NSWTG will do this by using the extensive branch network the former Public Trustee had in place across New South Wales.

Use of Interest Suspense Account

I recommend the NSW Trustee and Guardian finalise the distribution of the Interest Suspense Account before 30 June 2011.

In my two prior reports, I recommended the former Public Trustee, in conjunction with The Treasury, amend the legislation governing the Interest Suspense Account to clarify the Public Trustee's rights and obligations relating to the funds held in this Account. Since July 2009, the Act has clarified how the Interest Suspense Account can be used. At 30 June 2010, funds of \$64.2 million (\$67.5 million in 2009) had accumulated in the Account.

Under the Act, the NSW TG must determine by 30 June 2011, the amount of interest that should be allocated from the suspense account to:

- the Reserve Fund for the purposes of that Fund
- the existing common funds
- the amount required for the current and future costs incurred by the NSW Trustee in the exercise of its functions under this Act.

Despite the fact that the above determinations had not yet been completed, the NSW TG used \$3.3 million from the Interest Suspense Account to fund its operating costs in 2009-10. NSW TG management confirmed its use of the Interest Suspense Account to fund the NSW TG's operations in 2009-10 was acceptable because such use is consistent with the intention of the Act. In the Parliamentary second reading speech, the Attorney General stated that NSW TG will be able to access the surplus funds held in the Interest Suspense Account to pay the costs it incurs in exercising its functions under the Act.

Estate Beneficiary Identification Process

I recommend NSW Trustee and Guardian implement appropriate measures and processes to facilitate identification of next of kin for intestate estates within reasonable periods of time.

I received a copy of the New South Wales Supreme Court's decision dated 25 June 2010 on the protracted court case against the Public Trustee. The decision orders the defendant (the Public Trustee) to pay the plaintiff the sum of \$43,034 representing one-eighth of the deceased estate of the plaintiff's grandaunt including interest, plus \$50,000 for exemplary damages.

The judgment found, among others, that:

- the Public Trustee for a period of more than 40 years failed to carry out its statutory obligation to administer the estate of the deceased and to distribute the assets of the estate for the benefit of those persons entitled thereto
- the Public Trustee failed to maintain and to safeguard the assets of the estate. The Public Trustee no longer holds those assets and there is no evidence that it transferred those assets to The Treasury, or that The Treasury received those assets
- the time of the alleged transfer of funds to The Treasury, the Public Trustee still had a statutory duty to administer and distribute the estate. If it was unsure of the identity of the persons entitled upon intestacy, a next of kin enquiry or an application for judicial advice should have been requested from the Supreme Court. No explanation has been offered as to why this was not done
- it was not the obligation of potential beneficiaries to produce evidence (in this case, the certificate of marriage of the parents of the deceased) that they are entitled to the estate. It was the obligation of the Public Trustee to discharge its duty to ascertain who should receive the intestate estate of the deceased
- if the Public Trustee in fact transferred the assets of the estate from out of its control (be it to The Treasury or to any other entity), that action was totally unnecessary. The transfer to The Treasury alone would constitute negligence as there were still living at that time persons who were entitled upon intestacy. Additionally, the lack of supporting documents for the transfer indicates the Public Trustee did not exercise due care and diligence expected from a Trustee
- superior officers in the Public Trustee for the last 32 years have attempted to defend the improper decision to deny the plaintiff a share of the estate. 'Intransigent and arrogant attitude' has been manifested within the Public Trustee and its staff
- the plaintiff had contacted a number of agencies, including the NSW Ombudsman. Based on the Ombudsman's letter dated 27 January 2005, it would appear that the Public Trustee had misled the NSW Ombudsman by informing him that the plaintiff is 'not a beneficiary'. This information was well after the Public Trustee's letters to the plaintiff of 15 May 2002 and 19 December 2003, which had the effect of acknowledging the plaintiff's status as a beneficiary.

In response, the current Chief Executive Officer (CEO) of NSW TG stated among others:

- the exemplary damages could have been appealed and Senior Counsel advised it would be highly likely to be successful
- decided not to appeal as the cost may outweigh any benefit of the outcome and in recognition that the plaintiff was self-represented
- given that, the deceased left no spouse nor children and the parents had also predeceased, it initially appeared the siblings would inherit her estate; but the certificate of marriage of her parents had to be provided since the law at the time provided that children born out of wedlock had no next of kin, only their own spouse and children
- the Public Trustee engaged a Genealogist in Ireland to locate the marriage certificate but to no avail
- delay in the initial decision appeared to have been caused by the delay in the next of kin searches
- being unable to prove the marriage of the deceased's parents, the estate was held in abeyance in 1978 and was remitted to The Treasury in 1988

- decision on the relatives claims was reversed in 2002 since the plaintiff produced extensive secondary evidence and information that provided grounds for the Public Trustee to form the opinion that he could apply the legal presumption of marriage of the deceased
- further delay in administering the estate were due to the following:
 - as the siblings had since died, the deceased's estate went down their own family tree line and each family member's entitlement must be proven by certificate evidence and this takes time
 - The plaintiff had requested that the searches and administration of the estate not proceed until he made submissions to the Public Trustee
 - despite our letters to the plaintiff stating our concern for the delay and our readiness to proceed and despite his advice that he would instruct the Public Trustee when he was ready to proceed he failed to do so, instead he commenced litigation proceedings in the Supreme Court of New South Wales on 30 March 2007
- the Public Trustee made offers to settle the matter but the plaintiff refused to accept the offer
- Branch managers then had delegations to approve distribution of intestacy matters or to approve not to take further action if considered evidence was lacking. Current policy requires approval by Legal Branch. If the matter had been referred to a Legal Officer, a next of kin inquiry to the Supreme Court of New South Wales may have been recommended
- file records show the estate funds were paid, in accordance with unclaimed money laws to The Treasury by cheque numbers 40105 on 4 August 1988 and 43285 on 6 April 1989. Public Trustee records did not indicate the cheques were ever recredited so it is assumed they were presented by The Treasury after being drawn
- the Auditor-General wrote to the plaintiff on 28 June 2001 and stated that while no record of receipt of payment, The Treasury acknowledged that such moneys may have formed part of a larger transfer involving more than one estate for which the detailed documents from that period have subsequently been destroyed
- The Treasury confirmed in a letter that it does not retain records over seven years
- CEO did not find evidence of maladministration or fraud both of which are imputed in His Honour's reasons for decision
- the full content of the email to the NSW Ombudsman was not quoted and hence was repeated out of context. NSW TG's view is that the plaintiff is a beneficiary named in the wills of his mother, aunt and uncle, but he is not technically a person entitled as next of kin on intestacy to the estate.

The CEO's letter also stated that if the Deceased estate was administered today, the scenario would be entirely different. Complex intestacy matters or intestacy matters requiring overseas searches are referred to NSW TG's Genealogy Unit which is headed by a solicitor with specific training and expertise in intestacy and genealogy and supported by experienced staff. The Genealogy Unit undertakes extensive searches and also deals directly with agencies in Australia and overseas as well as links to established and well regarded search companies worldwide to locate next of kin entitled on intestacy. The Genealogy Guideline provides that a review of each file is made every three months and action taken where certificates are not submitted within allotted timeframes. All reasonable searches are conducted and only when there is no reasonable prospect of establishing entitlement either by certificate evidence or application to the court would a file be declared 'no further action'. More information will be set out in paying unclaimed money to The Treasury. This documentation will be provided to The Treasury and the Commissioner of Unclaimed Money and if a person subsequently approaches NSW TG with evidence of entitlement then such monies can be retrieved.

FINANCIAL MANAGEMENT

Service Delivery and Lease Agreements with the Department of Justice and Attorney General (DJAG)

I recommend documented agreements relating to service delivery and occupation of the Justice Precinct Office be finalised to avoid disagreements and disputes on charges.

NSWTG does not have a formal lease for the accommodation it has rented from DJAG in the Justice Precinct Office. In 2009-10, NSWTG paid DJAG \$2.0 million to rent this accommodation. In addition, DJAG charged NSWTG \$1.4 million equivalent to the amortised costs of the fit out of the Justice Precinct Office in Parramatta, despite the absence of a lease agreement. This charge covered the period 2006-07 to 2009-10. DJAG, however, subsequently issued credit notes for these charges.

NSWTG management has advised that a service delivery agreement has not been formalised for the information technology services provided by DJAG.

PERFORMANCE INFORMATION

Trustee Performance

I recommend the NSW Trustee and Guardian continue liaising with other states to establish national benchmarking of performance across Public Trustees.

Last year, I recommended the former Public Trustee publish performance indicator targets and outcomes in its annual report. The draft 2010 annual report has now included key performance targets and outcomes for core trustee areas.

The NSWTG provided the following information on its performance with respect to the volume and value of new matters obtained during the year:

Year ended 30 June	Volume (No.)			Value (\$m)		
	Target	Actual		Target	Actual	
	2010	2010	2009	2010	2010	2009
Estates administration	1,850	1,759	1,754	488	523	484
Trusts duties	815	993	789	52	50	48
Powers of attorney services	160	135	229	45	45	73
Will making	12,000	10,639	11,245	na	na	na

Source: NSW Trustee and Guardian (unaudited).
na: not applicable.

The number of Trust matters increased by 26 per cent while Estates administration increased marginally, but was below target by five per cent. The number of Powers of Attorney services fell by 41 per cent and the value by 38 per cent. This resulted in not meeting the volume target by 16 per cent. Wills made decreased marginally by five per cent and was below target by 11 per cent.

NSWTG management advised that attempts have been made over the past three years to implement national benchmarking across Public Trustees in other states. However, this has been unsuccessful as each state has different ways of charging clients and different service standards and types.

NSWTG measures the following indicators to assist in improving performance for its clients:

Year ended 30 June	Actual				
	2010	2009	2008	2007	2006
Customer satisfaction index (%)	84	87	80	73	77
Process improvement satisfaction index (%)	80	84	76	66	70
Complaints received	121	134	117	84	84
Complaints requiring corrective action	22	37	21	26	24

Source: NSW Trustee and Guardian (unaudited).

The customer satisfaction index and process improvement satisfaction index have maintained strong results in a year of challenges resulting from the merger and name change. There was a decrease in complaints received from trustee clients and the number of complaints requiring corrective action. The number of complaints received and requiring action in 2009-10 is considered to be minimal in the context of the number of dealings with over 25,000 trustee clients, and particularly positive in the first year of the merged organisation.

Funds Managed

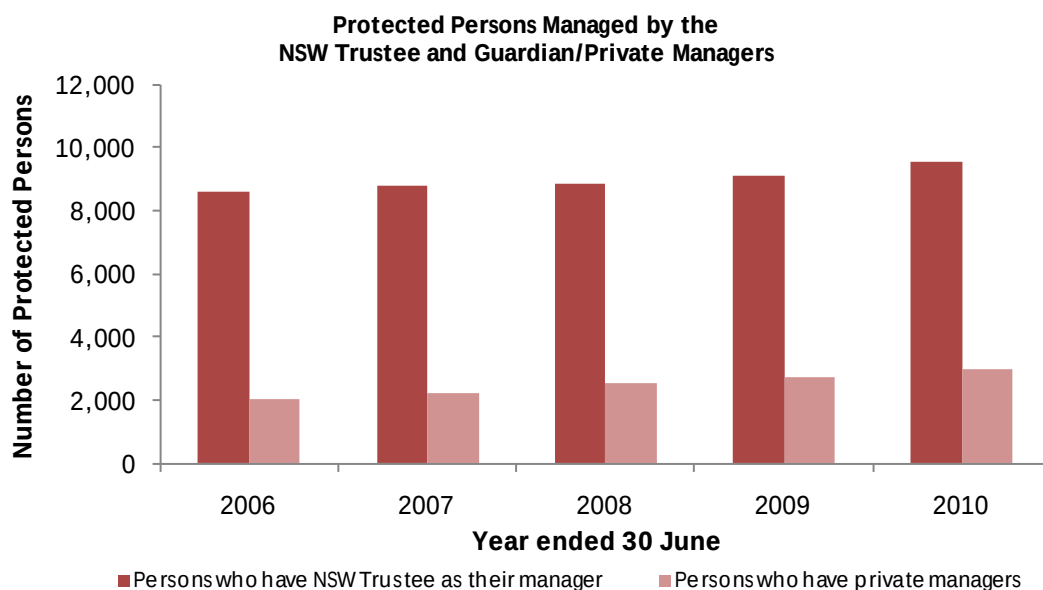
The NSW TG provides financial management services to people with impaired decision making abilities, who are unable to manage their own affairs. The *NSW Trustee and Guardian Act 2009* outlines how the funds are managed. All moneys are kept in the trust fund (Common Fund) and are invested. The NSW TG also manages other property (client assets external to the Common Fund) such as real estate, shares and terms deposits. Funds managed were:

Year ended 30 June	2010	2009
	\$'000	\$'000
Common Fund investments	1,196,851	1,161,498
Real property	664,429	685,511
Other assets	347,964	257,530
TOTAL FUNDS MANAGED	2,209,244	2,104,539

Source: NSW Trustee and Guardian (unaudited).

Number of Clients

The NSW TG manages the financial affairs of protected persons or authorises and directs the activities of private managers.



Source: NSW Trustee and Guardian (unaudited).

The year to the end of June 2010 showed a 5.1 per cent increase in directly managed clients and 7.6 per cent increase in privately managed clients.

OTHER INFORMATION

Common Fund Reports

The Trustee Common Fund and the Financial Management Common Fund consist of funds managed by the NSW TG on behalf of its clients. The audit of these Common Funds' financial statements for the years ended 30 June 2009 and 2010 have not been finalised.

In last year's report, we noted that Financial Management had a number of internal control deficiencies in the payment of client expenses. As a result, we undertook extensive detailed testing of client payments in 2006-07 and 2007-08. The 2007-08 audit is nearly complete. NSW TG management has advised us that controls have been tightened in 2009-10.

FINANCIAL INFORMATION**Abridged Statement of Comprehensive Income**

Year ended 30 June	2010 \$'000
NSW Government contributions	7,344
Commissions and fees	62,271
Investment and other revenue	8,109
REVENUES	77,724
Personnel services and employee related expenses	56,748
Lease expense, depreciation and amortisation	7,251
Other expenses	10,898
EXPENSES	74,897
Loss on disposal of non-current assets	(21)
SURPLUS	2,806
OTHER COMPREHENSIVE INCOME	
Net increase in revaluation reserve	427
TOTAL COMPREHENSIVE INCOME	3,233

Abridged Statement of Financial Position

At 30 June	2010 \$'000
Current assets	46,397
Non-current assets	57,779
TOTAL ASSETS	104,176
Current liabilities	21,810
Non-current liabilities	37,675
TOTAL LIABILITIES	59,485
NET ASSETS	44,691

TRUSTEE ACTIVITIES

NSWTG may act as a trustee; as an executor or administrator; as collector of estates under an order to collect; as an agent or attorney; as guardian or receiver of the estate of a minor; and as receiver of any other property.

The Trustee services of the NSWTG includes:

- will making
- executor services
- administration of deceased estate
- trustee of trusts created by Wills, deeds, court orders and legislation
- power of attorney services
- management/sale of assets seized or confiscated under the Confiscation of Proceeds of Crime act 1989 and Criminal Assets Recovery Act 1990.

The Chief Executive Officer of the NSWTG is also the Commissioner of Dormant Funds under the *Dormant Funds Act 1942*. This involves the investigation and recommendation of proposals for dealing with funds acquired by trustees for charitable or other public purposes, which have become dormant.

FINANCIAL MANAGEMENT ACTIVITIES

The NSWTG provides the following services:

- manages the affairs of those persons who are not able to manage their own affairs and whose affairs have been formally committed to management by order under the Act, and
- authorises and directs the performance and duties of private managers appointed by the Supreme Court or the Guardianship Tribunal.

The Chief Executive Officer of the NSWTG reports administratively to the Attorney General via the Director General of the Department.

PUBLIC GUARDIAN

The Public Guardian makes personal lifestyle decisions on behalf of adults who have a decision-making disability. Decisions are made in such areas as accommodation, services and consenting to medical and dental treatment. The Public Guardian also provides support to private guardians.

For further information, refer to www.tag.nsw.gov.au (NSWTG) and www.lawlink.nsw.gov.au/opg (Office of the Public Guardian).

Office of the Director of Public Prosecutions

AUDIT OPINION

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

PERFORMANCE INFORMATION

The Office conducts all indictable and some summary prosecutions referred to it by the NSW Police Force. It provided the following information regarding its performance.

Number of trials registered and completed at 30 June	2010	2009	2008	2007	2006
Supreme Court					
Matters registered	71	86	89	93	79
Matters completed	87	82	88	78	65
District Court					
Trials registered	1,706	1,798	1,744	1,755	1,820
Trials completed	1,818	1,699	1,692	1,637	1,815
Local Court					
Committals registered	6,073	6,147	6,066	5,541	5,473
Committals completed	5,965	6,375	5,899	5,758	5,798

Number of matters not finalised at 30 June	2010	2009	2008	2007	2006
Supreme Court					
Trials	82	96	94	112	102
Sentences	12	5	3	8	2
Court of Criminal Appeal (CCA) appeals	160	129	164	152	161
District Court					
Trials	1,543	1,672	1,645	1,741	1,801
Sentences	894	999	860	798	766
All grounds appeals	529	506	475	513	548
Severity appeals	852	954	881	980	861
Leniency appeals	10	9	14	11	15
Local Court					
Committals	3,152	3,043	2,971	2,707	2,721
Advising	105*	101	90	67	76

Source: Office of the Director of Public Prosecutions (unaudited).

* Statistics not available. Figure estimated based on early November figures.

OTHER INFORMATION

Human Resources

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

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- management of excessive flex leave balances.

Issues identified from my review will be reported in a management letter to the Office. A summary of the results of my review follows.

Workforce Ageing

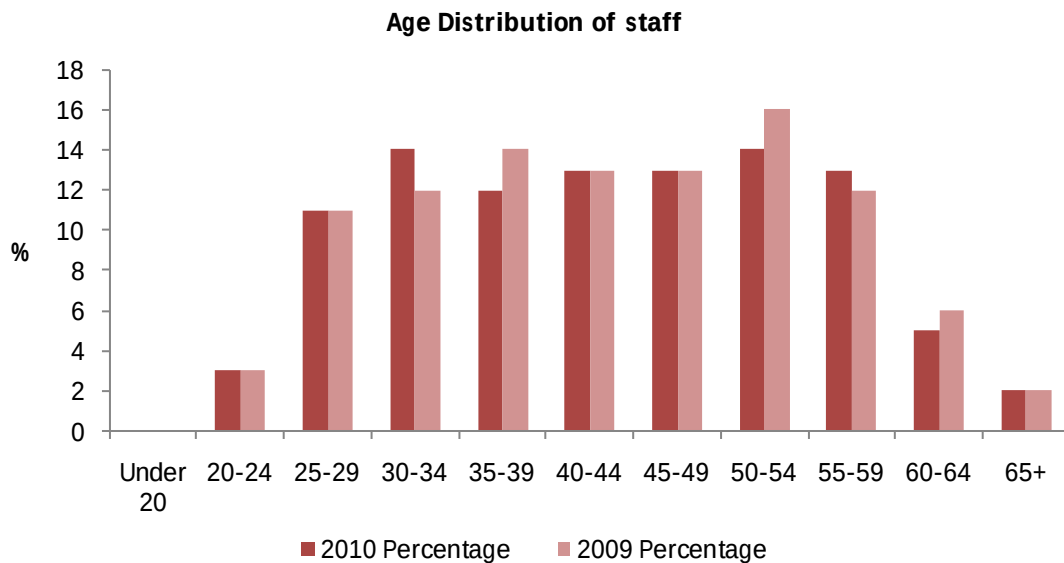
I recommend the Office develop strategies to manage its ageing workforce.

The Office faces challenges from the potential loss of a large number of retiring legal professionals. The table below shows that 20.3 per cent (19.6 per cent) of the Office's employees are 55 years of age or older and 34.5 per cent (35.3 per cent) of employees are 50 years of age or older at 30 June 2010. The potential loss of knowledge and skills arising from retirements is a significant risk for the Office.

The Office advised the loss of experienced legal professionals in the next five to ten years will put pressure on its ability to provide efficient and effective prosecutions. The Office will incorporate this risk into future Office planning processes with a view to finding effective solutions.

At 30 June	2010		2009	
	No. of Employees	%	No. of Employees	%
Age Group				
Up to 34	178	27.2	169	25.5
35-39	80	12.2	93	14.0
40-44	84	12.8	83	12.5
45-49	87	13.3	85	12.8
50-54	93	14.2	104	15.7
55-59	84	12.8	81	12.2
60-64	34	5.2	37	5.6
65+	15	2.3	12	1.8
Total	655	100.0	664	100.0

The graph below further demonstrates the age structure of the Office's employees.



Annual Leave Balances

The Office has actively managed employees with excessive annual leave balances in recent years. The number of employees with annual leave balances in excess of 40 days has decreased from 76 employees at 30 June 2009 to 69 employees at 30 June 2010. At 30 June 2010, the number of employees with annual leave balances in excess of 40 days represented 12.3 per cent (13.2 per cent) of total employees.

The Office advised it has initiatives in place to address the issue of excessive annual leave balances. For example, annual leave balances are monitored on a monthly basis by the Office's management committee.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

Flex Leave Balances

Managing excessive flex leave balances has been an issue for the Office for a number of years. The total accumulated flex leave balance has increased from 11,655 hours at 30 June 2009 to 13,104 hours at 30 June 2010. On average, this represents 20 hours per employee at 30 June 2010. The number of employees with flex leave balances in excess of 50 hours at 30 June 2010 was 125 (130 employees).

The large flex leave balances indicate employees are working long hours and do not have the opportunity to take sufficient flex leave during the year. The Office reviews outstanding flex leave at each management committee meeting and develops leave plans with the employees to try and reduce excessive flex balances.

FINANCIAL INFORMATION**Abridged Statement of Comprehensive Income**

Year ended 30 June	2010 \$'000	2009 \$'000
Employee related	80,092	78,880
Other expenses	19,957	23,143
OPERATING EXPENSES	100,049	102,023
OPERATING REVENUE	4,216	2,155
Gain on disposal of non-current assets	43	15
NET COST OF SERVICES	95,790	99,853
Government contributions	100,124	98,591
SUPPLUS / (DEFICIT)	4,334	(1,262)
OTHER COMPREHENSIVE INCOME	--	--
TOTAL COMPREHENSIVE INCOME /(EXPENSE)	4,334	(1,262)

The significant increase in operating revenue is due to a \$800,000 funding increase from the Department of Justice and Attorney General for Criminal Case Conferencing and \$1.5 million for Witness Assistance Services. The decrease in other expenses is largely due to one-off non cash expenses incurred by the Office in 2008-09. These costs related to its move to new premises.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	5,596	5,539
Non-current assets	17,099	11,691
TOTAL ASSETS	22,695	17,230
Current liabilities	11,457	11,889
Non-current liabilities	2,044	481
TOTAL LIABILITIES	13,501	12,370
NET ASSETS	9,194	4,860

The increase in non-current assets was largely due to the Office moving to new premises.

Abridged Service Group Information

The Office's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2010 Budget \$'000	2010 Actual \$'000	2009 Actual \$'000	2010 Actual \$'000	2009 Actual \$'000
Prosecutions	92,168	92,070	94,349	9,047	4,409
Victim and Witness Assessment	4,938	3,720	5,504	147	451
Total all service groups	97,106	95,790	99,853	9,194	4,860

The decrease in the overall net cost of services was due to one-off transactions incurred in the prior year. In 2008-09, the Office incurred additional non cash expenditure associated with its move to the new premises, such as the accelerated depreciation and write off of existing leasehold improvements.

OFFICE ACTIVITIES

The Office was constituted under the *Director of Public Prosecutions Act 1986*. The principal functions and responsibilities of the Director of Public Prosecutions are to institute and conduct, on behalf of the State, prosecutions for indictable offences in the District and Supreme Courts and to appear as appellant or respondent in criminal appeals.

For further information on the Office, refer to www.odpp.nsw.gov.au.

New South Wales Fire Brigades

AUDIT OPINION

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

KEY ISSUES

Workforce management

The Brigades is facing significant challenges managing its workforce. I recommend the Brigades implement its planned workplace reforms on a timely basis to address these challenges.

The Brigades has a number of workplace-related issues that are affecting its ability to effectively manage its workforce. Failure to address these issues may impact on the Brigades' ability to do its job. Some of these issues are included in the table below:

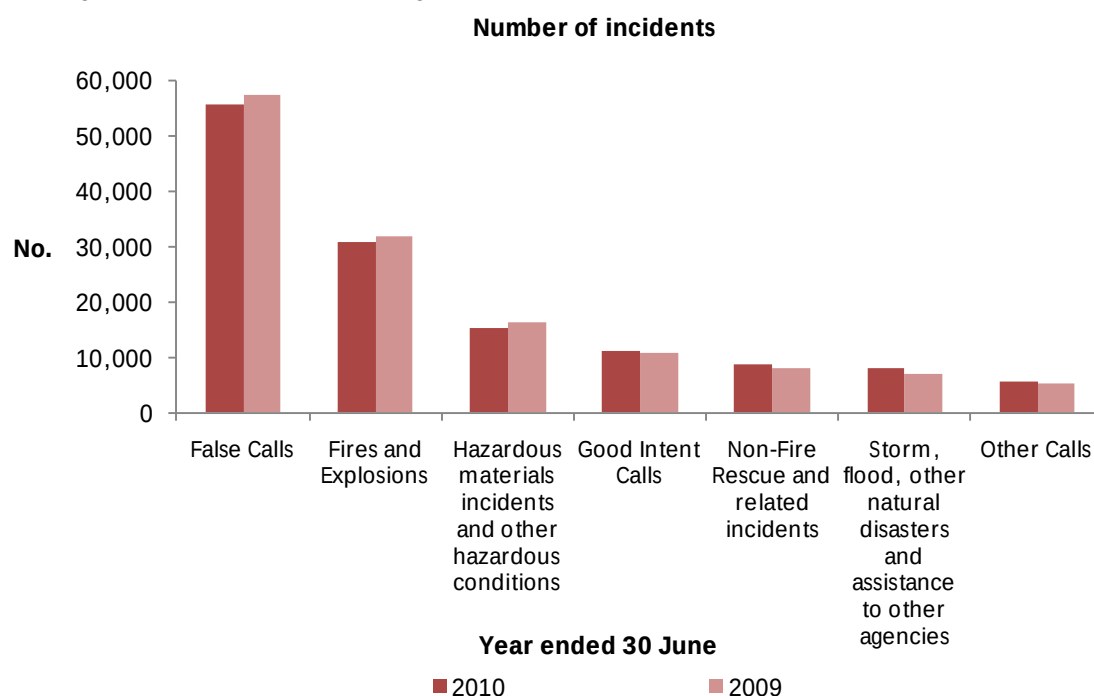
Issue	Details
Sick leave taken	Permanent firefighters took on average more than 100 hours sick leave during 2009-10.
Fitness for work requirements	Despite their job being physically demanding, firefighters are not required to undertake regular compulsory fitness testing to confirm they remain fit for work.
Exits on medical grounds	14 per cent of employees leave the Brigades for medical reasons. The average age for medical retirees is 53 years.
Injury management	Permanent firefighters are entitled to indefinite workers compensation on full pay. Other public sector employees have their entitlement reduced after six months. Doing so encourages employees to return to work.
Workplace culture	According to a recent report prepared by KPMG, bullying and harassment is still present within the Brigades.
Annual leave balances	The maximum annual leave balance permitted under the Brigades' annual leave policy is 40 days. At 30 June 2010, 2,500 employees (35 per cent) had balances in excess of this limit. Retained firefighters continue to have the highest proportion of excessive annual leave balances.
Cost increases	Workers compensation costs have increased an average 17 per cent every year for the last five years. The workers compensation costs for this financial year were \$28 million.

The Brigades acknowledge the difficulties it faces with workplace issues. In response, it is implementing a major program of workplace reform. This includes organisational restructuring, establishing a workplace conduct and governance steering committee, establishing a workplace standards unit, and improving budget allocation and monitoring methods. Details of the reform are included in the Brigades' 2009-10 Annual Report.

PERFORMANCE INFORMATION

Incidents

The Brigades recorded the following fire and other incidents:



Source: New South Wales Fire Brigades (unaudited).

The number of incidents measures community demand for the Brigades' response services. Overall demand is relatively stable. However, there has been increased demand for non-fire rescue services over the last five years.

Following are some of the indicators used by the Brigades to monitor effectiveness:

For the year ended 30 June	2010	2009	2008	2007	2006
Median loss for structural fires (\$)	2,000	2,000	2,000	2,000	2,000
Structural fires confined to the object and room of origin (%)	81	69	71	69	69
New South Wales homes fitted with smoke alarms (at 31 December) (%)	94	94	93	87	77

Source: New South Wales Fire Brigades (unaudited).

The value of loss and extent of fire damage, measures the effectiveness of the firefighting response. The percentage of smoke detectors fitted to homes indicates the effectiveness of the Brigades' education activities.

Response Times for all Structural Fires

The Brigades' figures show that in 2009-10, 50 per cent of the first responding fire resources arrived at the scene of an incident in 7 minutes 45 seconds (7 minutes 40 seconds in 2008-09), and 90 per cent arrived in 11 minutes 52 seconds (11 minutes 51 seconds in 2008-09). Response times reflect the Brigades' ability to respond to incidents and reduce the adverse effects of fire on the community.

Resources

The Brigades' effectiveness depends on the personnel and firefighting equipment available. The Brigades provided the following information about available resources:

Total Numbers as at 30 June	2010	2009	2008	2007	2006
Personnel					
Permanent firefighters	3,516	3,517	3,463	3,420	3,369
Retained firefighters	3,429	3,387	3,212	3,237	3,177
Full time support and co-ordinating staff	411	376	393	328	364
Community fire units	482	418	374	337	314
Fleet (all vehicles)	881	883	891	928	929
New fleet units brought into operational service (during the financial year)	48	33	19	41	61

Source: New South Wales Fire Brigades (unaudited).

At 30 June 2010, the fleet included 522 (518 in 2009) operational fire appliances, which are usually located at fire stations and used to respond to incidents.

The following table summarises the weighted average age of the Brigades' fleet:

Year ended 30 June	Target Years	Actual Years			
	2010	2010	2009	2008	2007
Operational fleet					
Pumpers	7.5 - 10.0	7.2	7.2	7.2	6.6
Aerials	10.0	8.0	7.2	6.6	5.9
Special appliances	--	6.4	6.2	6.0	6.1
Service exchange/other fleet	15.0 - 20.0	12.7	14.6	18.6	18.1

Source: New South Wales Fire Brigades (unaudited).

'Pumpers' are fire trucks designed to transport firefighters and their equipment, and to pump water. 'Aerials' are appliances with a vertical reach designed for high level rescue or firefighting. 'Special appliances' include heavy hazmat support vehicles, heavy rescue support vehicles, and various other appliances used for logistic support, training, and heavy vehicle transport.

'Service exchange/other fleet' are back-up fire appliances strategically located around the State to replace 'operational' fire appliances taken out of active duty (e.g. for maintenance) or for use in major incidents. At 30 June 2010, there were 119 (97 in 2009) 'service exchange/other fleet' fire appliances.

FINANCIAL INFORMATION**Abridged Statement of Comprehensive Income**

Year ended 30 June	2010 \$'000	2009 \$'000
Employee related	474,352	462,299
Depreciation and Amortisation	33,956	29,729
Other expenses	69,928	72,147
TOTAL EXPENSES	578,236	564,175
Contributions from insurers and local government	431,930	35,465
Other revenue	44,192	40,481
TOTAL REVENUE	476,122	75,946
NET COST OF SERVICES	102,114	488,229
Government contributions	79,905	525,373
(DEFICIT)/SURPLUS	(22,209)	37,144
OTHER COMPREHENSIVE INCOME		
Superannuation actuarial (losses)/gains	(6,748)	3,878
(Decrease)/Increase in asset revaluation reserve	(7,904)	37,634
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	(36,861)	78,656

The increase in contributions from insurers and local government and decrease in government contributions are mainly as a result of the changes to the Brigades' funding arrangements from 1 July 2009.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	118,172	148,660
Non-current assets	507,036	497,273
TOTAL ASSETS	625,208	645,933
Current liabilities	90,989	89,075
Non-current liabilities	36,464	22,242
TOTAL LIABILITIES	127,453	111,317
NET ASSETS	497,755	534,616

The decrease in current assets largely reflects contributions from insurers and local government for 2009-10 that were received before 30 June 2009.

Abridged Service Group Information

The Brigades' net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2010 Budget \$'000	2010 Actual \$'000	2009 Actual \$'000	2010 Actual \$'000	2009 Actual \$'000
Community Safety	3,568	5,764	27,110	45,770	47,917
Emergency Management	39,857	66,716	297,382	203,236	201,008
Operational Preparedness	23,902	51,695	203,226	97,912	101,716
Not Attributable	--	(22,061)	(39,489)	150,837	183,975
Total all service groups	67,327	102,114	488,229	497,755	534,616

As a result of new funding arrangements, the 2008-09 and 2009-10 net cost of services are not comparable. Actual net costs of services exceeded budget mainly because the budget assumed that \$35.5 million of funding that was received and recognised in 2008-09 would be included in the 2009-10 result.

BRIGADES' ACTIVITIES

The Brigades are responsible for managing fire emergencies in the major cities, metropolitan areas and towns across rural and regional New South Wales. The Brigades also respond to hazardous material and non-fire rescue incidents. The Brigades were established under the *Fire Brigades Act 1989*.

For further information on the Brigades, refer to www.fire.nsw.gov.au.

NSW Rural Fire Service

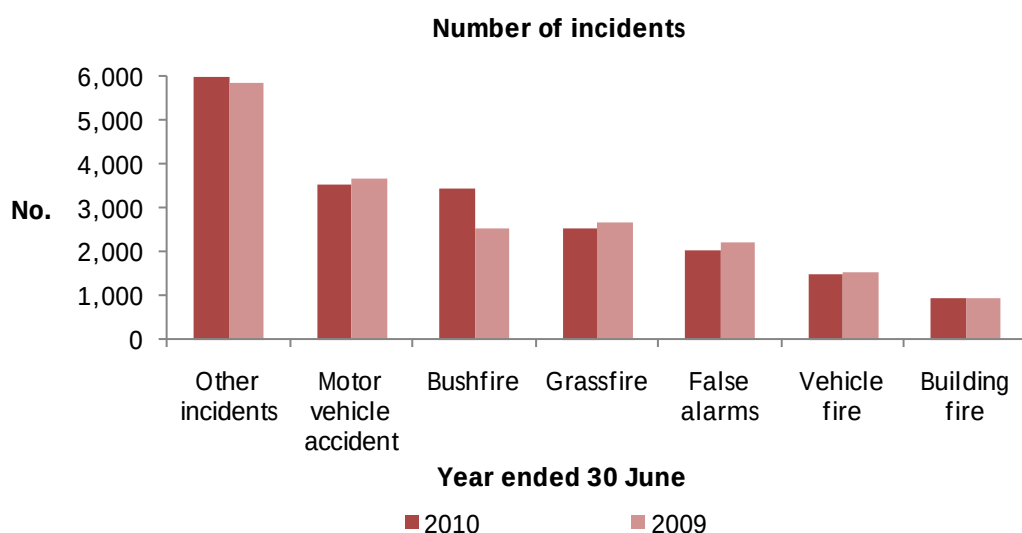
AUDIT OPINION

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

PERFORMANCE INFORMATION

Incidents

In 2009-10, there were 50 emergency declarations (ten in 2008-09) under Section 44 of the *Rural Fires Act 1997*. Approximately 366,159 hectares (32,700 hectares) of land were burnt during these emergencies. In 2009-10 the Service recorded the following fire and related incidents:



Source: NSW Rural Fire Service (unaudited).

Hazard reduction

In 2009-10, approximately 175,000 hectares were subject to hazard reduction. Over half of this occurred within National Parks and almost 90 per cent involved burning.

Hazard reduction activities are designed to minimise the threat of damage to life, property and the environment by reducing or removing bushfire fuel. Hazard reduction will not completely stop bushfires, but can assist the Service with containment strategies and property protection. Burning is the most common form of hazard reduction used in New South Wales.

Hazard reduction is the responsibility of land owners and managers. This includes private owners and Government land management agencies, such as the National Parks and Wildlife Service and Forests NSW.

The Service offers advice and assistance on hazard reduction, and is responsible for ensuring hazard reduction activities are carried out effectively. The Service can order land owners and managers to conduct essential hazard reduction activities.

Managing bush fire prone land

New development in bushfire prone land is subject to development and planning controls. New developments must comply with the requirements within the Service's 'Planning for Bush Fire Protection 2006' (PBP). The Service advises that it assessed 8,200 development applications across the State in 2009-10.

In May 2010, the Service released an amendment to the 2006 publication to update it for the new Australian Standard AS3959-2009 'Construction of buildings in bushfire-prone areas' as adopted in the 2010 Building Code of Australia. The amendment is considered a stop-gap measure pending a more comprehensive review and revision of PBP, which will consider the findings of the 2009 Victorian Bushfires Royal Commission and resulting changes to Australian Standard AS3959.

The requirements for building in bush fire prone areas do not apply to existing buildings. This leaves existing assets within the community at risk from bush fires. To address this risk, the Bush Fire Coordinating Committee (BFCC) establishes a Bush Fire Management Committee for each area in New South Wales at risk of bush fires. Each of these Committees must prepare a five year Bush Fire Risk Management Plan (BFRMP) in accordance with BFCC policy.

Committees are updating BFRMPs in accordance with policies issued by the BFCC in 2008. The Service advises that the BFCC has approved 40 out of 68 updated BFRMPs and that the remainder are expected to be approved in 2010-11. BFRMPs are used to determine such things as where mechanical clearing or hazard reduction burns are conducted, which areas require specialised fire protection, and which areas need to be targeted for community education.

Land is identified as bush fire prone where it can support a bush fire or is likely to be subject to bush fire attack.

Resources

The effectiveness and efficiency of the Service depends on the number of trained firefighters and the quantity and types of firefighting equipment available. The Service provided the following information about available resources:

Year ended 30 June	2010	2009	2008	2007	2006
Personnel					
Unpaid volunteers (number)	70,552	70,701	70,159	71,441	70,745
Full time equivalent support and coordinating staff * (number)	785	715	710	685	680
Active firefighters competent to bush firefighter status or higher (%)	86	79	78	85	85
Trainers accredited in the year (number)	257	282	261	47	32
Community based bush fire brigades (number)	2,051	2,065	2,058	2,077	2,100
Tankers supplied or refurbished in the year (number)	205	209	259	258	230

* Excludes Emergency Management NSW staff
Source: NSW Rural Fire Service (unaudited).

The Service established the State Mitigation Support Services (SMSS) during the period, contributing to the increase in staff numbers. The SMSS activities include assisting the brigades with hazard reduction activities and supporting vulnerable people living in bush fire prone land.

OTHER INFORMATION

Litigation arising from 2003 Australian Capital Territory bushfires

The Service is being sued by a number of parties for its involvement in the 2003 Australian Capital Territory bushfires. The plaintiffs argue that the Service was negligent in its management of fires that started in New South Wales.

The Australian Capital Territory Supreme Court is expected to consider:

- whether the Service owed a legal duty of care to individuals
- whether the Service is liable for action taken in the course of fighting fires.

The outcome of the proceedings could have financial implications for the New South Wales Government and for the way government agencies respond to bushfires and similar threats. The proceedings, which commenced in February 2010, are currently adjourned and are scheduled to resume in April 2011.

On 8 January 2003, lightning strikes caused four fires in the Australian Capital Territory and surrounding area. Eventually these fires combined to produce a firestorm that resulted in four deaths, many injuries, and a financial impact estimated at anywhere between \$600 million and \$1.0 billion. Approximately 160,000 hectares was burnt, representing about 2.3 per cent of the total land area of the Australian Capital Territory.

Royal Commission into the Victorian 'Black Saturday' bushfires

The New South Wales Government has released its response to the Victorian Bushfires Royal Commission. The Government supports almost all of the recommendations and has noted that New South Wales already has policies and procedures in place consistent with most of the recommendations.

The Victorian Government established the Victorian Bushfires Royal Commission to investigate the causes and responses to the Black Saturday bushfires. The Royal Commission published its final report in July 2010. The report contains 67 recommendations covering a wide range of issues.

The Victorian Government supports almost all of the recommendations and announced significant funding to deliver reforms to the way Victoria prepares for and responds to bushfires.

The Black Saturday bushfires occurred in February 2009 and resulted in the deaths of 173 people. Over 2,200 homes were destroyed and the Royal Commission estimates the financial impact at more than \$4.0 billion.

FINANCIAL INFORMATION**Abridged Statement of Comprehensive Income**

Year ended 30 June	2010 \$'000	2009 \$'000
Local government firefighting and equipment costs	100,369	103,645
Employee related expenses	80,876	70,334
Natural disaster costs	85,668	34,142
Other grants and subsidies	17,333	15,362
Depreciation and Amortisation	4,469	4,556
Other expenses	27,365	19,195
TOTAL EXPENSES	316,080	247,234
Contributions from insurers and local government	170,168	198,911
Natural disaster relief	74,390	13,297
Other revenue	10,060	14,660
TOTAL REVENUE	254,618	226,868
NET COST OF SERVICES	61,462	20,366
Government contributions	46,375	40,821
(DEFICIT)/SURPLUS	(15,087)	20,455
OTHER COMPREHENSIVE INCOME		
Superannuation actuarial losses	2,566	8,305
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	(17,653)	12,150

The Service's firefighting equipment is owned by local government councils. The Service reimburses firefighting equipment purchased by local government and provides other support to local government for bush firefighting.

The increase in disaster relief expenses and revenue is due to the high number of natural disaster events during 2009-10. Disaster relief expenditure is reimbursed by the Crown Entity.

Insurance company and local government contributions decreased due to contributions of \$14.8 million relating to 2009-10 being received before 30 June 2009 and recognised as revenue in that year.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	34,167	49,511
Non-current assets	16,043	14,982
TOTAL ASSETS	50,210	64,493
Current liabilities	26,697	25,459
Non-current liabilities	10,896	8,764
TOTAL LIABILITIES	37,593	34,223
NET ASSETS	12,617	30,270

Net assets at 30 June 2009 were unusually high mainly because of the additional \$14.8 million contributions recognised in that year. The Service's net assets are relatively low because most plant and equipment used by the Service in its operations is owned by local government.

Abridged Service Group Information

The Service's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2010 Budget \$'000	2010 Actual \$'000	2009 Actual \$'000	2010 Actual \$'000	2009 Actual \$'000
Community Safety	21,212	4,992	12,805	(100)	634
Operations	172,123	179,805	(28,778)	3,891	5,934
Operational and Administrative Support	(157,926)	(135,431)	23,799	(22,055)	(23,751)
Emergency Management NSW	16,566	12,096	12,540	(152)	1,352
Not Attributable	--	--	--	31,033	46,101
Total all service groups	51,975	61,462	20,366	12,617	30,270

Actual net costs of services exceeded budget mainly because the budget assumed \$14.8 million of funding received and recognised in 2008-09 would be included in the 2009-10 result. As a result of this and other changes to existing funding arrangements, the 2008-09 and 2009-10 net cost of services are not comparable.

Highlights within the Government's 2009-10 Budget included the provision of 200 new tankers for units around the state. The Service's budget included \$31.3 million for new and refurbished tankers, of which \$28.8 million was expended in 2009-10. Budget highlights also included the provision of an additional \$14.1 million for bushfire mitigation works and boosting aerial firefighting abilities. Part of this additional amount was used to fund the SMSS.

SERVICE ACTIVITIES

The Service is the leading agency for coordinated bush firefighting and is responsible for firefighting in rural fire districts, including over 1,200 villages. The Service also assists other emergency services organisations in emergency situations such as transport accidents, flood and storm and search and rescue operations. The Service was established by the *Rural Fires Act 1997*.

For further information on the Service, refer to www.rfs.nsw.gov.au.

State Emergency Service

AUDIT OPINION

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

KEY ISSUES

Funding Arrangements

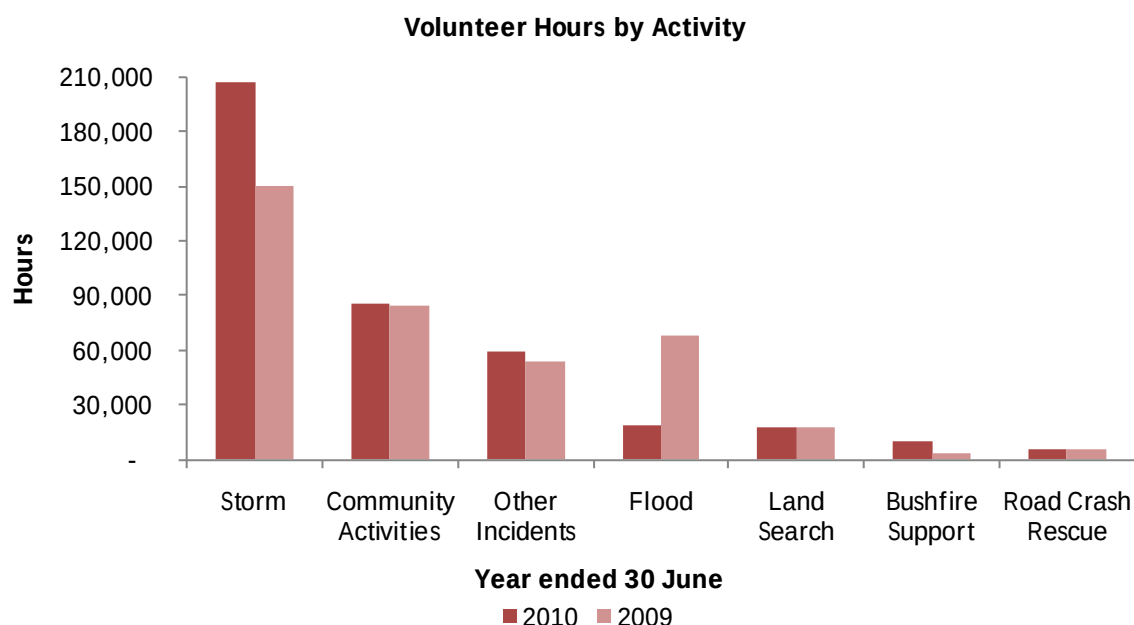
As reported in the Emergency Services Overview, the funding arrangements for the Service changed from 1 July 2009. The Service is now funded through contributions from insurance companies (73.7 per cent), Local government (11.7 per cent) and the State government (14.6 per cent). This brings the Service under the same funding structure as the New South Wales Fire Brigades and the NSW Rural Fire Service.

Operational Support

The Service is increasing its full time staff in 2010-11. An increase in the Service's annual budget of approximately \$5.0 million will be used to fund 32 new positions and the regrading of 5 existing positions. The Service advises the additional resources will improve support to volunteers, provide improved and more responsive operational capacity to protect and inform communities, and improve corporate management and accountability. As at 30 June 2010, the Service had 204 full time equivalent employees.

PERFORMANCE INFORMATION

The Service's volunteers contributed around 405,000 hours of operational and non-operational support during 2009-10 (385,000 hours in 2008-09). These hours are broken down as follows.



Source: State Emergency Service (unaudited).

FINANCIAL INFORMATION**Abridged Statement of Comprehensive Income**

Year ended 30 June	2010 \$'000	2009 \$'000
Employee related expenses	21,057	19,801
Disaster relief expenses	20,983	10,291
Grants and Subsidies	9,310	7,896
Depreciation and amortisation	6,094	5,925
Other expenses	19,230	19,371
TOTAL EXPENSES	76,674	63,284
Contributions from insurers and local government	41,742	3,657
Disaster relief grants	15,983	10,291
Other revenue	3,995	5,246
TOTAL REVENUE	61,720	19,194
NET COST OF SERVICES	14,954	44,090
Government contributions	8,660	45,966
(DEFICIT)/SURPLUS	(6,294)	1,876
OTHER COMPREHENSIVE INCOME		
Reduction in asset revaluation reserve	--	(1,457)
TOTAL COMPREHENSIVE INCOME/(DEFICIT)	(6,294)	419

The increase in contributions from insurers and local government and decrease in government contributions reflect changes to the Service's funding arrangements from 1 July 2009.

The increase in disaster relief expenses and revenue is due to the high number of natural disaster events during 2009-10. The Service's 2009-10 base funding allowed \$5.0 million for disaster relief expenditure. Disaster relief expenditure above \$5.0 million is reimbursed by the Crown Entity.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	12,711	16,501
Non-current assets	15,276	17,136
TOTAL ASSETS	27,987	33,637
Current liabilities	5,154	4,517
Non-current liabilities	22	15
TOTAL LIABILITIES	5,176	4,532
NET ASSETS	22,811	29,105

Assets are mainly inventories and equipment used to respond to incidents. Equipment excludes the Service's operational fleet, which is owned by local government. The Service is currently exploring changes in the way its fleet is owned and managed.

Abridged Service Group Information

The Service's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2010 Budget \$'000	2010 Actual \$'000	2009 Actual \$'000	2010 Actual \$'000	2009 Actual \$'000
Recruitment and Training	2,819	1,489	10,318	167	1,409
Operational Readiness	6,759	12,916	29,664	22,578	27,129
Community Education	1,127	549	4,108	66	567
Total all service groups	10,705	14,954	44,090	22,811	29,105

Actual net costs of services exceeded budget mainly because the budget assumed that \$3.7 million of funding that was received and recognised in 2008-09 would be included in the 2009-10 result. As a result of new funding arrangements, the 2008-09 and 2009-10 net cost of services are not comparable.

Highlights within the Government's 2009-10 Budget included the provision of 60 specialty State Emergency Service vehicles. The Service's budget included \$2.0 million for subsidies to local government to offset the cost of operational fleet, which was used to make approximately 60 grants in 2009-10.

SERVICE ACTIVITIES

Using volunteers, the Service manages and responds to emergencies resulting from flood, storm, tsunami and other incidents. Approximately 10,000 volunteers operating through 228 State Emergency Service units located throughout the State help with these activities.

The Service was established in accordance with *the State Emergency Service Act 1989*.

For further information on the Service, refer to www.ses.nsw.gov.au.

Minister for Police

NSW Police Force

Refer to Appendix 1 for:

New South Wales Crime Commission

Police Integrity Commission

NSW Police Force

AUDIT OPINION

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

KEY ISSUES

Partial and Permanent Disability Scheme

I recommend the Force continues monitoring its liquidity closely to ensure it has sufficient funds to meet the increasing costs of the scheme.

The Force should review the underlying causes for the increasing number of partial and permanent claims and urgently develop and implement strategies to address the unfavourable trend.

The Force's liability for the partial and permanent incapacity (PPI) disability scheme is based on an independent actuarial assessment. The liability has grown by \$102.8 million or 118 per cent since 2006-07. Over the same period the number of claims paid increased by 315 per cent to 282 claims in 2009-10. Of the total PPI claims paid in 2009-10, 72 per cent related to psychological claims and 93.0 per cent had a psychological component to the injury.

The increase in the number of claims is undesirable, not only from a financial perspective, but also from the impacts on the Force more generally.

	2010	2009	2008	2007
Death & Disability Liability (\$'000)	190,200	147,300	115,000	87,412
Total Partial and Permanent Incapacity claim payments (\$'000)	118,992	47,053	40,930	25,385
Number of Partial and Permanent Incapacity Claims paid	282	116	108	68
Average claim size (\$)	421,958	405,626	378,986	373,307

Source: Liability figures obtained from actuarial reports (audited)
Remaining information obtained from NSW Police Force (unaudited)

The Force advises that it introduced an Independent Medical Expert Panel (IMEP) in February 2010 to manage this unfavourable trend. The IMEP:

- conducts independent assessments of an officer's capacity to work (subject to Work Cover Guidelines)
- conducts independent assessments of diagnosis and treatment (subject to Work Cover Guidelines)
- assists in developing and endorsing return to work plans
- develops strategies for upgrading injured officers to some form of capacity to work.

The Force also advises it has developed strategies and implemented the following initiatives to prevent partial and permanent disability incidents from occurring and reduce the number of claims and their impact:

- improved procedures for injury prevention, injury management, return to work and worker's compensation top up payments
- a safety science training program specifically targeted at senior management to improve safety knowledge and create greater awareness of safety responsibilities
- making available general counselling to officers and their families
- a 'WellCheck' program which involves one to one sessions with a psychologist.

Although the Force is actively attempting to reduce the number of claims, it believes structural change to the Scheme is required.

In 2008, I conducted a performance audit on managing injured police. The Force advises that it has implemented some of these recommendations, while others are ongoing. A full copy of this report can be found at:

www.audit.nsw.gov.au/publications/reports/performance/performance_reports.htm.

Property Management

I recommend the Force allocate appropriate resources to implement the outstanding internal audit recommendations as soon as possible to minimise the potential for fraud/misappropriation of funds and to maximise the effectiveness of its maintenance spend.

The Force should also ensure the shortcomings of the existing contract are not repeated when it goes to the marketplace for a new contract in 2011.

Management of the Force's property was outsourced to United Group Services Pty Limited (UGS) during 2006-07, as a result of a Government directive. The State Property Authority (SPA) acts as the contract administrator, responsible for compliance and delivery of services by UGS. The duties of SPA include formally directing UGS, certifying works performed and recommending payment for services performed. The Force has no direct authority to audit or inspect UGS transactions or certify/reject the transactions entered into by UGS.

During the year, effective control mechanisms were not in place to ensure all work performed by UGS was completed to an acceptable level of quality, or that costs billed were appropriate. SPA conducts a desk top review of UGS claims for work performed before certifying them for payment. According to the Force's internal auditors, SPA has no funds allocated for physical site visits to verify work performed by UGS. In my view, SPA cannot fulfil this requirement satisfactorily without visiting the sites. An internal audit review completed in 2009-10 (dated April 2010) confirmed existing controls and processes could be improved. The review also found:

- the strategic direction in property maintenance was lacking
- there was a focus on reactionary maintenance
- key performance indicators, as set out in the contract, are not measured appropriately.

The Force advises it has commenced implementing the 49 internal audit recommendations. At September 2010, it had fully implemented 22 recommendations, with the remaining recommendations expected to be implemented by 31 December 2010.

Allocation of Police Officers

There is a shortfall between the actual full time equivalent number of police officers and authorised positions in all regions. At 30 June 2010, the Force had 11,848 full time equivalent (FTE) police officers compared with 12,337 authorised positions. Of the 11,848 FTE officers, 1,833 were on restricted duties or absent, which means the shortfall is greater. A restricted officer is still available for operational work however their work tasks will be restricted to meet their individual circumstances.

The Force advises that it monitors the number of available police officers on a weekly basis and builds this information into its assessment of the number of officers it should recruit.

30 June 2010 Region*	Authorised Full Time Equivalent (FTE)	Actual Full Time Equivalent (FTE)	Difference between Authorised and actual FTE	Total on Restricted Duties or Absent
Central Metropolitan	2,675	2,539	(136)	357
North West Metropolitan	2,369	2,255	(114)	343
Northern	2,168	2,150	(18)	401
South West Metropolitan	2,339	2,170	(169)	293
Southern	1,607	1,581	(26)	255
Western	1,179	1,153	(26)	184
Total	12,337	11,848	(489)	1,833

* Includes police officers attached to Regions and Local Area Command and excludes officers who are part of Specialist Operations and Other Non Region Commands.

Source: NSW Police Force (unaudited)

PERFORMANCE INFORMATION

The following statistics on rates of crime and crime investigations have been provided by the Australian Bureau of Statistics (the Bureau) and are unaudited.

The Bureau acknowledges that not all crimes are reported to or recorded by the police in the various jurisdictions and this will impact the comparability of recorded crime levels between states. For example, New South Wales may record some incidents as crimes that other jurisdictions may not.

Rates of Crime

The following table compares the trend for crime rates against people in New South Wales to the national totals.

Year ended 31 December	Trend	%* inc/(dec) since 2005	2009	2008	2007	2006	2005
Crime Numbers							
NSW							
Murder	~	--	86	78	94	102	86
Attempted murder	↓	(18.1)	50	65	60	71	61
Manslaughter	↑	125.0	9	9	9	5	4
Assault	↓	(6.5)	75,928	79,847	84,850	82,771	81,168
Sexual Assault	↑	5.7	7,210	7,140	6,787	6,667	6,824
Kidnapping/abduction*	↓	(17.1)	384	539	449	451	463
Robbery	↓	(29.2)	6,768	8,089	9,346	9,242	9,565
Unlawful entry with intent	↓	(31.7)	70,693	80,433	84,761	87,539	103,449
Motor vehicle theft	↓	(23.0)	22,400	25,654	26,481	27,959	29,097
Other theft	↓	(8.3)	144,931	144,458	151,374	157,360	157,987
National							
Murder	↑	1.5	263	260	253	281	259
Attempted murder	↓	(12.5)	237	231	245	244	271
Manslaughter	↓	(28.6)	30	30	29	40	42
Assault**							
Sexual Assault	↑	0.6	18,807	19,992	19,954	19,555	18,695
Kidnapping/abduction***	↓	(22.6)	564	782	730	726	729
Robbery	↓	(11.3)	15,238	16,508	17,988	17,375	17,176
Unlawful entry with intent	↓	(21.0)	222,664	241,690	248,423	262,005	281,994
Motor vehicle theft	↓	(25.8)	59,649	68,270	70,650	75,377	80,365
Other theft	↓	(7.6)	478,807	496,697	492,222	518,734	518,335

* Percentage change between 2004-05 and 2008-09.

** Data on assaults not available for national.

*** Kidnapping/abduction statistics for NSW include 'deprivation of liberty' offences, which are not included for other jurisdictions. Management also advises that NSW encourages the reporting of all incidents, even if no investigation takes place. This information is used for intelligence purposes.

Key: ↑ Trending up, ↓ Trending down, ~ No Trend

Source: Australian Bureau of Statistics (unaudited)

Generally, the number of crimes against people in New South Wales was stable or has fallen when compared to previous years. The only categories to increase were murder, sexual assault and other theft. The Force advises some of the reasons for crime stabilising or falling include intelligence based policing strategies, identifying and targeting repeat and recidivist offenders as a way of reducing crime in local areas, and proactive and targeted local, regional and state based operations.

The New South Wales trends in all categories except attempted murder, sexual assault and other theft are consistent with the national trends. For sexual assault crimes, this is the second consecutive year sexual assaults in New South Wales have increased. The Force advises a change in the culture of proactive reporting, coupled with legislative requirements, has resulted in an increase in sexual assault reporting. Nationally sexual assaults have decreased by 5.8 per cent to 18,807 crimes.

Crime Investigations

In 2009-10, the Force spent 28.7 per cent (27.8 per cent) of its net cost of services on criminal investigations. Police effectiveness in this area is measured by the proportion of investigations finalised within 30 days of the offence becoming known. Analysis of the Force's performance in this area is illustrated in the following table.

Crime	% of investigations finalised in 30 days				% of investigations finalised in 30 days involving proceedings against offenders			
	NSW 2009	National Average 2009	NSW Ranking* 2009	NSW Ranking* 2008	NSW 2009	National Average 2009	NSW Ranking* 2009	NSW Ranking* 2008
Homicide	60.0	76.8	6/6	5/5	**	94.5	**	2/3
Robbery	22.8	36.2	7/8	7/8	82.6	82.9	5/8	8/8
Unlawful entry with intent	6.4	12.1	7/8	7/8	66.7	83.8	7/8	8/8
Motor vehicle theft	9.4	16.8	7/8	7/8	44.7	77.7	8/8	8/8
Other theft	11.8	17.9	7/8	7/8	73.9	79.5	7/8	7/8

* Information not available for all States/Territories for all categories. The rankings range from one to eight (highest to lowest)

** Information not available for publication in relation to homicide cases where there were proceedings against offenders
Source: Australian Bureau of Statistics (unaudited)

Overall clearance rates in New South Wales remain well below national averages for all categories. The Force advises the rankings are impacted by New South Wales being more likely to record incidents, even when there is no evidence available for investigation. It advises a project undertaken in cooperation with the Bureau concluded a lack of recording standards was the primary cause for differences in apparent crime rates.

The Force also advises this benchmark does not factor delays experienced in sourcing forensic examination results, which are generally not known until well after the 30 day benchmark.

Crime Rejection

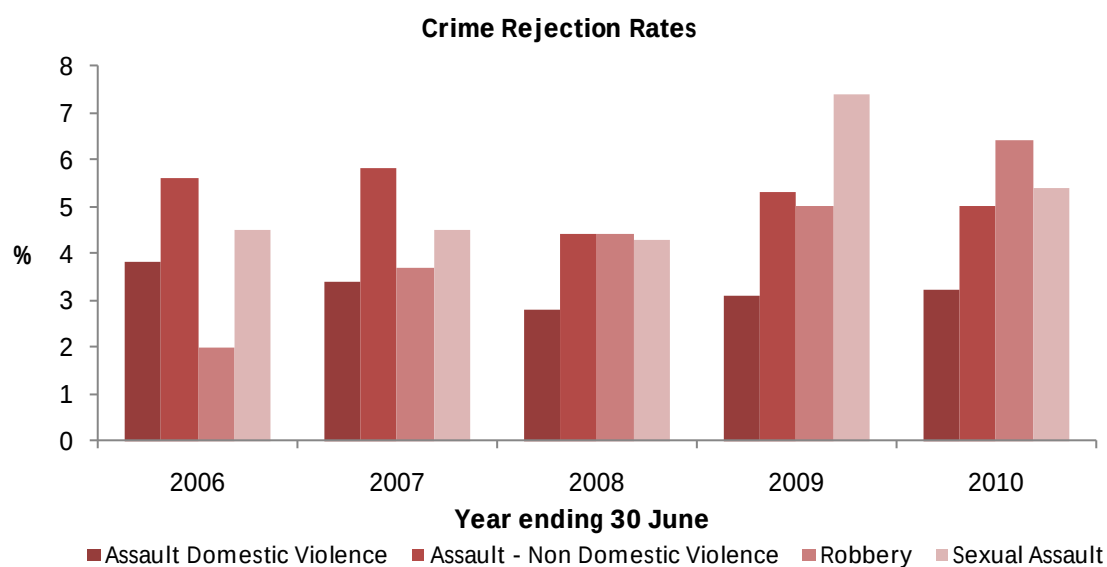
The Force classifies reported crimes as either accepted or rejected. A crime may only be rejected when there is evidence it did not occur. The Force advises its local area commands actively monitor rejection rates for most categories of crime. In April 2010 the Force's Performance Improvement & Planning Division also commenced quarterly reviews of rejection rates across the local area commands.

The table below shows the crime rejection rates greater than three per cent. Apart from robbery crimes, rejection rates have either remained static or fallen in 2009-10.

Crime Categories	2010			2009		
	Crimes Rejected	Total Crimes Reported	Percentage Rejected (%)	Crimes Rejected	Total Crimes Reported	Percentage Rejected (%)
Assault-Domestic Violence	856	26,424	3.2	825	26,573	3.1
Assault-Non Domestic Violence	2,172	43,118	5.0	2,355	44,640	5.3
Robbery	398	6,197	6.4	325	6,481	5.0
Sexual Assault	255	4,739	5.4	344	4,624	7.4

Source: NSW Police Force (unaudited)

The following graph shows the trend of rejection rates for the crime categories of assault (domestic and non-domestic), robbery and sexual assault over the last five years.



The Force advises the continued increase in rejection rates from robbery crimes is due to a change in their recording standard. Previously the Force would have classified some robbery crimes as doubtful. This category no longer exists. Rejection rates for assault crimes in 2009-10 are lower than the rates recorded in 2005-06.

OTHER INFORMATION

Recoupment of Workers Compensation Claims

I recommend the Force reviews processing of its workers compensation claims to minimise delays in recouping claims from the insurer.

The Force continues to experience delays in settling workers compensation claims with its insurer. At 30 June 2010, the Force was owed \$4.3 million (\$4.0 million) for claims lodged before 31 December 2009. The Force advises the main reason for delays is data matching issues. I also understand, from a recent internal audit review, that missing documents and the need for additional resources to clear the backlog of rejected claims have also contributed to the delays.

A project to automate the wage recoup process and establish an online wage recoup system was completed during 2008. The new process was expected to eliminate a considerable amount of data integrity errors and issues with missing documents. Co-ordination of the workers compensation functions was also allocated to a central area. It appears the intended benefits from the improved processing have not materialised.

Human Resources

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

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- management of excessive flex leave balances
- extent of overtime
- extent of contract staff.

Issues identified from my review will be reported in a management letter to the Force. A summary of the results of my review follows.

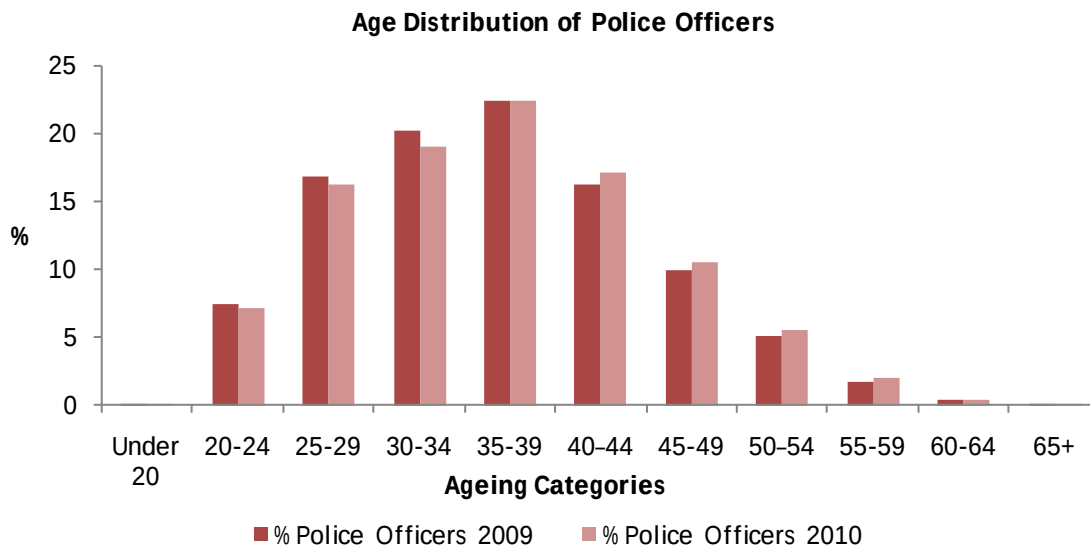
Workforce Ageing

The Force may face challenges from the potential loss of a large number of retiring police officers. The table below shows 7.8 per cent of police officers are 50 years and over. Many of the officers aged 50 and over are in senior positions such as sergeant, inspector, superintendent or assistant commissioner.

At 30 June Age Group	2010		2009	
	No. of Police Officers	%	No. of Police Officers	%
Under 20	2	0.0	13	0.1
20 - 49	14,087	92.2	14,283	92.8
50 - 54	845	5.5	782	5.1
55 - 59	297	2.0	262	1.7
60 - 64	50	0.3	47	0.3
65+	6	0.0	6	0.0
Total	15,287	100	15,393	100

Source: NSW Police Force (unaudited)

The graph below demonstrates the age structure of police officers.



Ageing - Unsworn Officers

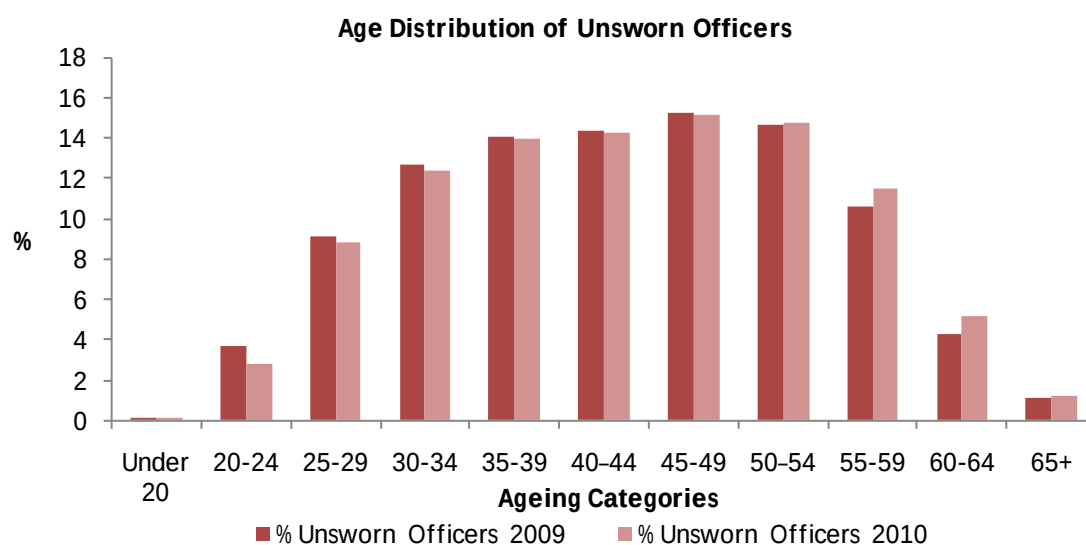
The Force's statistics below show that for unsworn officers:

- 17.8 per cent are aged 55 years and over
- 32.5 per cent are aged 50 years and over.

At 30 June Age Group	2010		2009	
	No. of Unsworn Officers	%	No. of Unsworn Officers	%
Under 20	6	0.2	6	0.2
20 - 49	2,470	67.3	2,598	69.1
50 - 54	539	14.7	551	14.7
55 - 59	421	11.5	400	10.6
60 - 64	188	5.1	161	4.3
65+	44	1.2	42	1.1
Total	3,668	100.0	3,758	100.0

Source: NSW Police Force (unaudited)

Reasonable numbers of unsworn officers are likely to retire within the next 10 to 15 years, which may result in a net loss of knowledge and skills. The graph below demonstrates the age structure of unsworn officers.



Source: NSW Police Force (unaudited)

To ensure the Force continues to have sufficient staff numbers appropriately distributed across the age categories in the future, it will need to actively monitor its workforce age profile and ensure strategies are in place to develop, attract and retain staff whose skills are aligned with the strategic direction of the Force.

Annual Leave

The Force should continue its efforts in managing excessive leave balances and continuously reassess the effectiveness of its policies.

Managing excessive annual leave balances remains a challenge for the Force. While the Force is actively managing this issue, there is still a high number of officers who have excessive leave balances at 30 June 2010, as shown in the table below. There were 4,149 sworn officers who had accrued more than 342 hours of annual leave and 484 unsworn officers who had accrued more than 280 hours of annual leave. These numbers show a marginal, but improving trend.

	2009-10	2008-09	2007-08
Sworn Officers with accumulated leave >342 hrs	4,149	4,861	4,874
Unsworn Officers with accumulated leave >280 hrs	484	576	645
Total	4,633	5,437	5,519

Excess leave balances can adversely affect an organisation. The associated financial liability generally increases over time as salaries increase. This can impact an organisation's cash flows and may also adversely affect staff through possible workplace health and safety issues.

Flex Time Balances

I recommend the Force develop mechanisms to centrally review flex time to help ensure excessive flex time is not being accrued and forfeited by unsworn officers.

Only unsworn officers are entitled to flex time. The Force's system records time worked by unsworn officers, however, it does not retain information on forfeited time. Without a central record of forfeited hours, management may not be aware of flex hours accrued and forfeited by unsworn officers.

The Force advises the flex time arrangements restrict unsworn officers from accumulating more than 42 hours credit from one twelve week cycle to the next. Unsworn officers are also encouraged to take their flex time regularly and are not expected to work excessive hours.

Overtime

Total overtime paid to employees during the year was \$35.3 million (\$39.7 million). This represents 3.3 per cent (3.9 per cent) of the Force's salaries and wages for the year. Slightly more than 94 per cent (93.6 per cent) of police officers were paid less than 10 per cent of their base salary as overtime.

Employment of Contract Employees

I recommend the Force create and maintain a single record of all contractors engaged by it.

The Force has implemented a number of policies, practices and procedures to manage the use of contractors including:

- its Expenditure Review Committee must approve the engagement and renewal of contractors
- its human resources division monitors continuation of contractors
- business units complete performance assessments of contractors.

However, the Force does not maintain a central register of contractors it has engaged during the year. This increases the risk of non-compliance with taxation and other employment laws and regulations. A centralised register also assists the Force in assessing its overall reliance on contractors and the length of time each contractor has been engaged. As a result the Force was unable to provide information on the period of service for each contractor at 30 June 2010. Retention of contract employees for extended periods may result in additional costs to the Force.

Court cases and costs against the Force

Contingent liabilities from legal claims lodged against the Force totalled \$75.0 million at 30 June 2010 (\$74.6 million). If a claimant is successful, the settlement is met by the Force's insurer, The Treasury Managed Fund.

FINANCIAL INFORMATION**Abridged Statement of Comprehensive Income**

Year ended 30 June	2010 \$'000	2009 \$'000
Employee related	2,156,851	2,015,488
Grants and subsidies	3,795	3,689
Other expenses	547,116	524,894
OPERATING EXPENSES	2,707,762	2,544,071
OPERATING REVENUE	80,188	96,926
Loss on disposal of non-current assets	9,976	5,438
NET COST OF SERVICES	2,637,550	2,452,583
Government contributions	2,561,839	2,388,208
DEFICIT	(75,711)	(64,375)
OTHER COMPREHENSIVE INCOME		
Net increase in revaluation reserve	51,466	80,789
TOTAL OTHER COMPREHENSIVE INCOME	51,466	80,789
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	(24,245)	16,414

The increase in employee related expenses was largely due to a \$42.9 million increase in the death and disability scheme liability. Other factors contributing to the increase were award increases, higher contributions to superannuation schemes, increased workers compensation insurance costs and associated taxes.

The decrease in operating revenue was the direct result of a reduction of grant funding. In 2008-09, the Force received \$6.7 million for the Asia-Pacific Economic Cooperation (APEC) meetings and \$10.9 million for World Youth Day, which culminated in September 2008 and July 2008 respectively. There were no such events and associated funding in 2009-10.

Government contributions rose largely due an increase in the recurrent appropriation to meet the operational needs of the Force.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	60,922	68,456
Non-current assets	1,604,682	1,534,482
TOTAL ASSETS	1,665,604	1,602,938
Current liabilities	539,760	476,095
Non-current liabilities	295,165	272,539
TOTAL LIABILITIES	834,925	748,634
NET ASSETS	830,679	854,304

The increase in total liabilities reflects a higher level of provisions required for employee entitlements and associated costs, plus the rising liability for the death and disability self-insurance scheme.

Abridged Service Group Information

The Force's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2010 Budget \$'000	2010 Actual \$'000	2009 Actual \$'000	2010 Actual \$'000	2009 Actual \$'000
Community Support	1,369,471	1,390,782	1,318,689	481,040	449,687
Criminal Investigation	634,276	756,328	681,672	236,757	231,437
Traffic and Commuter Services	211,427	301,292	285,796	83,285	101,303
Judicial Support	187,398	189,148	166,426	37,951	56,503
Not Attributable	--	--	--	(8,354)	15,374
Total all service groups	2,402,572	2,637,550	2,452,583	830,679	854,304

The primary reasons for actual net cost of services exceeding budget relate to the unexpected increases in the death and disability self-insurance liability and employee related expenses and entitlements.

ENTITY ACTIVITIES

The primary objective of the NSW Police Force is to work with the community to establish a safer environment by reducing violence, crime and fear.

In terms of the *Police Act 1990*, the Commissioner is given responsibility for the effective, efficient and economical management of the NSW Police Force. In exercising these functions, the Commissioner is subject to the direction of the Minister for Police.

For further information on the NSW Police Force, refer to www.police.nsw.gov.au.

Premier

Department of Premier and Cabinet

Election Funding Authority of New South Wales

Events New South Wales Pty Limited

Independent Commission Against Corruption

New South Wales Electoral Commission

Ombudsman's Office

Refer to Appendix 1 for:

Independent Pricing and Regulatory Tribunal

Infrastructure Implementation Corporation

Natural Resources Commission

Sesquicentenary of Responsible Government Trust Fund

Department of Premier and Cabinet

AUDIT OPINION

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

OTHER INFORMATION

Aboriginal Trust Fund Repayment Scheme

The Department received \$6.8 million as part of the budget allocation (\$9.0 million in 2008-09) towards the Aboriginal Trust Fund Repayment Scheme and paid \$945,227 (\$428,403) to claimants.

At 30 June 2010, there were 8,931 (8,595) potential claimants registered with the Scheme. Of these claims, 1,170 (1,160) are direct claims and 7,761 (7,435) are from people who wish to make a descendant claim. Interim assessments had been issued to 1,358 (561) claimants for their response and 1,154 (471) claims had been finalised.

Prior to 1969, successive New South Wales Governments deducted money from some Indigenous people's pensions, family endowment payments, apprentice wages, inheritances and lump sum compensation payments. This money was paid into a Trust Fund. In December 2004, the New South Wales Government announced it would establish an Aboriginal Trust Fund Repayment Scheme to repay the money.

e-Recruitment Project

The Department is currently managing the e-Recruitment project, established in July 2008, to implement a whole-of-government, technology based system to cover the full recruitment process of identifying vacant positions, through to the appointment of successful applicants.

Implementation of the e-Recruitment project is to be effected over seven key phases involving:

- a website (www.jobs.nsw.gov.au) development to provide a central point to advertise jobs with the New South Wales Government and accept online applications. The site has been online since 12 October 2009
- four pilot program agencies. Since 30 October 2009, these agencies have advertised jobs and are using the system to manage all aspects of the recruitment process, from creating the job through to appointing the successful candidate
- the rolling implementation of the end to end e-Recruitment system to all New South Wales agencies with straightforward recruitment requirements over four phases which:
 - Phase three 'went live' on 16 March 2010 (33 agencies)
 - Phase four 'went live' on 17 June 2010 (13 agencies)
 - Phase five 'went live' on 14 September 2010 (11 agencies)
 - Phase six 'went live' on 3 November 2010 (21 agencies)
- multi-phased deployment for agencies whose size and complexity of recruitment practices requires deployment over one or more phases. All of these are due to be complete by 30 June 2011.

The total budget for the project is \$29.8 million. Total expenditure to date to 30 June 2010 was \$8.4 million (\$2.7 million).

Human Resources

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

- management of annual leave balances in excess of threshold policies
- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of excessive flex leave balances
- extent of use of contract employees.

Issues identified from my review will be reported in a management letter to the Department. A summary of the results of my review follows.

Annual Leave Balances

The Department has actively managed employees with excessive annual leave balances in recent years. The number of employees with annual leave balances in excess of 40 days has declined from 145 employees at 30 June 2008 to 105 employees (11.6 per cent of total staff) at 30 June 2010.

Workforce Ageing

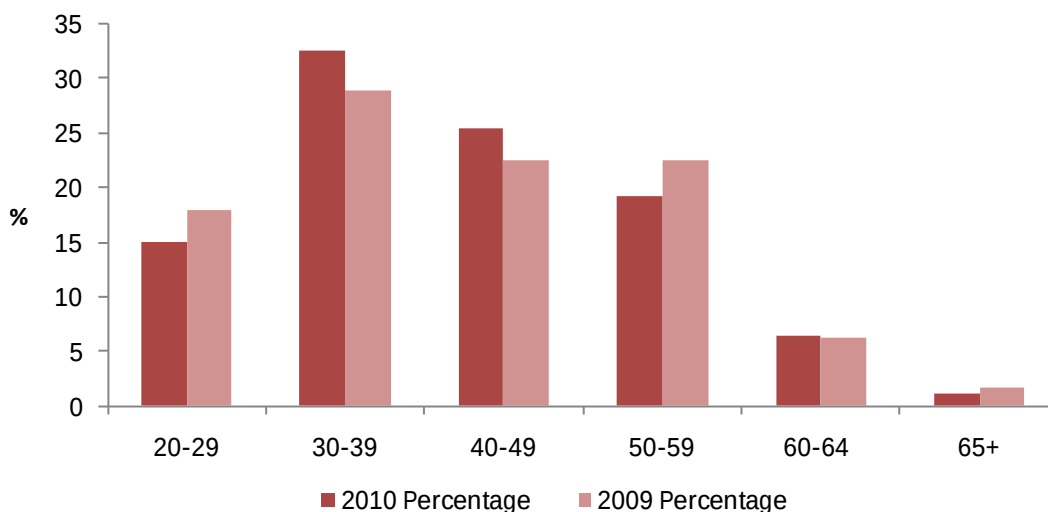
The Department has 26.9 per cent of employees aged 50 years or over trending down from 30.6 per cent at 30 June 2009. Compared to a number of other entities in the public sector the Department does not appear to be facing significant challenges of an ageing workforce.

At 30 June Age Group*	2010		2009	
	No. of staff	%	No. of staff	%
20 – 29	136	15.1	124	17.9
30 – 39	294	32.6	200	28.9
40 – 49	230	25.5	156	22.5
50 – 59	174	19.3	156	22.5
60 – 64	58	6.4	44	6.4
65+	11	1.2	12	1.7
Total	903	100.0	692	100.0

Source: DPC Payroll System (unaudited)

*This excludes staff considered as 'Special Temporary Employee' and Board Members.

Ageing Profile of Workforce



Flex Leave

The Department's employees had accumulated 3,943 days (2,224 days) of flex leave at 30 June 2010. The ten highest flex leave balances ranged from 93 days to 45 days (68 days to 30 days in 2009).

Up to 30 June 2010 flex time was not forfeited if unused. The Department advised that it has addressed flex time issues by negotiating a new agreement in August 2010. The emphasis of the new agreement is that flex time will be effectively managed by employees and managers. At the end of each financial year, only 3 banked days can be carried forward – any others are forfeited.

The new agreement now has links between the taking of flex leave and/or banked days and recreational leave balances. For example, an officer with over 40 days recreation leave cannot take flex leave and/or banked days until the recreation leave balance has been reduced to below 40 days.

Use of Contract Staff

The Department paid \$5.3 million (\$4.3 million) to a total of 78 (61) contractors in 2009-10 with some contractors being employed for longer than one year. Retention of contract employees for extended periods may result in additional costs to the Department.

The list below provides a breakdown of the 10 longest serving contractors.

Ranking	Position	Commencement Date
1	IT Manager/Specialist	Mar-06*
2	IT Specialist	Apr-06*
3	IT Specialist	Aug-06
4	IT Specialist	Apr-07
5	Project Manager	May-07
6	Executive Assistant	Feb-08
7	IT Specialist	Mar-08
8	IT Specialist	Mar-08
9	Facility Manager	Mar-08
10	Project Officer	Jun-08

Source: DPC (unaudited).

* The Department advised that these contractors may have been engaged prior to the earliest available payment records.

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

Ranking	Position	2009-10 \$
1	Project Manager	299,953
2	Project Manager	197,250
3	IT Specialist	158,743
4	Senior Business Analyst	154,586
5	Senior Business Analyst	143,020
6	Technical Writer	129,656
7	IT Specialist	128,616
8	Planning Contractor	126,280
9	IT Specialist	122,704
10	IT Specialist	118,741

Source: DPC (unaudited).

The Department advised it uses contractors where it does not have sufficient in-house expertise and where it is appropriate and cost effective to do so.

Control Issues

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

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Employee related	119,463	102,469
Grant and subsidies	115,071	17,610
Other expenses	110,471	86,202
OPERATING EXPENSES	345,005	206,281
OPERATING REVENUE	17,528	9,284
Other losses	(194)	--
NET COST OF SERVICES	327,671	196,997
Government contributions	330,719	192,728
SURPLUS/(DEFICIT)	3,048	(4,269)
OTHER COMPREHENSIVE INCOME	--	--
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	3,048	(4,269)

The increase in employee related expenses was due mainly to the inclusion of the Division of Local Government (DLG) and Ministry for Police employees, which were separate entities in 2009.

Grants and subsidies expense includes \$76.6 million in Pensioner Rebate Scheme payments undertaken by DLG.

The increase in other expenses was mainly due to: inclusion of \$7.5 million of DLG expenses; government expenditures associated with the Forbes Global CEO conference; and significant contractor expenditure in the National Building and Job Plan, Community Engagement and Events divisions of the Department.

The increase in operating revenue was largely due to \$6.2 million in Companion Animal registration fees received by DLG.

Government contributions increased primarily due to the inclusion of contributions of \$86.6 million to DLG and increased funding associated with the Community Building Partnerships program.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	44,061	26,517
Non-current assets	12,947	12,460
TOTAL ASSETS	57,008	38,977
Current liabilities	26,910	20,627
Non-current liabilities	5,208	331
TOTAL LIABILITIES	32,118	20,938
NET ASSETS	24,890	18,039

Current assets increased mainly due to the inclusion of DLG's cash balance of \$7.1 million.

The rise in current liabilities was due primarily to the inclusion of DLG and Ministry of Police employee benefits liabilities.

The increase in the make good provision of the Department's occupancy leases of \$4.1 million was the major reason for the increase in non-current liabilities.

Abridged Service Group Information

The Department's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2010 Budget** \$'000	2010 Actual \$'000	2009 Actual \$'000	2010 Actual \$'000	2009 Actual \$'000
State Plan Leadership and Support	6,028	3,631	3,686	(404)	(329)
Economic and Regional Coordination	79,999	41,792	15,932	(2,823)	(1,436)
Services and Capabilities Improvement	33,618	27,557	16,431	(4,169)	(1,018)
Policy Support	52,893	36,498	26,883	846	2,030
Administrative Support for Government	110,773	129,486	134,065	(2,872)	(3,049)
Capacity Building, Oversight and Provision of Advice for Local Government***	10,215	9,142	--	(370)	--
Pensioner Rebate Scheme***	76,000	76,619	--	--	--
Companion Animals Program***	623	(350)	--	(489)	--
Advice and Ministerial Support***	4,763	3,296	--	(470)	--
Portfolio Coordination***	2,798	--	--	--	--
Not Attributable*	--	--	--	35,641	21,841
Total all service groups***	377,710	327,671	196,997	24,890	18,039

* Represents items that could not be reliably allocated to a 'service group'.

** For the 2009-10 budget papers - includes transfer payment of \$35.0 million paid to Events NSW Pty Ltd. The actuals do not include the transfer payment.

*** Due to the Administrative Change Order, the following service groups were transferred to the Department of Premier and Cabinet. Consequently, the total budget for service groups does not agree to the 2009/10 Budget Estimates.

The \$38.2 million budget to actual variation in Economic and Regional Coordination is mainly due to under expenditure in the Community Building Partnership program. This under expenditure was carried forward to 2010-11 and the program has now been transferred to Communities NSW.

DEPARTMENT ACTIVITIES

The Department of Premier and Cabinet's role is to:

- provide support to the Premier and Cabinet, Ministers and agencies to integrate and co-ordinate policy across the sector and ensure efficient machinery of government
- co-ordinate the New South Wales State Plan as well as a role as lead agency and partner agency
- provide improvement in workforce capability including developing workforce planning strategies, increasing human resource capacity and supporting agencies on employee relations aspects of recruitment and organisation change
- provide leadership to deliver state infrastructure improvements and to maintain business investment in the state
- review and reform public sector performance including customer service
- co-ordinate and plan significant state events to ensure quality, safety and benefit for the community.

For further information on the Department, refer to www.dpc.nsw.gov.au.

Election Funding Authority of New South Wales

AUDIT OPINION

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

FINANCIAL INFORMATION

Year ended 30 June	2010 \$'000	2009 \$'000
Election related expenses	839	392
Political education expenses	1,807	1,811
TOTAL EXPENSES	2,646	2,203
Government contributions	2,646	2,203
TOTAL REVENUE	2,646	2,203
SURPLUS	--	--
TOTAL OTHER COMPREHENSIVE INCOME	--	--
TOTAL COMPREHENSIVE INCOME	--	--
NET ASSETS	--	--

The Authority has no physical assets or employees. The New South Wales Electoral Commission administers its transactions.

Payments to political parties for political education during the year ended 30 June were:

Political Party	2010 \$'000	2009 \$'000
Australian Labor Party (NSW Branch)	762	762
Liberal Party of Australia NSW Division	584	584
National Party of Australia - NSW	218	218
The Greens	194	194
Christian Democratic Party	49	53
Total	1,807	1,811

AUTHORITY ACTIVITIES

The Authority registers groups and candidates for elections and meets claims for the public funding of election campaigns. It also:

- receives contribution and expenditure declarations from parties, groups, candidates and third parties for State and Local government elections
- distributes annual political education payments to eligible political parties based on the number of votes in prior election. The purpose of political education includes the posting of written materials and information.

For further information on the Election Funding Authority of New South Wales, refer to www.efa.nsw.gov.au.

Events New South Wales Pty Limited

AUDIT OPINION

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

OTHER INFORMATION

V8 Supercar Races at Sydney Olympic Park

During the year I conducted a Performance Audit of the Government's investment in the V8 supercar races at Sydney Olympic Park.

I recommended a series of measures to help Events New South Wales and other major event agencies adopt a more coherent strategy for their approach and assessment of major events including:

- Events New South Wales providing expert advice for assessing and negotiating major event proposals
- agencies agreeing a consistent method for determining the impacts of major events
- more consistent, complete and accurate costing of major events by agencies
- agencies expanding their reporting on the performance of major events.

Events New South Wales agreed to the recommendations.

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

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Government contributions	35,000	31,000
Other Revenue	1,246	646
OPERATING REVENUE	36,246	31,646
Employee Related	4,511	3,505
Other Expenses	32,289	33,490
OPERATING EXPENSES	36,800	36,995
DEFICIT	(554)	(5,349)
OTHER COMPREHENSIVE INCOME		
Superannuation actuarial losses	(92)	(480)
TOTAL COMPREHENSIVE EXPENSE	(646)	(5,829)

Employee related expenses rose largely due to the full year impact of staff engaged part way through 2009 as well as an increase in staff numbers throughout 2010 to complete the company's recruitment program.

The reduction in the deficit was due predominantly to utilising the carry forward \$5.9 million savings from the first year of operations.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	2,640	5,899
Non-current assets	975	884
TOTAL ASSETS	3,615	6,783
Current liabilities	2,288	4,884
Non-current liabilities	691	617
TOTAL LIABILITIES	2,979	5,501
NET ASSETS	636	1,282

The decline in current assets was in cash and cash equivalents of \$3.5 million and the fall in current liabilities of \$2.7 million was due mainly because this year more creditors were paid before year-end.

The company was involved with a variety of different events during the year including the:

- Vivid Festival
- Crave Festival
- Repco Rally World Championships
- Australian Open Golf-Men
- Triathlon World Championships
- Sydney Autumn Carnival
- Sydney Film Festival
- Tamworth Music Festival
- Sydney Festival First Night
- Screen Producers Association of Australia Conference.

COMPANY ACTIVITIES

The objectives of Events New South Wales are to:

- identify, attract and nurture events which will provide significant economic and/or community benefits to Sydney and New South Wales – now and in the long term
- promote a New South Wales Master Events Calendar cultural, sporting, lifestyle, entertainment, regional and business events which bring year-round benefits
- leverage off these events to maximise the overall economic and community benefits for New South Wales
- endorse a strong regional focus to ensure economic and community benefits are shared throughout the State
- encourage investment, infrastructure development and other activities so Sydney and New South Wales can continue to be a leading host of major global events.

For further information on the Company, refer to www.eventsnsw.com.au.

Independent Commission Against Corruption

AUDIT OPINION

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

PERFORMANCE INFORMATION

The Commission completed 90 per cent (87 per cent in 2008-09) of its investigations within 12 months, against a target of 90 per cent. The information contained in the table below shows the levels of complaints the Commission received, investigated, referred to other agencies or assessed as requiring no further action. Outcomes of investigations have also been provided.

Year ended 30 June	Target	2010	2009	2008	2007	2006
Complaints						
Matters received	<i>na</i>	2,710	2,714	2,702	2,149	2,191
Investigated	<i>na</i>	138	58	78	73	56
Referred to other agencies or assessed as requiring no further action	<i>na</i>	2,127	2,300	2,493	1,673	2,051
Outcomes of Investigations						
Corrupt conduct findings:						
- identified corrupt conduct	<i>na</i>	28	52	51	17	61
- investigations completed within 12 months (%)	>90	90	87	90	92	82
- recommendations addressed by agencies* (%)	>80	98	93	85	91	85

Source: Independent Commission Against Corruption (unaudited).

* Recommendations partially or fully implemented, as reported by agencies, including instances where agencies have considered recommendations and found alternative ways of addressing them. In 2006 to 2008, 'addressed' included instances where the agency did not agree with the recommendation.

na - not applicable.

The number of complaints received by the Commission was similar to last year. The percentage of complaints investigated has fluctuated between 2.5 per cent and 5.1 per cent over the last five years. The number of matters investigated increased in 2009-10 due to a larger number of complaints received and there was a corresponding drop in the number of matters referred to other agencies or in which the Commission took no action.

There has also been a significant increase in the number of public inquiries and compulsory examinations:

Year ended 30 June	2010	2009
Public Inquiries	12	7
Compulsory Examinations	124	33
Total	136	40

The number of matters in which it is appropriate to conduct public inquiries or compulsory examinations will fluctuate depending on the quality and seriousness of the information provided to the Commission each year, the number of matters referred for preliminary investigation and the number of matters escalated from preliminary to full investigations.

Management has advised that the Commission sought supplementations from The Treasury to fund the increased workload.

FINANCIAL INFORMATION

Year ended 30 June	2010 \$'000	2009 \$'000
Employee related expenses	14,621	13,496
Other expenses	5,400	4,556
TOTAL EXPENSES	20,021	18,052
TOTAL REVENUE	560	782
NET COST OF SERVICES	19,461	17,270
Government contributions	18,867	18,198
SURPLUS/(DEFICIT)	(594)	928
OTHER COMPREHENSIVE INCOME		
Decrease in asset revaluation reserve	--	(2)
TOTAL OTHER COMPREHENSIVE INCOME	--	(2)
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	(594)	926
NET ASSETS	2,315	2,909

In 2009-10, government contributions increased to fund the completion of the Commission's new complaints handling and case management system.

Abridged Service Group Information

The Commission's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2010 Budget \$'000	2010 Actual \$'000	2009 Actual \$'000	2010 Actual \$'000	2009 Actual \$'000
Corruption Investigation	14,297	15,958	14,160	1,899	2,232
Corruption Prevention, Research and Education	3,814	3,503	3,110	416	677
Total all service groups	18,111	19,461	17,270	2,315	2,909

The lower than forecast revenue from the provision of shared corporate services and the increase in extended leave present value expense contributed to a higher actual net cost of services in 2009-10.

COMMISSION ACTIVITIES

The Commission, established by the *Independent Commission Against Corruption Act 1988*, is responsible for promoting and enhancing integrity in public administration throughout New South Wales by investigating, exposing and minimising corruption.

For further information regarding the Commission, refer to www.icac.nsw.gov.au.

New South Wales Electoral Commission

AUDIT OPINION

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

PERFORMANCE INFORMATION

Last year, I reported a significant fall in voter participation in the 2008 Local Government Elections when compared to recent State Government Elections. The State Penrith By-Election in June 2010 resulted in similar voter participation as in the 2008 Local Government Elections.

The table below compares voter participation rates for the 2010 Penrith By-Election, 2008 Local Government Election and State Government Elections.

	2010 State Government Penrith By-Election	2008 Local Government Election	2007 State Government Election	2003 State Government Election	1999 State Government Election
Number of Enrolments ('000)	46	4,544	4,374	4,272	4,115
Voter Participation (%)	86.2	85.2	92.7	91.9	93.1
Penalty notices for not voting ('000)	4	398	152	207	106
Number of citizens asking to be excused from the fine ('000)	2	232	82	125	65
Number of requests granted ('000)	2	227	81	125	63

Source: New South Wales Electoral Commission (unaudited).

FINANCIAL INFORMATION**Abridged Statement of Comprehensive Income**

Year ended 30 June	2010 \$'000	2009 \$'000
Employee related	7,338	5,995
Other expenses	12,993	33,292
TOTAL EXPENSES	20,331	39,287
TOTAL REVENUE	1,138	25,006
NET COST OF SERVICES	19,193	14,281
Government contributions	25,201	16,048
SURPLUS	6,008	1,767
OTHER COMPREHENSIVE INCOME	--	--
TOTAL COMPREHENSIVE INCOME	6,008	1,767

Government contributions increased largely due to \$5.5 million towards the cost of building the Smart Electoral Enrolment Register (Smart Roll). The Smart Roll project commenced in 2010 and will be completed by March 2011. The Smart Roll is aiming to ensure citizens who are eligible to vote are on the electoral roll and to deliver a more up-to-date, accurate and comprehensive roll for upcoming elections.

In 2008-09, the Commission earned \$23.3 million for rendering services to Local Councils and spent \$21.1 million on Local Government Elections.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	2,999	7,635
Non-current assets	15,717	7,750
TOTAL ASSETS	18,716	15,385
TOTAL LIABILITIES	2,748	5,425
NET ASSETS	15,968	9,960

COMMISSION ACTIVITIES

The Commission assists the Electoral Commissioner administer the *Parliamentary Electorates and Elections Act 1912* by enrolling electors, preparing rolls and conducting elections. The Commission conducts council elections under the *Local Government Act 1993* and other statutory and industrial ballots.

For further information on the New South Wales Electoral Commission, refer to www.elections.nsw.gov.au.

Ombudsman's Office

AUDIT OPINION

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

PERFORMANCE INFORMATION

Formal Complaints and Notifications

In 2009-10, the Office received 32,509 (32,994 in 2008-09) complaints, inquiries and notifications. Of these, 8,712 (8,742) were formal complaints and notifications, which was slightly down over the prior year. The extension of 'class and kind agreements' with a number of agencies contributed to these reductions. These agreements mean certain agencies need not notify certain classes of complaint or allegation to the Ombudsman. A summary of complaints and notifications by agency type follows.

Year ended 30 June	2010		2009		2008		2007	
	Received	Finalised*	Received	Finalised*	Received	Finalised*	Received	Finalised*
Police	3,032	3,093	2,948	3,094	2,969	3,254	3,466	3,555
Employment related child protection	1,406	1,483	1,711	1,715	1,920	1,921	2,078	1,830
Community services	775	720	635	704	767	737	560	569
Public sector agencies	3,222	3,209	3,057	2,993	3,280	3,268	3,196	3,223
Agencies outside jurisdiction	277	276	391	397	384	364	392	392
Total	8,712	8,781	8,742	8,903	9,320	9,544	9,692	9,569

Source: Ombudsman's Office (unaudited).

* Includes complaints and notifications received in previous years.

Requests for Reviews of Finalised Decisions

Complainants can ask the Ombudsman to review finalised decisions made by his staff. The Office has set the following performance target for each team tasked with making these decisions and uses this as a measure of the quality of the services it provides.

Year ended 30 June	Target		Actual			
	2010 %	2010 %	2009 %	2008 %	2007 %	2006 %
Request for review						
Police	<1.8	1.4	2.0	1.5	1.7	1.6
Employment related child protection	<6.0	12.2*	8.3	7.1	2.5	6.3
Community services	<6.0	0.6**	0.9	0.4	1.4	1.9
Public Sector Agencies***	<6.0	4.8	5.0	5.8	6.0	5.1

Source: Ombudsman's Office (unaudited).

* percentage is based on complaints received in the employment related child protection jurisdiction, and excludes 1,442 notifications finalised this year.

** Includes Juvenile Justice, previously included with public sector agencies.

*** Includes agencies outside jurisdiction.

The Ombudsman's work in the employment related child protection area is to oversight how agencies handle allegations of misconduct towards children. Only a small part of the Ombudsman's work is responding to complaints made directly to the Ombudsman about how those allegations have been handled. Forty one (48) such complaints were made during the year and five (four) complainants sought a review of the Ombudsman's decision.

Outcomes of Reviews of Finalised Decisions

	Total Requests for Review Received	Total Decisions Reviewed*	Affirmed	Resolved	Reopened
Police	42	35	35	--	--
Employment related child protection	5	5	5	--	--
Community services	5	5	3	--	2
Public sector agencies	162	156	137	6	13
Agencies outside jurisdiction	1	1	1	--	--
Total 2009-10	215	202	181	6	15
% of total decisions reviewed	--	--	90	3	7
Total 2008-09	242	242	208	15	19
% of total decisions reviewed	--	--	86	6	8

Source: Ombudsman's Office (unaudited).

* Some reviews are not finalised in the same year of request.

In 90 per cent (86 per cent) of cases the original decision made by the delegated officer was affirmed by the Ombudsman and three per cent (six per cent) were resolved after the Ombudsman made further contact with the agency and it agreed to take action to resolve the complaint.

OTHER INFORMATION

The Office was restructured in October 2009 to address ongoing financial pressures, the loss of senior staff and to bring the Office in line with broader public sector structural changes. The Ombudsman reviewed his community education and training activities, to better co-ordinate and deliver training and education services to public sector and other relevant agencies and to the community. This change in direction has resulted in increased revenue for the Ombudsman.

The Ombudsman was given additional responsibilities during 2009-10, the most significant being auditing the implementation of the New South Wales Interagency Plan to Tackle Child Sexual Assault in Aboriginal Communities. This is one of the largest single pieces of work the Ombudsman has ever taken on. A report on the Ombudsman's work in this area is expected at the end of 2012.

With the introduction of the *Government Information (Public Access) Act 2009*, the Ombudsman's external review role under the *Freedom of Information Act 1989* came to an end.

Details of the work of the Ombudsman can be found in his 2009-10 annual report, which can be accessed at www.ombo.nsw.gov.au

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Employee related	16,997	18,020
Other expenses	4,139	4,585
TOTAL EXPENSES	21,136	22,605
TOTAL REVENUES	436	251
NET COST OF SERVICES	20,700	22,354
Government contributions	21,532	21,845
SURPLUS/(DEFICIT)	832	(509)
TOTAL OTHER COMPREHENSIVE INCOME	--	--
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	832	(509)

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	1,712	629
Non-current assets	1,651	1,233
TOTAL ASSETS	3,363	1,862
TOTAL LIABILITIES	2,675	2,006
NET ASSETS/(LIABILITIES)	688	(144)

Abridged Service Group Information

The Office's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets/(Liabilities)	
	2010 Budget \$'000	2010 Actual \$'000	2009 Actual \$'000	2010 Actual \$'000	2009 Actual \$'000
Complaint Advice, Referral, Resolution or Investigation	10,098	9,447	10,405	326	(67)
Oversight of Agency Investigation of Complaints	4,499	4,206	4,633	143	(31)
Scrutiny of Complaint Handling and Other Systems	6,833	6,814	7,043	219	(46)
Review of Implementation of Legislation	120	233	273	--	--
Total all service groups	21,550	20,700	22,354	688	(144)

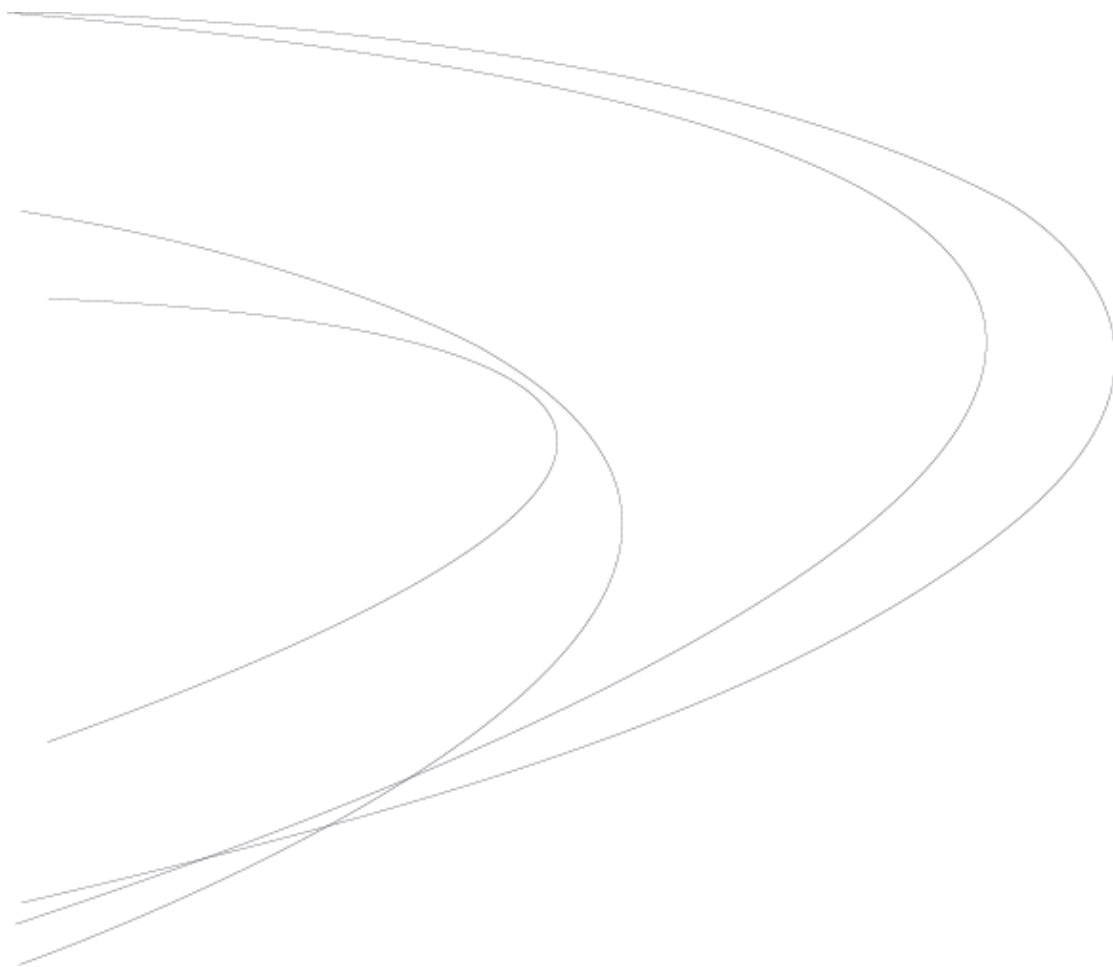
OFFICE ACTIVITIES

The Office was established by the *Ombudsman Act 1974*. It deals with complaints about New South Wales' public sector agencies (including local councils) and community service providers on matters about child and family services, disability accommodation and support, home and community care and other services. The Office also oversees and monitors the investigation of allegations relating to child protection against employees of government agencies and certain private organisations such as schools and childcare centres. The Office also reviews the deaths of certain children, young people and people with a disability in care.

For further information on the Office, refer to www.ombo.nsw.gov.au.

Appendix

Appendix 1 Agencies not reported elsewhere in this Volume



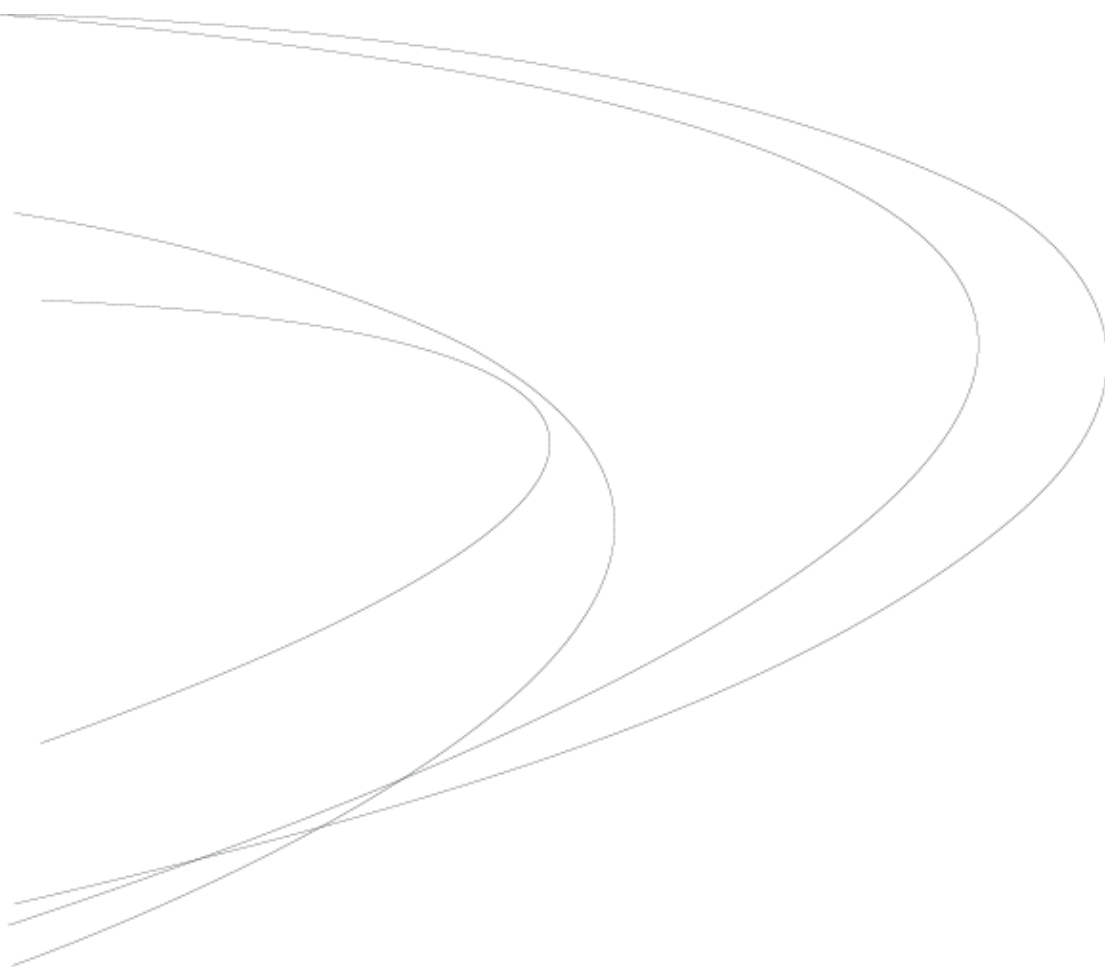
Appendix 1 - Agencies not reported elsewhere in this Volume

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

Entity Name	Website	Period/Year Ended
Bush Fire Co-ordinating Committee	*	30 June 2010
Independent Pricing and Regulatory Tribunal	www.ipart.nsw.gov.au	30 June 2010
- Independent Pricing and Regulatory Tribunal Division	*	30 June 2010
Infrastructure Implementation Corporation	www.premiers.nsw.gov.au	30 June 2010
Judicial Commission of New South Wales	www.judcom.nsw.gov.au	30 June 2010
Legal Profession Admission Board	www.lawlink.nsw.gov.au/lpab	30 June 2010
Natural Resources Commission	www.nrc.nsw.gov.au	30 June 2010
- Natural Resources Commission Division	*	30 June 2010
New South Wales Crime Commission	www.crimecommission.nsw.gov.au	30 June 2010
- New South Wales Crime Commission Division	*	30 June 2010
- Office of the New South Wales Crime Commission	*	30 June 2010
Office of the Information Commissioner	www.oic.nsw.gov.au	30 June 2010
Police Integrity Commission	www.pic.nsw.gov.au	30 June 2010
- Police Integrity Commission Division	*	30 June 2010
Sesquicentenary of Responsible Government Trust Fund	*	30 June 2010
State Rescue Board	*	30 June 2010

* This entity does not have a website.

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AUDITOR-GENERAL'S REPORT FINANCIAL AUDITS

Volume Nine 2010



The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

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

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

Peter Achterstraat
Auditor-General

Sydney
December 2010

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Significant Items

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Transport Services Overview	
Passenger revenues covered 48 per cent of the State Transit Authority's, 33 per cent of Sydney Ferries' and 22 per cent of RailCorp's costs.	4
Sydney Ferries' patronage increased by 0.2 per cent, CityRail's patronage declined by 0.8 per cent and Sydney Buses' patronage declined by 1.5 per cent.	5
At least 96 per cent of CityRail, Sydney Buses and Sydney Ferries services ran on time during the year.	8
Of the \$412 million spent on the Sydney Metro, \$356 million represents expenditure with no apparent future benefit to New South Wales.	14
Transport NSW needs to consider how it will manage potential conflicts of interest that may arise within the new transport structure.	14
Over 70 contract employees engaged by transport entities have been contracted for more than six years.	15
A total of 906 employees at transport entities were paid 50 per cent or more of their annual salary in overtime.	18
The transport entities employ over 28,500 employees, 38 per cent of these are over 50 and likely to retire in the next 5 to 15 years.	20
Of the top five major capital projects reported by each transport entity (excluding TNSW, ITSR, PTTC and OTSI) 13 are over budget or behind schedule or both.	27
Land and Property Management Authority	
I was unable to obtain all the information required to form an opinion on the value of Crown reserve land, the buildings and infrastructure on those reserves, or coastal infrastructure that should be recorded in the Authority's financial statements.	33
Since 2007, I have reported that there is no centralised inventory of all Crown Land in NSW. Funding has now been received to establish such an inventory by June 2012.	34
Of 26,895 Aboriginal Land claims to 30 June 2010, 17,436 remained unresolved at that date, with 293 remaining unresolved for more than ten years.	36
Land, valued at \$966 million, granted to Aboriginal Land Claimants has not been transferred because of delays in transferring legal title. At current transfer rates it may take more than 20 years to clear these claims.	36
State Property Authority	
The Authority's liability for remediation of contaminated land has increased to \$115 million at 30 June 2010.	44

	Page
Department of Industry and Investment	
There are more than 570 derelict mines and funding of \$1.9 million only enabled the rehabilitation of 26 of these sites.	78
Redfern-Waterloo Authority	
Significant uncertainty exists as to the Authority's liability for rates and taxes.	101
The Authority's funding agreement with the NSW Government expires on 30 June 2011.	101
Roads and Traffic Authority	
The Authority's major project to upgrade its Driver and Vehicle System (DRIVES) has experienced significant issues with project management and governance.	107
The value of land under roads decreased by \$33.3 billion due to a change in valuation methodology.	107
The average morning peak speed for Victoria Road increased from 21 to 26 km/h while for the M5/Eastern Distributor it decreased from 41 to 35 km/h.	111
Public Transport Ticketing Corporation	
The Corporation has engaged a consortium to build and maintain an electronic ticketing system at a cost of \$1.2 billion.	136
The TCard litigation may be heard by the court in the second half of 2011.	137
Rail Corporation New South Wales	
RailCorp implemented a new \$35.1 million procurement system. During the five months between go live and 30 June 2010, over \$100 million in supplier payments were late and payments totalling more than \$4 million were duplicated.	141
RailCorp advised the introduction of MyZone fares has resulted in an estimated reduction of \$9.2 million in ticket sales revenue arising from lower ticket prices.	142
RailCorp has implemented 37 of ICAC's 40 recommendations in its report on fraud and/or bribery relating to procurement and is implementing the remaining three.	143
Completion of the 626 new Waratah train carriages is running ten months behind schedule.	146
RailCorp's overtime bill was \$128 million with more than 413 employees being paid 50 per cent or more of their annual salary in overtime.	148
The number of CityRail fleet failures affecting peak services is reducing. On average 2.6 per cent of all carriages failed every month in 2009-10.	150
CityRail's on time running performance exceeded its target of 92 per cent with a record 95.9 per cent of peak services arriving at destinations on-time.	153
Total customer complaints increased by 23.9 per cent to 26,318, and primarily related to the CityRail timetable. Service complaints replaced staffing as the major area of complaint.	156
RailCorp had around 590 contractors at 30 June 2010, 170 of whom cost more than \$1,000 each per day.	158

Rail Corporation New South Wales(continued)

RailCorp is spending \$870 million over eight years upgrading its electrical infrastructure. The upgrade is essential so it can reliably operate the new Waratah cars. 159

Rail Infrastructure Corporation

The Corporation may terminate the 60 year Country Regional Network management agreement with the Australian Rail Track Corporation. The Corporation advises it would not be liable for penalties, but would be liable for disengagement costs. 168

Backlog maintenance has increased by \$33 million to \$731 million, and is expected to be cleared over the next 10-12 years 170

State Transit Authority of New South Wales

State Transit's patronage decreased by 1.5 per cent from 208 million to 205 million passenger journeys. 174

Sydney Ferries

The Ferry Operations and Customer Information System project has been delayed by 12 months because of design issues. 188

Just over 98 per cent of Sydney Ferries' services were on time. Sydney Ferries target is 99.5 per cent. 189

Fleet failures decreased from 405 failures in 2008-09 to 316 in 2009-10. 190

Transport Infrastructure Development Corporation

A shortage of signal engineering resources continues to delay the commissioning of infrastructure projects. 201

The revised Rail Clearways program is expected to be completed by 2015, some five years after the original program completion date at a cost of \$2.03 billion (previously \$1.3 billion). 202

Luna Park Reserve Trust

There is uncertainty as to whether the operator of Luna Park will continue as a going concern. 213

Recommendations

	Page
Transport Services Overview	
<i>Sydney Metro</i>	
I recommend the New South Wales Government identify lessons learnt from the metro experience and ensure that future decision processes are developed to ensure the State never again expends such a large amount of scarce transport funding dollars and valuable time on a project that does not proceed.	13
<i>State Transit Authority</i>	
I recommend Transport NSW review the appropriateness of State Transit being a for-profit entity under the National Tax Equivalent Regime.	14
I recommend:	
▪ TNSW develops an appropriate framework to manage potential conflicts of interests that may arise within the new transport structure.	14
▪ transport entities review the effectiveness of their practices in monitoring their contractor workforce.	14
I again recommend transport entities review the effectiveness of their policies for managing excessive annual leave balances, despite marginal improvements since last year.	19
I recommend:	
▪ each transport entity continue to develop and implement effective policies to manage their ageing workforce.	20
▪ Sydney Ferries and the RTA investigate the costs and benefits of implementing systems to determine and monitor the cost of vandalism so that potential trends can be identified and addressed.	24
▪ TNSW reconsider the appropriateness of employment arrangements for State Transit to avoid further losses of Commonwealth Government grants.	25
▪ TNSW continues to monitor major capital projects being delivered by transport entities to help ensure they are delivered on time and within budget.	26
Land and Property Management Authority	
I recommend:	
▪ the Authority identifies and values all assets under its control so they can be recognised in its financial statements.	33
▪ the Authority establish an appropriate centralised record of all Crown land in New South Wales to meet its responsibilities under the <i>Crown Lands Act 1989</i> .	34

	Page
Land and Property Management Authority (continued)	
▪ the Authority develops a strategic framework to guide the future maintenance, development and use of the Government Property Register. I also recommend the limitations identified in the Government Property Register be resolved so that it becomes a complete and reliable record of all New South Wales Government property assets.	34
I recommend the Authority continues to work with agencies experiencing difficulty finalising 2010 annual reconciliations of the GPR with agency records, to ensure a complete reconciliation is achieved as soon as possible.	35
Since 2007, I have been recommending that the Authority significantly reduces the time taken to process Aboriginal Land Claims and transfer legal title to successful claimants.	
I have also been recommending that legal title over land granted to successful Aboriginal land claimants be issued as soon as practicable.	36
I recommend: ▪ the Land and Property Management Authority implement improved quality control procedures over its Treasury Online Entry System (TOES) input processes.	37
▪ the Authority establish a central registry of all contractors and periodically review the roles and responsibilities of all its contractors to ensure: ▫ its reliance on contractors is not excessive ▫ using contractors instead of permanent employees is appropriate ▫ contractors do not become de facto employees by virtue of being with the Authority for an extended period of time ▫ using a contractor continues to represent good value for money.	40
▪ the Authority develop mechanisms to centrally review flex time records to help ensure excessive flex time is not being accrued and forfeited by staff.	40
State Property Authority	
I recommend the Authority review its property remediation activities, including: ▫ assessing the risk of further increases in estimated remediation costs ▫ identifying how the Authority will fund any further increases ▫ developing strategies to minimise the risk of further increases.	44
Barangaroo Delivery Authority	
I recommend the Authority: ▪ enhance its project governance arrangements to manage the increasing risks during the implementation of this landmark project.	64

	Page
Department of Industry and Investment	
I recommend the Department:	
▪ establish appropriate governance arrangements throughout its cluster, including seeking Crown Solicitor's advice, if necessary.	77
▪ seek adequate funding to identify, assess and rehabilitate derelict mine sites.	78
▪ develop mechanisms to centrally review flex time records to ensure excessive flex time credits are not being forfeited by staff.	81
maintain a central register for contractors not paid through the human resource systems to reduce the risk of non-compliance with taxation and employment legislation.	81
Forestry Commission of New South Wales (trading as Forests NSW)	
I recommend the Commission:	
▪ continues to review and improve its valuation method for its plantation and native forests.	86
▪ continue to enforce individual plans with employees to reduce excessive annual leave balances within an acceptable timeframe.	87
▪ maintain a central register for contractors not paid through the human resource systems to reduce the risk of non-compliance with taxation and employment related legislation.	88
Roads and Traffic Authority of New South Wales	
I recommend the Authority:	
▪ strengthen its project management techniques to ensure its computer system project is managed efficiently and effectively.	107
▪ continue to monitor the outcome of its Road Toll Response initiatives to achieve the primary safety target by 2016.	108
I have previously recommended the Authority develop strategies to achieve its annual target of two per cent rebuilding of road pavements to ensure the long term sustainability of its roads.	109
I recommend the Authority review its application of skill hire practices to ensure it complies with its established policies, the <i>Income Tax Act</i> and other industrial relations matters.	112
I have previously recommended the Authority review its overtime approval procedures and monitor overtime levels to ensure overtime is effectively managed and achieves desired outcomes.	113
I recommend the Authority continue to monitor and manage annual leave entitlements to minimise the impact on the Authority's financial position.	114
I recommend the Authority continually reviews the effectiveness of its existing policies and program in managing its ageing workforce.	114

Department of Transport and Infrastructure

I recommend Transport NSW:

- ensure the independent review of the Private Vehicle Conveyance Scheme is finalised as soon as possible and implement accepted recommendations in a timely manner. 130
- establish appropriate policies to mitigate and manage the risks associated with its ageing workforce. 131
- consider implementing mechanisms to centrally monitor flex time records to help ensure excessive flex time is not being accrued and forfeited by staff. 132
- develop and maintain an appropriate central register of all contractors engaged by it. 133

Rail Corporation New South Wales

I recommend:

- RailCorp continue to resolve the underlying issues associated with its new procurement system to ensure it operates effectively and that suppliers are paid on a timely basis. 141
- Chief Executive ensures the scope, terms of reference, timing and performance of the independent review by an external reviewer RailCorp has engaged, will provide sufficient assurance the ICAC's recommendations have been fully implemented. 143
- RailCorp continues to liaise with benchmarking organisations, to derive industry averages that do not jeopardise the confidentiality of benchmarking participants, so it can publicly report its performance against industry averages. 150

RailCorp improve its contractor register and continue to periodically review the roles and responsibilities of all its contractors to ensure:

- its reliance on contractors is not excessive
- using contractors instead of permanent employees is appropriate
- contractors do not become de facto employees by virtue of being with RailCorp for an extended period of time
- using a contractor continues to represent good value for money. 158

I recommend RailCorp continue to develop and implement effective policies to manage its ageing workforce. 162

I recommend RailCorp continue to review the effectiveness of its policies and procedures for managing excessive annual leave balances. 164

Rail Infrastructure Corporation

I recommend the Corporation continues to develop and implement effective policies to manage its ageing workforce. 171

State Transit Authority of New South Wales

I recommend:

- State Transit continues to develop and implement effective policies to manage their ageing workforce. 179
- State Transit continue to periodically review the roles and responsibilities of all its contractors to ensure:
 - its reliance on contractors is not excessive
 - using contractors instead of permanent employees is appropriate
 - contractors do not become de facto employees by virtue of being with State Transit for an extended period of time
 - using a contractor continues to represent good value for money. 182

Sydney Ferries

I recommend Sydney Ferries:

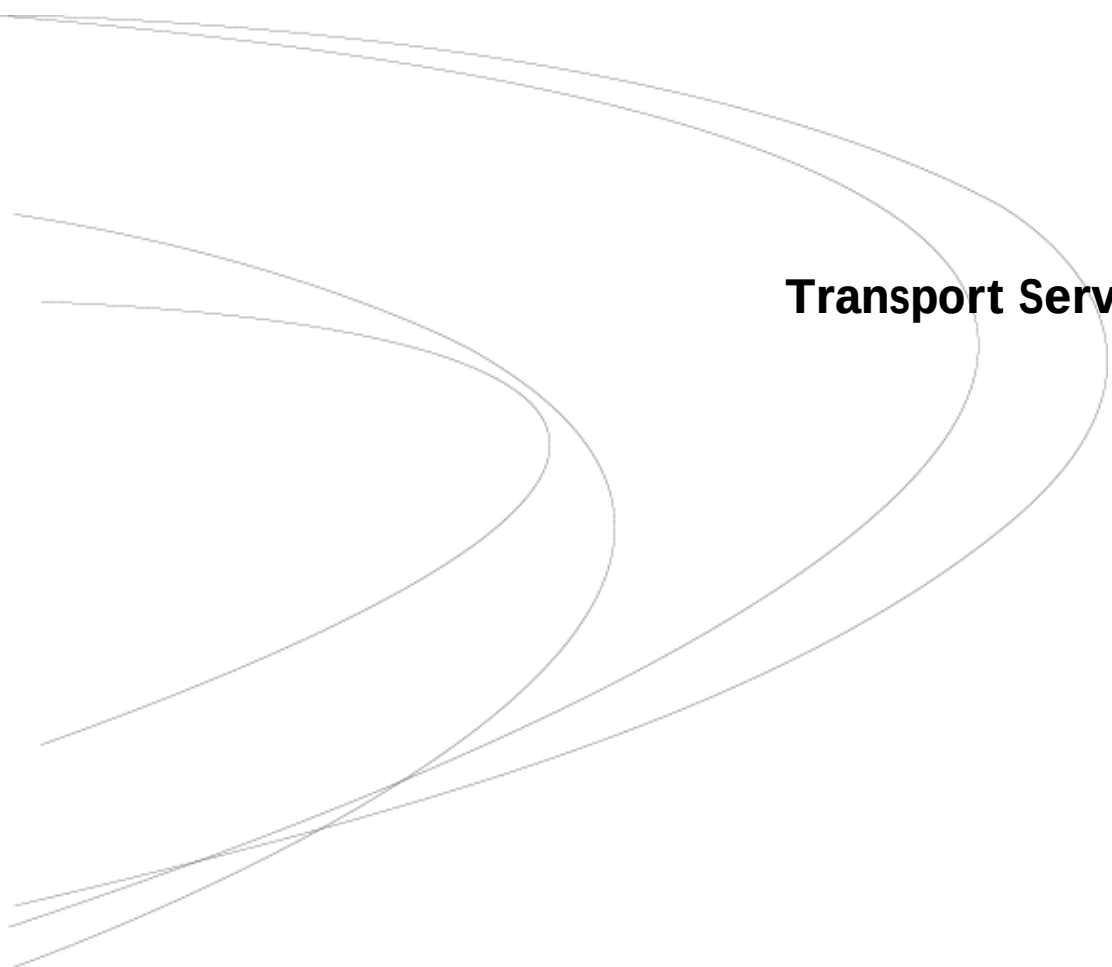
- conduct a comprehensive review of its policies and procedures relating to the recording and monitoring of costs in its work in progress project ledger. 191
- develop strategies to manage its ageing workforce. 192
- continues its efforts in reducing excessive annual leave and accrued public holiday balances. 194

Luna Park Reserve Trust

I recommend the Trust closely monitor the uncertainty surrounding the Park Operator's ability to continue as a going concern to ensure it meets its financial and social obligations. 213

Section One

Transport Services Overview

An abstract graphic consisting of several thin, curved lines that sweep from the left side of the page towards the right, partially overlapping the 'Transport Services Overview' title.

Transport Services Overview

TRANSPORT SERVICES

Transport New South Wales (TNSW), a budget sector agency, and the following Government entities provide, facilitate and regulate the State's transport services:

Statutory Authorities

- Chief Investigator of the Office of Transport Safety Investigations (OTSI)
- Independent Transport Safety Regulator (ITSR)
- Public Transport Ticketing Corporation (PTTC)
- Rail Corporation New South Wales (RailCorp)^(a)
- State Transit Authority (State Transit)^(b)
- Sydney Ferries
- Sydney Metro (SM)
- Rail Infrastructure Corporation (RIC)^(c)
- Transport Infrastructure Development Corporation (TIDC)^(d)
- Roads and Traffic Authority (RTA)

(a) RailCorp includes CityRail and CountryLink.

(b) State Transit includes Sydney Buses, Western Sydney Buses, and Newcastle Buses and Ferries.

(c) Now known as the Country Rail Infrastructure Authority (CRIA)

(d) Now known as the Transport Construction Authority (TCA)

The *Transport Administration Amendment Act 2010* commenced on 1 July 2010 and established a new framework for the administration and governance of the delivery of transport services and infrastructure by public transport agencies.

TNSW is the lead transport agency with primary responsibility for transport policy, planning and coordination functions as well as oversight of infrastructure delivery and asset management. The streamlined transport structure is designed to deliver integrated transport planning and service delivery, and consolidation of similar functions to reduce costs and provide additional funds for front line staff and services.

The change to the legislation gives TNSW, through the direction of the Director General, responsibility for a limited range of functions as outlined above. For the year end 30 June 2011, TNSW will control most public transport agencies for consolidation purposes.

RIC and TIDC became statutory authorities on 1 July 2010 under the *Transport Administration Amendment Act 2010*. Both agencies were previously not for profit State owned corporations.

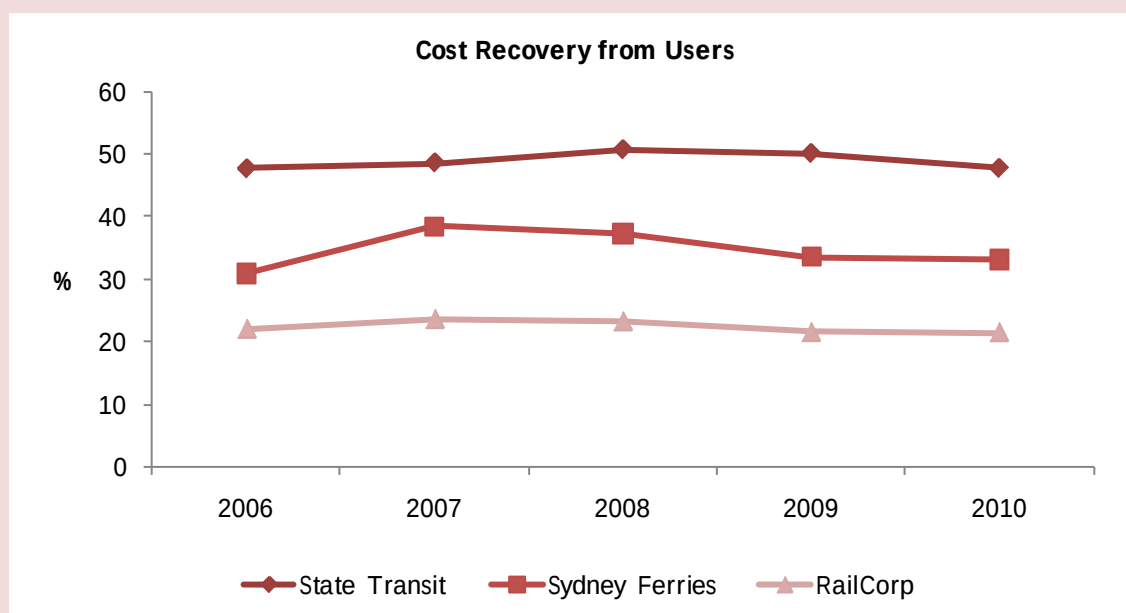
AUDIT OPINIONS

The audits of the above entities' financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

KEY ISSUES

Cost Recovery from Users

The transport services sector incorporates rail, bus and ferry services. As well as providing direct benefits to users, these services generate substantial indirect benefits to the wider community (including reduced: road congestion; traffic accidents; and greenhouse gas emissions). These external benefits are funded by taxpayers through government subsidies.



Source: Amounts were calculated based on published financial information and passenger numbers advised by RailCorp, State Transit and Sydney Ferries (unaudited).

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. Consistent with last year, passenger revenue only covered 22 per cent of RailCorp's operating costs.

State Transit is a for-profit entity and has the best level of cost recovery from users of the three transport services. State Transit's cost recovery was approximately 48 per cent in 2009-10 (50 per cent in 2008-09).

The cost recovery for ferry services has dropped from a high of 38 per cent in 2006-07 to 33 per cent in 2009-10. This is due to operating expenses increasing by ten per cent over those years and farebox revenue decreasing by five per cent.

Year ended 30 June	RailCorp		State Transit		Sydney Ferries	
	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
Cost of services provided per passenger journey	10.61	10.03	2.85	2.73	9.62	10.13
Passenger revenue per passenger journey	2.28	2.16	1.36	1.36	3.19	3.40
Net cost per passenger journey*	8.33	7.87	1.49	1.37	6.43	6.73

Source: Amounts were calculated based on published financial information and passenger numbers advised by RailCorp, State Transit and Sydney Ferries (unaudited).

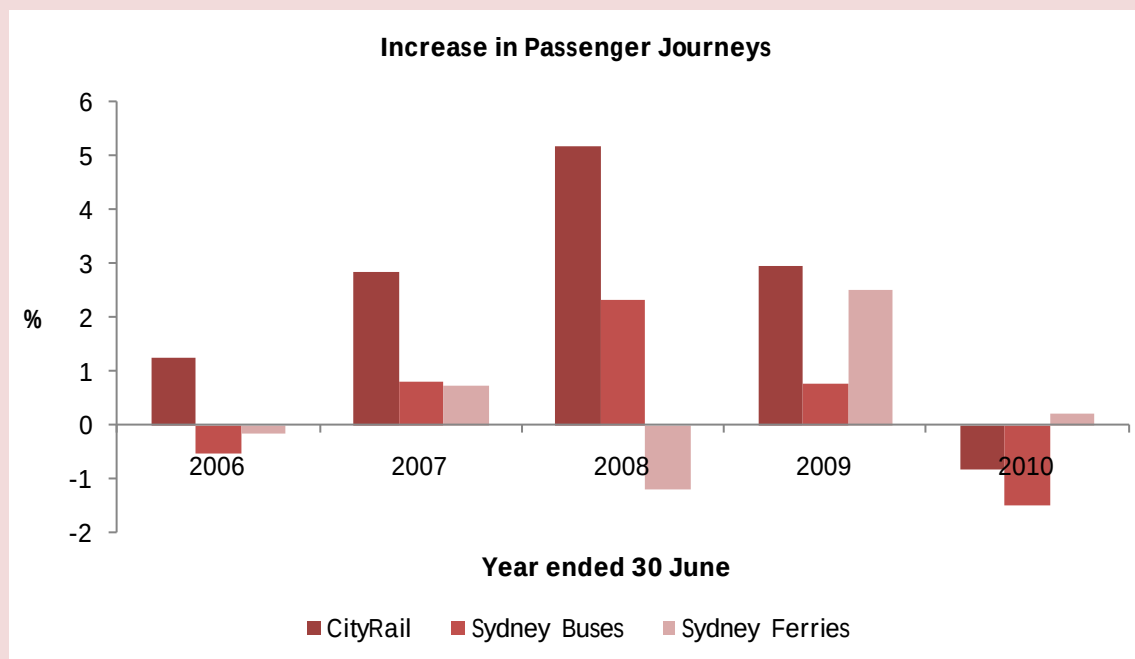
* The net cost per passenger journey essentially represents the amount subsidised by taxpayers through Government contributions, less any other revenue sources.

The cost of providing services per passenger journey increased for both RailCorp and State Transit. RailCorp recorded the higher percentage increase of 5.8 per cent (4.7 per cent for State Transit). Cost of services provided per passenger journey at Sydney Ferries decreased by 5.1 per cent.

RailCorp recorded a 5.6 per cent increase in passenger revenue per journey, while State Transit remained relatively stable. Passenger revenue per journey decreased at Sydney Ferries from \$3.40 to \$3.19. This was mainly due to the Manly JetCat service ceasing in January 2009 and the move to the MyZone fare structure, which resulted in MyMulti ticket sales by other transport agencies.

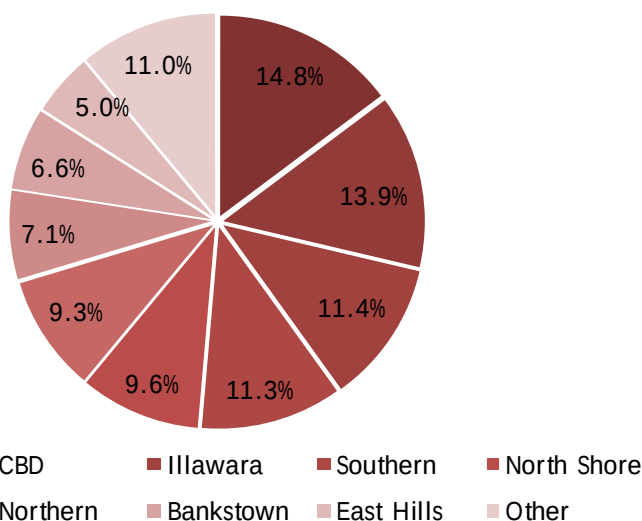
Patronage

In 2009-10, there were 507 million (512 million) passenger journeys on CityRail services, Sydney Buses and Sydney Ferries. This represents a 1.1 per cent decline from the prior year. Both CityRail and Sydney Buses recorded a decrease in passenger journeys. Sydney Buses recorded the largest decrease of 1.5 per cent. Sydney Ferries was the only agency which reported an increase in patronage during 2009-10 of 0.2 per cent. The graph below shows passenger growth over the last five years.



Source: Information provided by the respective transport entities (Unaudited)

State Transit advised it attributes the decline in passenger journeys in 2009-10 to lower fuel prices throughout the year, continued impact of the global financial crisis (which resulted in reduced employment in the CBD), reductions in tourists, and the modal shift to rail following the opening of the Epping to Chatswood Railway Line in February 2009. RailCorp also confirmed the decline in its patronage was primarily due to the fall in CBD employment.

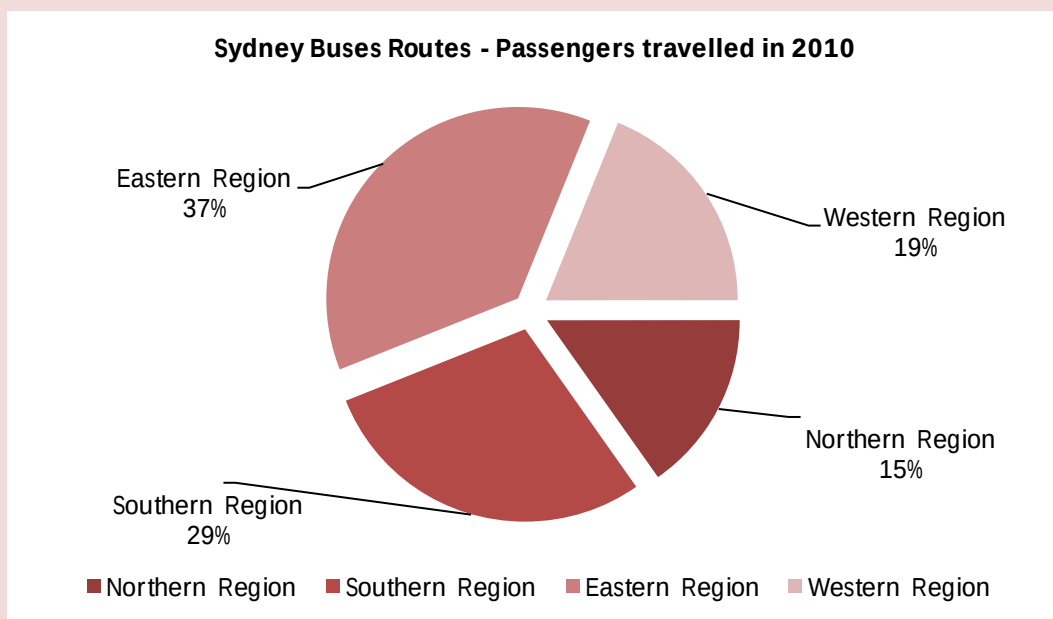
RailCorp's Top 10 Routes - Passenger Journeys travelled in 2010

Source: Information provided by RailCorp (Unaudited)

The Western lines and travel within the CBD continue to be the main contributors to CityRail patronage. These accounted for 28.7 per cent of total CityRail passenger journeys during 2009-10 (29.1 per cent). Higher demand for train services was experienced on the Western route in comparison to other train lines primarily due to:

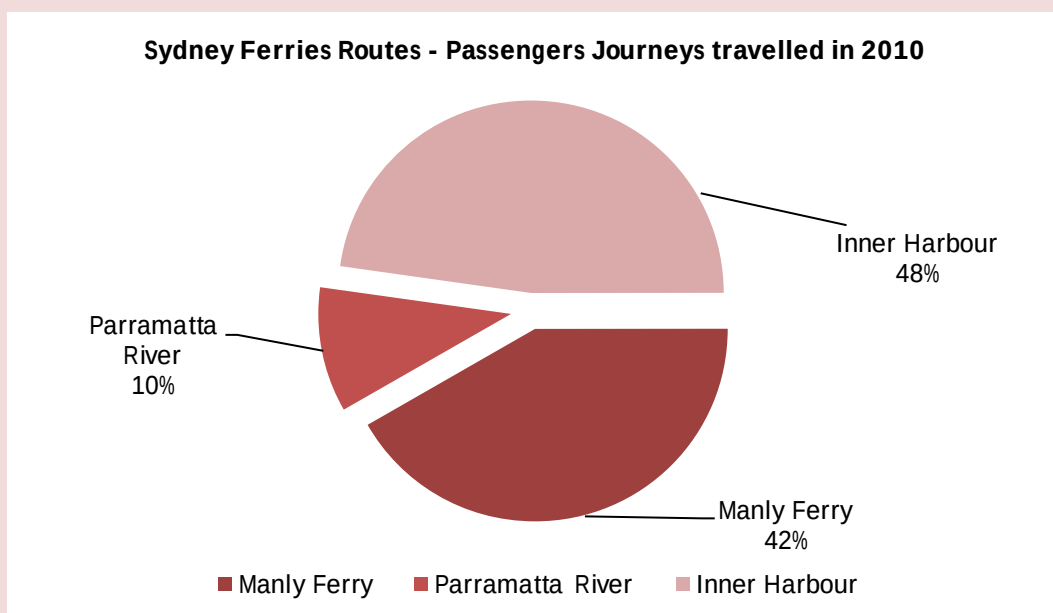
- a greater reliance on train services for the journey to work from the West compared to other regions
- Western lines serving a large proportion of Sydney's working population, whereas other lines have much smaller catchments close to train lines
- the Western region experiencing consistently high population growth rates compared to other parts of Sydney
- passengers who live further from the CBD having fewer practical public transport options (other than rail) to bring them to the city.

In response to these issues, management advises that RailCorp is expanding capacity in the West with additional services, clearways infrastructure and western express options.



Source: Information provided by State Transit (Unaudited)

Sydney Bus services (i.e. State Transit's Metropolitan services) in the Eastern region continue to generate the highest patronage levels. The Eastern region generates more than 37.2 per cent (37.3 per cent) of Sydney Buses' total passenger journeys. A higher number of bus service routes are required within this region to cater for the higher population density and fewer train lines available in Sydney's Eastern suburbs.



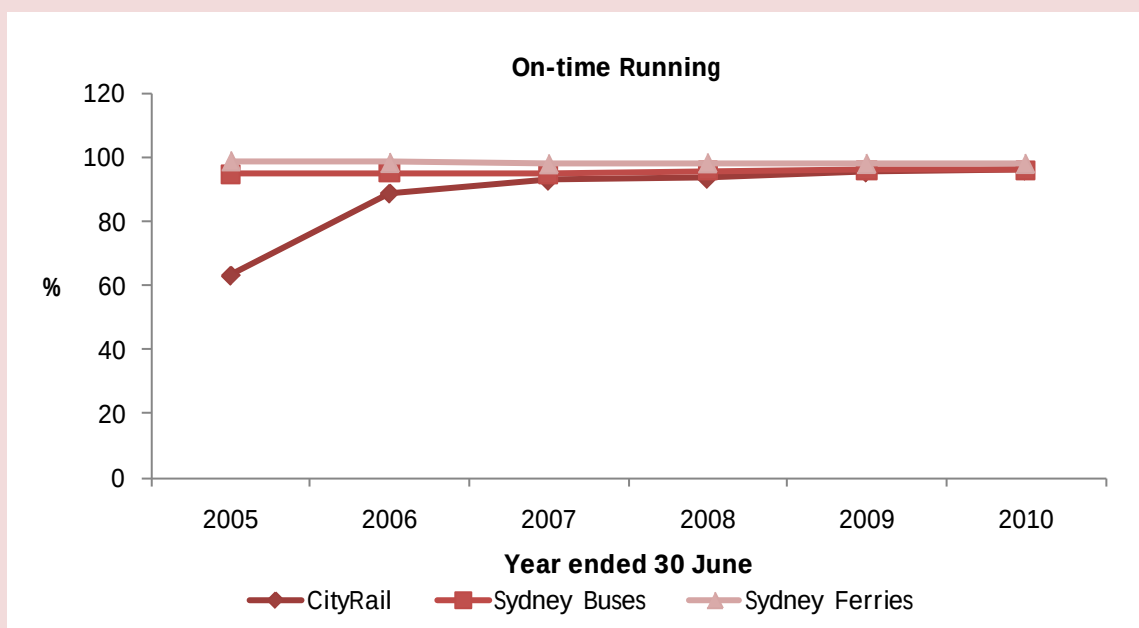
Source: Information provided by Sydney Ferries (Unaudited)

Inner Harbour ferry services account for 47.8 per cent (45.8 per cent) of total ferry patronage. Over the past five years, this route continues to have the highest passenger journeys.

For further information on passenger journeys, refer to the comments on RailCorp, State Transit and Sydney Ferries in this volume.

On-time running

On-time running performance for Sydney ferry and bus services has remained steady since 2004-05. In 2009-10, on-time running performance for these services was 98.1 per cent and 96 per cent respectively.

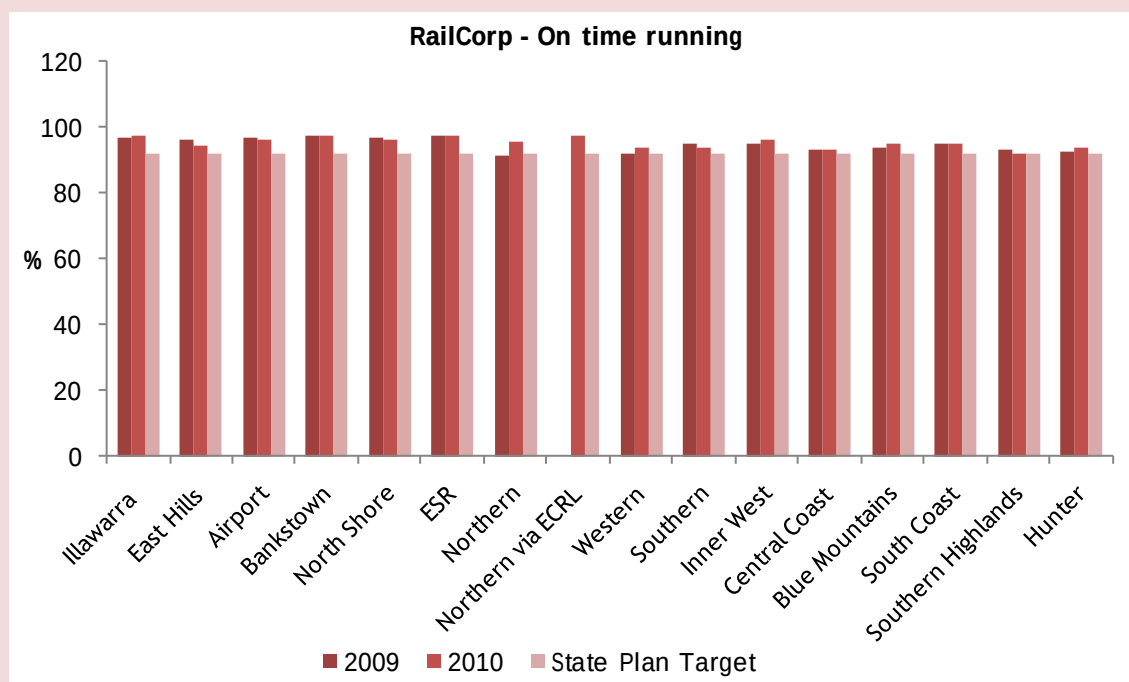


Source: Information provided by the respective transport entities (Unaudited)

Over the last six years, CityRail's on-time running performance has improved to a record high of 96 per cent in 2009-10. Contributing to this was the introduction of revised timetables and the change in the performance measure from the percentage of timetabled peak train services reaching their destination within three minutes 59 seconds of scheduled arrival time for suburban services (2004-05) to five minutes (2005-06 onwards). A wide range of operational improvements and capital investments have contributed to the improved on-time running performance.

In contrast to CityRail, which measures on-time running at the end of the destination, Sydney Buses and Sydney Ferries measure on-time running as a percentage of services departing from the terminus within five minutes of the scheduled timetable.

The graph below shows RailCorp's on-time running performance for the years 2009 and 2010 by train line against the 2009 NSW State Plan target.



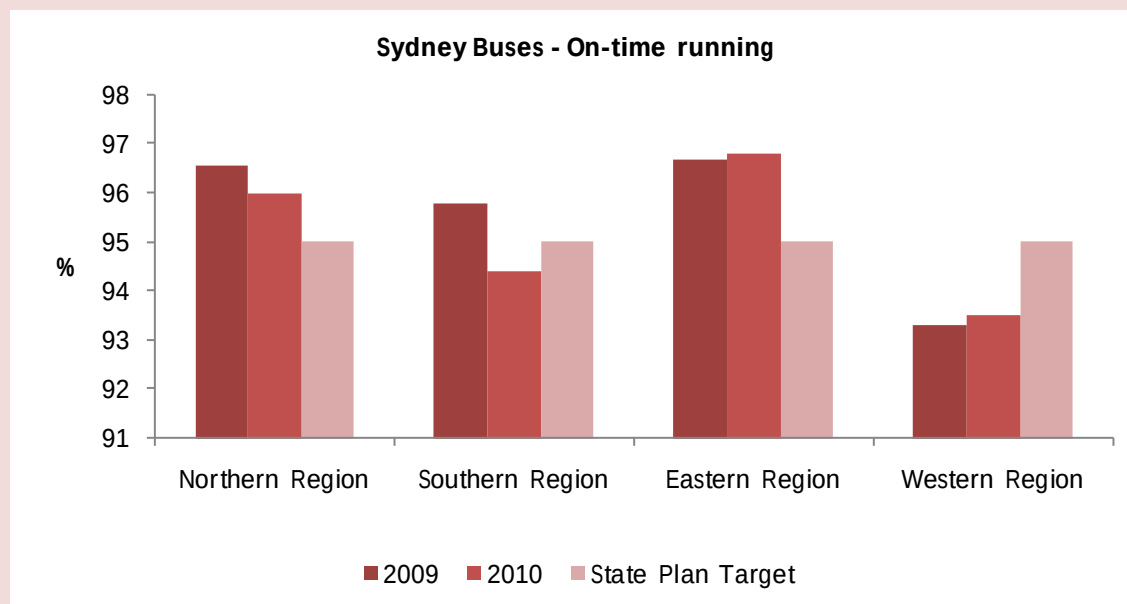
Source: Information provided by RailCorp (Unaudited)

Note: No 2009 on time running performance figure available for Northern via ECRL train line as this commenced operation in February 2009.

During 2010, all train lines performed substantially better than the State Plan target of 92 per cent, with the exception of the relatively lightly trafficked Southern Highlands line, which achieved 91.7 per cent peak on-time running. The majority of delays on the Southern Highlands Line (54 per cent) are a result of late trains from interstate services outside the CityRail network, and rollingstock failures.

Cityrail is working on the Clearways Program, a rolling stock replacement program and other initiatives, to help maintain reliability across the network. For more information, refer to the comments on RailCorp in this volume.

The graph below shows Sydney Buses' on-time running performance during 2009 and 2010 by region in comparison to the latest NSW State Plan target.

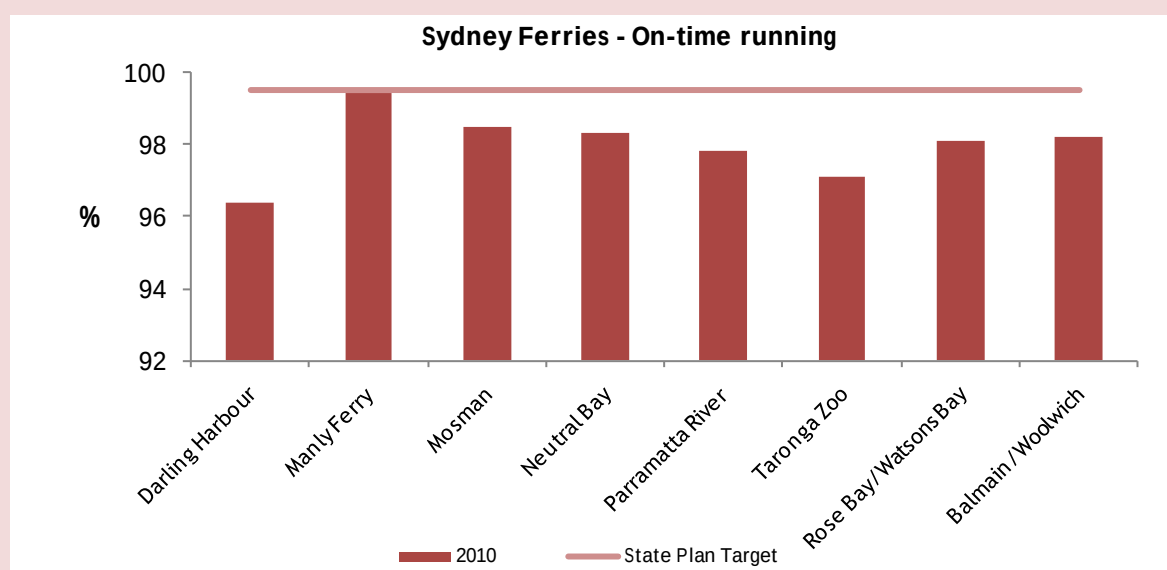


Source: Information provided by State Transit (Unaudited)

Note: Sydney Buses refers to State Transits Metropolitan services and excludes Private Bus Operator services

Sydney Buses on-time running was below the State Plan target of 95 per cent in two out of four regions. The Southern Region's on-time performance was above the State Plan target in 2009, but worsened from 96 per cent to 94 per cent in 2010. The Western Region performed consistently below target in both years, with on-time running performance improving to 93.5 per cent in 2010. Management advised the below target performance is primarily due to unusual traffic conditions and increased road congestion in the Western and Southern Region. Sydney Buses is implementing bus priority systems to improve reliability. For more information, refer to the comments on State Transit in this volume.

On-time running performance of Sydney Ferries was below the 2009 NSW State Plan target of 99.5 per cent for all ferry routes. Manly Ferry Services achieved the highest on-time running of 99.4 per cent whilst Darling Harbour reported the lowest on-time running performance of 96.4 per cent.



Source: Information provided by Sydney Ferries (Unaudited)

Note: On-time running data by individual route was not captured prior to April 2009.

Management advised the results are primarily due to high passenger loadings, scheduling issues and berthing congestion. Where possible, these have been addressed through timetable changes introduced on 10 October 2010, particularly in relation to Darling Harbour and Taronga Zoo services.

MyZone

On 18 April 2010, the New South Wales Government introduced a new fare structure called MyZone. These new fares apply across a wide geographical area in New South Wales. MyZone tickets are now accepted on the entire CityRail, State Transit and Sydney Ferries networks, as well as all private bus services in the Sydney metropolitan and outer metropolitan areas and the Stockton ferry.

There are now fewer fare bands on all modes of public transport. Fare bands have been reduced on trains from twenty to five, on buses from five to three and ferries from five to two. There are three new MyMulti tickets, which provide commuters unlimited travel on all Sydney Ferries and government and private bus services, as well as travel within particular CityRail zones.

The New South Wales Government estimated the full year impact of introducing MyZone would be to reduce revenue by \$33.0 million, primarily because 9 out of 10 journeys would be the same price or cheaper. A more detailed analysis of the financial impact of MyZone is planned by TNSW to occur during 2010-11.

For more information on MyZone fares refer to the State Transit and Railcorp individual comments in this volume.

Transport Planning

In partnership with the local community, the New South Wales Government has developed a planning framework with the objective of ensuring New South Wales remains a vibrant, sustainable place to live. The framework's key strategies guiding transport planning are detailed below.

State Plan: Investing in a Better Future

Updated in 2010, the *State Plan* is the shared vision of the New South Wales Government and the community for the future of New South Wales. The plan sets out priorities for Government action to meet community needs, and sets challenging targets to guide decision-making and resource allocation.

As the Government's central policy document, the *State Plan* is supported by detailed delivery plans, including the *State Infrastructure Strategy*, *Metropolitan Strategy* and the *Metropolitan Transport Plan*.

The *State Plan* outlines the Government's commitment to delivering transport strategies for key regional areas, including the Central Coast and the neighbouring Hunter region, and contains priorities and targets aimed at ensuring the transport network is safe, reliable and integrated.

Metropolitan Strategy - City of Cities: A Plan for Sydney's Future

The 2005 *Metropolitan Strategy* is the Government's long-term plan to support efficient and sustainable growth in the Sydney region over a 25-year period. It aims to secure Sydney's place as a truly global city by promoting and managing growth, with 70 per cent of new homes to be in existing areas and 30 per cent in new release areas. It sets directions for Government decisions on the timing and location of investment in transport and other infrastructure.

Currently under review, as part of a five-yearly review process, the *Strategy* sets the scene for more detailed planning in the subregions of Metropolitan Sydney and regional areas of New South Wales.

Metropolitan Transport Plan: Connecting the City of Cities

The 2010 *Metropolitan Transport Plan* (MTP) provides a 25-year vision for transport and land use planning for Sydney, and includes a 10-year fully funded package of transport infrastructure to support it.

It is designed to accelerate and streamline infrastructure roll out and planning processes to develop a transport system shaped around the way the city is used and moves to meet demand now and into the future.

The MTP, which is being fully incorporated into an integrated *Metropolitan Plan*, provides an integrated approach to transport and land use planning to ensure transport supports Sydney's role in the national economy and provides new locations for living, working, shopping, education and other community and recreational facilities.

The MTP foreshadows the preparation of detailed access plans for the key regional centres at Parramatta, Penrith and Liverpool. Work has commenced on developing an access plan for the Sydney CBD following the signing of the Memorandum of Understanding between the New South Wales Government and City of Sydney Council in September 2010.

State Infrastructure Strategy

The State Infrastructure Strategy is a rolling 10-year plan for infrastructure projects to support Government service delivery. The Strategy, which is updated every two years, maps infrastructure projects by six broad regions – Sydney, Central Coast, Hunter, North Coast, Illawarra - South East and Inland New South Wales.

The Strategy links planning commitments identified in strategic documents such as the *Metropolitan Strategy* with the State's budget. It assists in providing a clearer understanding of infrastructure needs and funding constraints over the medium term.

Regional Transport Strategies

In accordance with commitments contained in the State Plan, TNSW is developing Regional Transport Strategies as companion documents for the Department of Planning's Regional Strategies. In October 2010, the draft *Central Coast Regional Transport Strategy* was placed on public exhibition. Draft Regional Transport Strategies are currently being developed for the Illawarra and Hunter Regions. Work will commence on developing a Far North Coast Regional Transport Strategy in 2011.

Mode Strategies

The New South Wales BikePlan (www.nsw.gov.au/bikeplan) was released in May 2010 and represents the first in a suite of mode strategies to include road, rail, walking and freight.

Project Submissions

New South Wales has developed funding submissions to the Australian Government directly and through Infrastructure Australia for projects that support the strategic planning approach outlined above.

Transport NSW advises that in August 2010 the New South Wales Government submitted project proposals for the North West Rail Link, Northern Sydney Freight Corridor, M5 East Duplication, Container Freight Improvement Strategy, Parramatta - Epping Rail Link, F3-M2 link, M4 East Extension and Capacity improvements for the CityRail network.

Land use planning

The New South Wales Government has an Integrated Land Use and Transport Planning (ILUT) policy framework for New South Wales.

The ILUT package provides a framework for State Government agencies, councils and developers to integrate land use and transport planning at the regional and local levels. Although the package applies to the Greater Metropolitan Region, there are many commonalities between metropolitan, regional and rural centres which are addressed in the policy package. The notion of a liveable community; planning for accessibility; pedestrian and public safety; effective and sustainable management of adjoining land uses; and street and road design standards are all applicable to rural and regional areas.

The ILUT policy package is given statutory force in the planning system under Section 117 of the *Environmental Planning and Assessment Act 1979* (EP&A Act). Section 117 of the EP&A Act allows the Minister for Planning to give directions to councils regarding the principles, aims, objectives or policies to be achieved in the preparation of Local Environmental Plans. The ILUT policy package is represented by Ministerial Direction 3.4 - Integrating Land Use and Transport.

NSW State Plan

In late 2009, the Government released a revised State Plan titled 'Investing in a Better Future: NSW State Plan'.

Some of the public transport targets include:

- increasing the share of commuter trips made by public transport to and from the Sydney CBD during peak hours to 80 per cent by 2016 (previous target 75 per cent)
- increasing the proportion of total journeys to work by public transport in the Sydney metropolitan region to 28 per cent by 2016 (previous target 25 per cent)
- consistently meeting public transport reliability targets of 92 per cent on-time running for CityRail services, 95 per cent for Sydney buses and 99.5 per cent for Sydney ferries.

The table below shows the performance against the first two targets. On-time running performance is reported on earlier in this comment under the heading 'On-time running'.

Transport related target	Target 2016	2009	2008	2007
Share of commuter trips made by public transport to and from Sydney CBD during peak hours (%)	80.0	75.0	77.0	74.4
Proportion of total journeys to work on public transport in Sydney metropolitan region (%)	28.0	23.9	24.2	22.0

Note: Patronage data is drawn from the annual Household Travel Survey, the results of which are published the year after the data is collected (unaudited).

Sydney Metro

I recommend the New South Wales Government identify lessons learnt from the Sydney Metro experience and ensure future decision processes are developed to ensure the State never again expends such a large amount of scarce transport funding dollars and valuable time on a project that does not proceed.

Until the Government's decision to not proceed with a metro for Sydney, over \$600 million in State and Australian Government funding had been allocated to Sydney Metro for the development of metro projects.

At 30 June 2010, \$412 million has been spent on metro projects with more costs expected in 2010-11. Outgoings included \$176 million in project expenditure written off as a result of the Government's decision to stop work on metro projects, \$94.9 million in cost reimbursement claims, and \$103 million in property acquisitions. Of the \$412 million spent, \$356 million represents expenditure for which there does not appear to be any future benefit to New South Wales.

The cost to New South Wales is not just in dollar terms, but also in time delays to other transport priorities as scarce resources are diverted to projects that do not proceed to completion.

In my view, the New South Wales Government should review and identify lessons learnt from the metro project. Such a review should explore whether the Government's decision making processes minimise future risks of spending taxpayers' money on projects which do not proceed.

TNSW advised the demobilisation strategy adopted by Sydney Metro in relation to the metro projects was aimed at identifying and preserving for future use, the intellectual and technical knowledge gained during the project and maximising, to the extent possible, the value of property assets purchased. TNSW advises Sydney Metro's geotechnical, design and engineering information is already being used for new transport projects within the Metropolitan Transport Plan.

State Transit Authority - Status as a For-Profit Tax Paying Entity

I recommend TNSW review the appropriateness of State Transit being a for-profit entity under the National Tax Equivalent Regime.

Amendments to the Transport Administration Act commenced on 1 July 2010. The amendments established TNSW and abolished the State Transit governance board. The change also means consolidated financial statements have to be prepared by TNSW in 2010-11, which include State Transit, the only entity within TNSW that will report as a for-profit entity subject to the National Tax Equivalent Regime (NTER).

In recent years, State Transit has returned a small profit or loss (compared to total revenue) and has never paid any tax under the tax equivalent regime. The NTER imposes significant compliance costs on the entity compared to other tax models used by the New South Wales Government. It may be timely to reconsider the requirement for State Transit to report under the NTER.

Conflict of Interest Risk

I recommend TNSW develops an appropriate framework to manage potential conflicts of interests that may arise within the new transport structure.

Amendments to the Transport Administration Act mean chief executives of transport agencies have the authority to manage and control the affairs of entities. The Director-General of TNSW has authority to issue directions to the transport entities covering a limited range of functions as set out in the Act.

In the future, State Transit and Sydney Ferries may compete against the private sector for contracts offered by the Director-General of TNSW, who also has the power to direct these agencies. This is just one example of a situation where a potential conflict of interest may arise.

Engagement of Contractors

I recommend transport entities review the effectiveness of their practices in monitoring their contractor workforce.

Contractors are in many cases engaged for a period of not more than one year. While, the use of contractors may have benefits for entities, particularly on projects, extensive reliance on this employment source and the engagement of long term contractors, particularly in senior roles, generally results in higher employment costs and less ownership and commitment to organisational goals and objectives.

The length of service for all contractors employed by transport entities is shown in the table below.

Duration since contractors start date	No. of Contractors at 30 June 2010	Proportion of Total Contractors %
> 6 years	74	5
5-6 years	19	1
4-5 years	17	1
3-4 years	69	5
2-3 years	134	9
1-2 years	448	29
Less than 1 year	760	50
Total Contractors in all transport entities	1,521	100

Source: Information provided by the respective transport entities (Unaudited)

Fifty per cent of the total contractors have been engaged by respective transport entities for more than twelve months. At 30 June 2010, over 70 contractors had been engaged for more than six years.

Additional information relating to contract employees working in transport entities is shown below:

Transport Entity	2010			
	No. of Contractors at 30 June	Total Cost of Contractors for the Year \$'000	Term of Longest Serving Contractor (Years)	Highest Contractor cost for the Year \$'000
RailCorp	589	110,000	8.1	399
State Transit	32	1,327	11.0	255
Sydney Ferries	31	4,810	3.0	275
RTA	698	93,704	8.3	413
TIDC	8	1,014	2.3	390
RIC	3	44	0.3	31
TNSW	160	15,678	5.0	355
Total	1,521	226,577		

Source: Information provided by the respective transport entities (Unaudited)

State Transit has the longest serving contractor who has been engaged for over eleven years. The highest paid contractor was engaged by the RTA and paid \$413,000 in 2009-10.

The RTA advised that its use of contractors was driven by skills shortages in the engineering and ICT sectors, below comparable industry based salary offerings and the Government's recruitment restrictions, limiting the conversion of contractors to full-time employees.

All transport entities, with the exception of Sydney Metro, PTTC, OTSI and ITSr, confirmed they engage contract employees to provide a broad range of services. Sydney Metro and PTTC advised they use professional service firms to engage contractors on their behalf to complete project based work. Use of contract employment arrangements is considered most appropriate by management due to the project based nature of the operations. The professional service firms were not considered as contractors for the above analysis. Sydney Metro incurred expenses totalling \$100 million in relation to payments made to these firms in 2009-10. Similarly, PTTC incurred \$13.2 million in this regard.

Each of the entities using contractors advised they had governance structures in place to effectively manage the engagement of contractors, including use of a regularly updated central registry of contractors, which is subject to regular review to ensure the use of contractors was not excessive and continued to represent value for money. While transport entities have advised these measures are in place, the information presented above raises concerns that they are not effective. As such, transport entities should review and assess the effectiveness of the measures implemented.

Overtime

Managing overtime expenditure continues to be a challenge for some New South Wales transport entities. While some are making progress in reducing overtime, this continues to represent a significant employee related expense.

The table below shows total overtime expenditure in 2009-10 was stable at \$219 million, a one per cent increase on 2008-09.

Transport Entity	Trend	Year ended 30 June	
		2010 \$'000	2009 \$'000
RailCorp	↑	130,040	127,747
State Transit	↓	40,346	42,916
Sydney Ferries	↓	2,292	3,469
RTA	↑	46,574	43,177
TNSW	↓	483	485
RIC	↓	13	103
Total		219,747	217,898

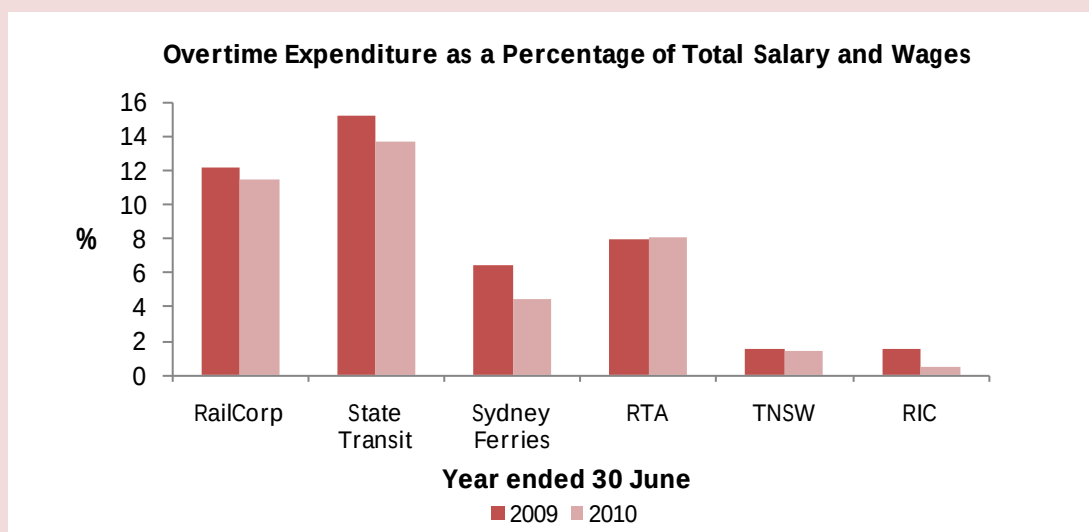
Key: ↑ Trend upwards, ↓ Trend downwards, ~ No trend

Source: Information provided by the respective transport entities (Unaudited)

The RTA recorded the largest increase in overtime expenses of 7.9 per cent, while RailCorp's expense increased by 1.8 per cent. Overtime at Ferries declined significantly by 33.9 per cent, and State Transit recorded a six per cent reduction. These results represent a real achievement given wage rates have continued to increase.

Sydney Metro, OTSI and PTTC advised they did not incur any overtime expenses in 2008-09 and 2009-10. TIDC and ITSr advised minimal overtime was incurred during these years. As a result, overtime commentary in this report excludes these entities.

The graph below shows overtime expenditure as a percentage of total salary and wages for the year for transport entities.



Source: Information provided by the respective transport entities (Unaudited)

All transport entities, except for the RTA, recorded a decrease in the percentage of overtime paid to total salaries and wages over the past two years. State Transit has the highest percentage at 13.6 per cent (15.2 per cent). State Transit advises that under its award conditions all work on Sunday is paid as overtime. Bus operators work a six day roster. A majority of the overtime expenditure reported in the graph above relate to payments made for this reason rather than staff working excess hours. State Transit also monitors bus driver hours worked to ensure all bus operators are working within the occupational health and safety guidelines.

Reduced overtime expenses have been achieved through the implementation of dedicated strategies. State Transit advised it has reduced overtime through rostering efficiencies that use existing staff resources more efficiently. The RTA advised it has implemented strategies to reduce overtime. The Australian Government's stimulus funding resulted in an increase in overtime worked by RTA staff because of the related significant asset development and associated increased work load. Major traffic incidents across the network also put pressure on overtime worked. RailCorp has implemented initiatives to reduce overtime and is continuing to work through station staff and maintenance reform programs, which it believes should lead to further reductions in overtime expenses.

The table below shows the number of employees across all transport entities who were paid overtime, split by overtime paid as a percentage of annual salary.

Year ended 30 June Overtime paid as a percentage of annual salary	2010		2009	
	Number of employees	Overtime paid \$'000	Number of employees	Overtime paid \$'000
> 100	18	1,159	18	1,141
90 - 100	13	700	26	1,119
80 - 89	45	2,064	41	1,612
70 - 79	77	3,138	88	3,123
60 - 69	191	6,951	196	7,156
50 - 59	562	16,900	485	14,307
40 - 49	1,196	29,277	1,244	29,682
30 - 39	2,279	41,940	2,552	45,607
20 - 29	4,251	54,689	4,349	55,117
10 - 19	5,354	42,195	5,151	40,800
>0 - 9	9,062	18,977	8,592	17,778
Nil overtime	8,074	--	7,719	--
Total	31,122*	217,990**	30,094*	217,442**

Source: Information provided by the respective transport entities (Unaudited)

* Number of employees includes all staff who received payments processed through the transport entities payroll systems during the year. It does not represent the FTE or headcount for the combined entities as at 30 June.

** Overtime paid represents the total overtime paid to employees during the year. It does not equal the overtime expense recorded in the financial statements due to the effects of accrual accounting. The difference is considered to be immaterial.

The table shows 74.1 per cent (74.7 per cent) of employees at transport entities received an overtime payment in 2009-10. A total of 906 employees (854 employees) were paid 50 per cent or more of their annual salary in overtime.

The top 10 highest individual overtime earners across the transport entities are shown below:

Top 10 Individual Overtime Earners	Transport Entity	2010		Transport Entity	2009	
		Overtime paid to employee \$	Percentage of Overtime to salary		Overtime paid to employee \$	Percentage of Overtime to salary
1	RTA	117,589	126	RTA	113,886	127
2	RTA	102,111	133	RTA	101,921	138
3	RTA	86,614	117	RTA	95,799	135
4	RTA	76,794	73	RTA	78,831	87
5	RTA	73,497	101	RTA	78,684	99
6	RTA	73,386	100	RTA	68,623	93
7	RTA	72,660	88	RTA	67,698	95
8	RTA	64,272	78	RailCorp	66,847	83
9	RTA	63,544	77	RTA	66,511	52
10	RTA	62,634	76	RailCorp	65,668	95

Source: Information provided by the respective transport entities (Unaudited).

The table shows RTA employees received the highest level of overtime payments. For the other transport entities, the most overtime paid to individual employees during the year was \$56,223 (\$66,847) at RailCorp; \$41,400 (\$41,659) at State Transit; \$36,770 (\$44,013) at Sydney Ferries; \$34,070 (\$30,747) at TNSW; and \$6,347 (\$19,974) at RIC.

High levels of overtime can adversely affect financial and operational performance. Financially, premiums paid for overtime can lead to higher than necessary costs, while operationally, employees working high levels of overtime may result in health and safety issues.

Excessive Annual Leave (Repeat Issue)

I again recommend transport entities review the effectiveness of their policies for managing excessive annual leave balances, despite marginal improvements since last year.

Managing excessive annual leave balances remains a challenge for the transport entities. Over 2,100 (2,228) staff had accrued more than 40 days (or 50 days for RailCorp shift workers) of annual leave at 30 June 2010. This represents 7.4 per cent (8.1 per cent) of all staff at that date and an accrued liability valued at over \$34.0 million (\$34.0 million).

The table below provides details for the number of staff with more than 40 days (or 50 days for RailCorp shift workers) accrued annual leave at 30 June and the total value of accrued annual leave for these employees.

Transport Entities	Trend	2010		2009		2008	
		Number of employees	Amount \$'000	Number of employees	Amount \$'000	Number of employees	Amount \$'000
RailCorp*	~	1,056 H	17,128	936 ^H	14,848	1,185 ^H	18,530
State Transit	~	362	4,746	420	5,323	408	4,905
Sydney Ferries	↓	78	1,502	107	2,056	99	1,919
RTA	↓	542	9,308	676	10,183	704	9,830
TNSW	↓	36	621	45	766	61	1,309
TIDC	↑	7	249	6	261	5	216
SM	~	4	136	--**	--**	--**	--**
RIC	↓	9	144	20	198	47	411
OTSI	~	3	107	3	86	2 ^L	13
ITSR	↓	6	181	13	316	17	472
PTTC	~	2^L	95	2 ^L	94	3	104
Total		2,105	34,219	2,228	34,133	2,531	37,710

Source: Information provided by the respective transport entities (Unaudited).

* Excessive leave based on 40 days for non shift workers and 50 days for shift workers

** Sydney Metro was established on 27 January 2009. No employees existed at 30 June 2009 or in any prior years.

Key: ↑ Trend upwards, ↓ Trend downwards, ~ No trend.

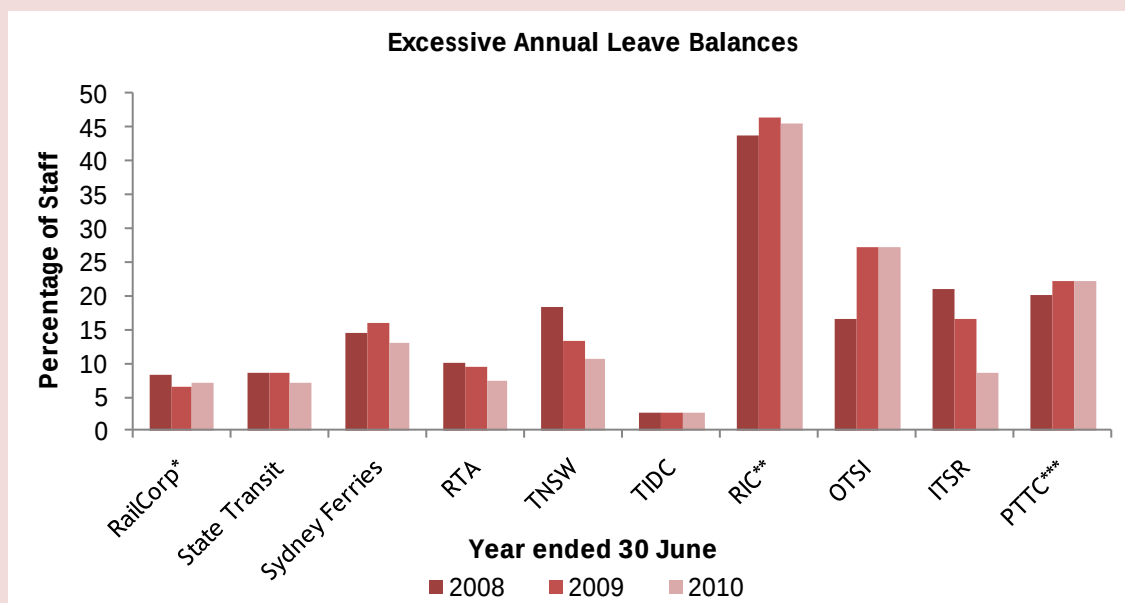
L Lowest balance in comparison to all transport entities.

H Highest balance in comparison to all transport entities.

Excess leave entitlements can have adverse effects, including an ever increasing financial liability as salary rates increase over time. The health and welfare of staff can also be adversely affected if they do not take sufficient breaks from work during the year. Allowing excess annual leave balances also means employees performing key control functions may not be rotated regularly, which is a preventive control against fraud.

For the purposes of this report, excessive annual leave has been defined as an accrued balance of more than 40 days (or 50 days for RailCorp shift workers) as at 30 June. Individual transport entities may define excessive annual leave differently for management and internal reporting purposes.

The graph below illustrates the percentage of staff with excessive annual leave balances for all transport entities over the last three years.



Source: Information provided by the respective transport entities (Unaudited).

* RailCorp percentage of staff with excessive annual leave is based on head count data rather than Full-Time Equivalent (FTE) data.

**RIC had only 20 public sector staff at 30 June 2010, of which nine had excessive leave balances.

***PTTC had only nine public sector staff as at 30 June 2010, of which two had excessive leave balances.

Note: Sydney Metro was excluded from the above graph because a meaningful comparison could not be made with other entities since no employees existed at 30 June 2009 or in any prior years.

The graph shows the proportion of staff with excessive annual leave at the RTA has dropped from 10.2 per cent in 2007-08 to 7.5 per cent in 2009-10. This is largely due to policies adopted by the RTA, including formal bi-annual reviews of excessive leave. While RIC, OTSI, ITSIR and PTTC have the highest percentage of staff with excessive annual leave balances, the total number of staff in these entities is much lower than the other entities and the total excessive leave liability is relatively low. The graph also shows the proportion of staff with excessive annual leave has declined for seven of the ten entities over the past three years. All entities advised policies have been implemented to manage excessive annual leave. The graph demonstrates these policies are starting to have a positive effect.

Workforce Ageing

I recommend each transport entity continue to develop and implement effective policies to manage their ageing workforce.

Twenty three per cent of staff employed by transport entities in New South Wales at 30 June 2010 were aged 55 years or older and 39 per cent were over 50. A significant proportion of these employees are likely to retire in the next 5 to 15 years, potentially resulting in a significant loss of transport specific skills.

The age profile of staff for all New South Wales transport entities is shown below:

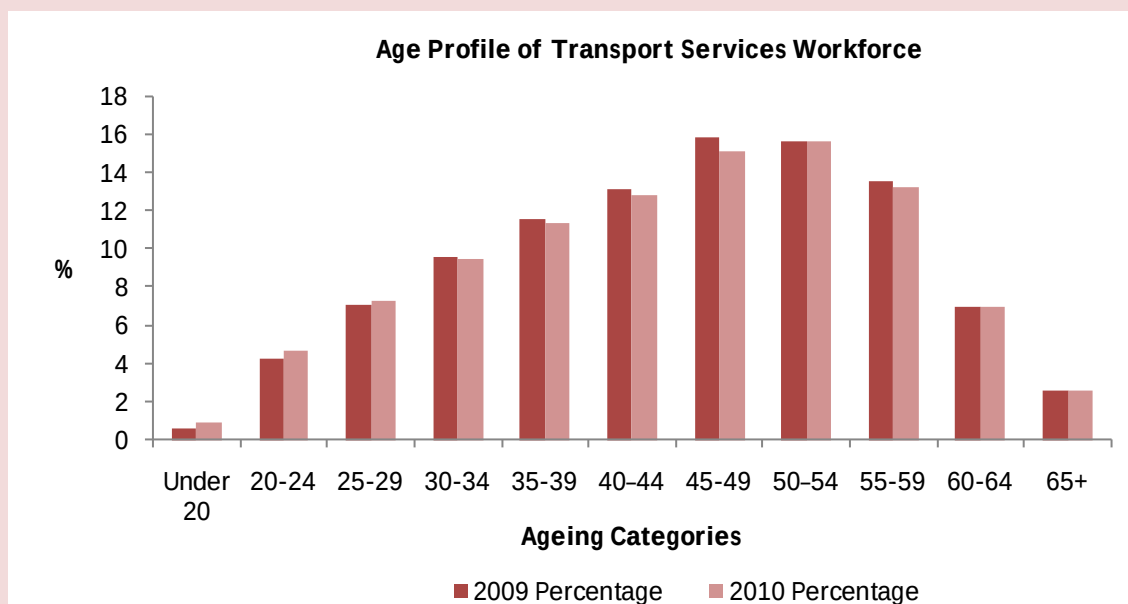
At 30 June Age Group	2010		2009	
	No. of Employees*	%	No. of Employees*	%
Up to 35	6,346	22	5,921	21
35 – 39	3,235	11	3,175	11
40 – 44	3,662	13	3,619	13
45 – 49	4,312	15	4,355	16
50 – 54	4,459	16	4,285	15
55 – 59	3,777	13	3,723	14
60 – 64	1,993	7	1,898	7
65+	742	3	712	3
Total	28,526	100	27,516	100

Source: Information provided by the respective transport entities (Unaudited).

* All transport entities provided this information based on Full-Time-Equivalent staff at 30 June, except for RailCorp. The information for RailCorp is based on headcount data.

Some transport entities have implemented strategies to manage these risks. State Transit advises it has implemented succession planning through apprenticeship, cadetship and graduate programs. The RTA advises it has implemented strategies, with particular attention on those areas where skill shortages are apparent, such as engineering, road design, traffic and transport. The RTA has also implemented a new 'My Journey Program' targeting all staff aged 55 years and over, to encourage knowledge sharing and discussions on working intentions and retirement preparedness. TIDC actively seeks to attract junior employees through graduate and internship programs. ITSr advises it has succession strategies in place, including the implementation of graduate trainee arrangements.

The graph below further demonstrates the age structure of the transport services workforce.



Source: Information provided by the respective transport entities (Unaudited).

The age profile of employees for each New South Wales transport entity is shown below:

30 June 2010 Age Group	RailCorp %*	State Transit %	Sydney Ferries %	RTA %	TNSW %	TIDC %	SM %	RIC %	OTSI %	ITSR %	PTTC %
Up to 35	25	15	23	21	18	35	11	5	--	13	45
35 – 39	12	10	15	9	11	22	13	5	--	8	22
40 – 44	13	14	16	11	17	10	15	10	19	18	33
45 – 49	16	16	15	14	16	12	15	24	9	20	--
50 – 54	15	16	12	17	14	12	15	46	36	20	--
55 – 59	11	15	10	17	13	7	16	5	--	11	--
60 – 64	6	10	6	8	8	2	8	5	36	6	--
65+	2	4	3	3	3	--	2	--	--	4	--
Total	100	100	100	100	100	100	100	100	100	100	100

Source: Information provided by the respective transport entities (Unaudited).

* All transport entities provided this information based on Full-Time-Equivalent staff at 30 June, except for RailCorp. The information for RailCorp is based on headcount data.

The table shows that PTTC and TIDC have the youngest workforce, with over 50 per cent of employees under 40. The RTA and State Transit have 45 per cent of employees over 50 and OTSI and RIC have more than 55 per cent over 50.

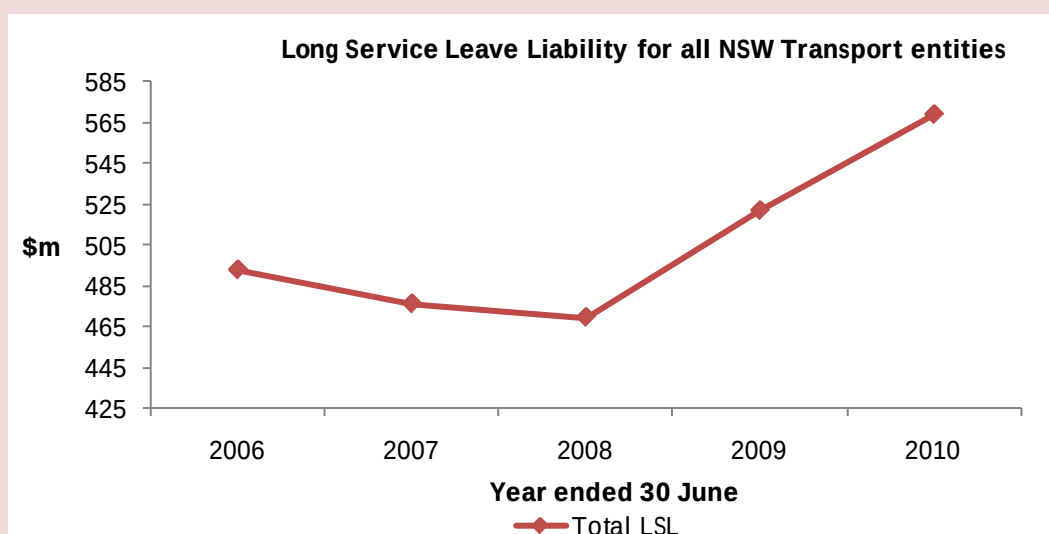
To ensure an adequate supply of employees in the future, transport entities should continue to actively monitor workforce age profiles and have appropriate strategies in place to develop, attract and retain employees whose skills are aligned with the strategic direction of the entities.

Refer to the individual agency comments in this volume for more information on the ageing workforce.

Long Service Leave Liability

Significant long service leave liabilities create future funding challenges for transport entities. The total liability for long service leave entitlements for New South Wales transport entities amounted to \$569 million at 30 June 2010 (\$522 million). The total liability has increased by 15 per cent over the last five years. The majority of this increase has occurred since 2008.

The graph below depicts the trend in the total long service liability of all New South Wales transport entities over the past five years.



Source: Transport entities financial statements (audited).

Note: The above graph excludes OTSI. Their Long Service Leave balances were not provided at the time of printing.

The liability increased between 2009 and 2010 primarily because entitlements grew in ten of the eleven entities and the Government bond rate used to discount the liability fell due to the global financial crisis.

The table below provides details of the long service leave liability of each New South Wales transport entity over the past five years.

Transport entity	Five Year Trend	2010 \$m	2009 \$m	2008 \$m	2007 \$m	2006 \$m
RailCorp	↑	287.9	259.5	214.2	209.3	203.8
State Transit	↑	52.7	45.1	44.0	42.6	40.1
Sydney Ferries	~	7.2	7.5	6.9	6.9	5.5
RTA	~	205.7	196.4	175.1	185.6	189.0
TNSW	~	8.3**	7.2**	6.2**	5.3**	5.6**
TIDC	↑	1.3	1.1	1.0	0.6	0.5
SM	↑	0.8	--*	--*	--*	--*
RIC	↓	1.6	2.0	19.2	23.0	45.7
ITSR	↑	3.1**	2.9**	2.8**	2.6**	2.4**
PTTC	~	0.1	0.1	0.1	0.2	--
Total	~	568.8	521.7	469.4	476.1	492.7

Source: Transport entities financial statements (audited).

*SM was only established on 27 January 2009. No employees existed at 30 June 2009 or in any of the prior years.

**The long service leave entitlements for these entities are assumed by the Crown.

Key: ↑ Trend upwards, ↓ Trend downwards, ~ No trend.

Note: The above table excludes OTSI. Their Long Service Leave balances were not provided at the time of printing.

RailCorp recorded a 41.3 per cent increase in its long service leave liability over the past five years. RIC recorded the largest decrease over the past five years, primarily due to the 2006 rail restructure, which resulted in its functions and staff being transferred to RailCorp and the Australian Rail Track Corporation.

Transport entities will need to ensure they have plans to fund these liabilities, which generally increase over time with increases in employee remuneration levels. The funding pressures on transport entities will be compounded as other liabilities arise from the expected retirement of a large proportion of the ageing workforce.

RailCorp, State Transit and TIDC advised strategies have been implemented to manage these funding risks. Refer to the individual agency comments in this Volume for more information. The RTA and Sydney Ferries have confirmed that no funding strategies are currently in place. TNSW and ITSIR long service leave liabilities are assumed by the Crown.

Fraud in Transport Agencies

Procurement is a major risk area for corruption and fraud in the NSW public sector. The impacts include financial and reputational losses, negative impacts on safety, and poor quality goods, services and infrastructure. In response to various findings of fraud and corrupt conduct related to procurement in the NSW public sector, the Independent Commission Against Corruption (ICAC) has initiated a project to examine the corruption risks with procurement and to provide assistance to agencies in managing these risks.

During our enquiry into procurement fraud, all transport agencies, with the exception of RailCorp, advised that no instances of fraud were reported for the financial year ended 30 June 2010. Refer to RailCorp's individual comment for further details.

In addition to procurement fraud, the ICAC investigated the misuse of a corporate card at Sydney Ferries and other matters of corrupt conduct at RailCorp. As a result of the fraud investigations, the ICAC made recommendations for the respective agencies to implement. Sydney Ferries has fully implemented the recommendations and for details of RailCorp's implementation status, refer to the comments on RailCorp in this volume.

Cost of Vandalism

I recommend Sydney Ferries and the RTA investigate the costs and benefits of implementing systems to determine and monitor the cost of vandalism so that potential trends can be identified and addressed.

RailCorp, the RTA, State Transit and Sydney Ferries own and manage significant portfolios of infrastructure assets vital to the efficient operation of transport services in New South Wales. The effects of vandalism can be twofold. Firstly, there are the financial costs of repairing or replacing damaged assets. Secondly, there are the broader implications on customer satisfaction levels and safety because assets are non-operational due to damage.

RailCorp and State Transit have systems in place to determine the financial costs of vandalism. RailCorp spent approximately \$55.0 million during 2009-10 (\$48.0 million) to repair malicious damage, including graffiti, to assets such as trains and stations. RailCorp does not monitor the cost of vandalism by train line. State Transit spent \$1.1 million over the same period and advised that the route suffering the highest level of vandalism was the L90/190 route from Palm Beach to Railway Square.

The RTA broadly estimates the cost of graffiti vandalism at between \$3.0 million and \$4.0 million per annum. Sydney Ferries advised the cost of vandalism is immaterial and thus not specifically tracked.

Electronic Ticketing System for the Greater Sydney Region

The Public Transport Ticketing Corporation (PTTC) is charged with procuring a new electronic ticketing system to replace the terminated Tcard project. I previously reported (Volume Five, 2008) that the Corporation reassessed and impaired the value of its TCard intangible assets from \$59.1 million to nil.

PTTC terminated the Tcard project with the private sector contractor on 23 January 2008 and commenced legal proceedings against the contractor. The contractor responded by lodging a cross claim. Possible hearing dates have been reserved by the Court from 1 August 2011 to the end of the year. The Corporation is taking all necessary action to recover funds spent on the Tcard contract.

On 7 May 2010, the Corporation signed the Electronic Ticketing System (ETS) contract with the Pearl Consortium, comprising Cubic Transportation Sydney (Australia), Downer EDI Engineering Power and the Commonwealth Bank.

The total value of the new electronic ticketing system over 15 years is about \$1.2 billion. It will operate across greater Sydney's public transport network and will extend as far as Newcastle and the Hunter region, Wollongong, the Illawarra and the Blue Mountains. The fare structure will be largely consistent with the principles of the MyZone fare structure.

For further information on the electronic ticketing system, refer to the comments on PTTC in this volume.

Role of Independent Transport Safety Regulator (ITSR)

ITSR is an independent agency, which reports directly to the Minister for Transport. It was established on 1 January 2004. ITSR is the safety regulator for the State's rail industry under the *Rail Safety Act 2008*.

Due to the recent amendments to the *Transport Administration Act 1988*, as of 1 July 2010, the reliability function of ITSr resides with TNSW, which is responsible for driving performance across the transport portfolio and ensuring robust service level agreements and contracts are in place. The Government believes this will better align the overall strategic management of transport services with transport reliability functions.

The safety regulation function remains with ITSr to ensure robust safety systems and practices are the highest priority for public transport. On 1 July 2010, a 12 month transitional phase commenced, which will see ITSr take on new safety regulation responsibilities for buses, taxis and car hires.

Loss of Federal Training Grants due to Employment Arrangements (Repeat Issue)

I recommend TNSW reconsider the appropriateness of employment arrangements for State Transit to avoid further losses of Commonwealth Government grants.

Under current arrangements, staff are employed by Government departments, known as Employment Divisions, rather than directly by State Transit. This results in State Transit losing an entitlement to Commonwealth Government training grants.

The Australian Government announced a change to the Australian Apprenticeships Incentives Program (AAIP) in its 2008-09 budget. Where an employer is a department of State, a department of Parliament, or an agency within the State or Territory executive arm of government, they cease to be eligible for employer incentives under AAIP. Where the employer is a statutory authority, statutory body or body corporate, it will continue to be eligible for employer incentives. This change was effective after 1 July 2008.

In 2006, I reported how the New South Wales Government's response to the then Australian Government's 'Workchoices' workplace relations reforms, created approximately 60 special purpose entities, referred to as Employment Divisions. This resulted in the transfer of statutory authority employees to the newly created Divisions.

Following workplace relations reform at the Australian Government level, TNSW should consider whether the employee Divisions created in 2006 are still relevant.

OTHER INFORMATION

Commuter Car Parking and Interchange Program (CCPIP)

Stage one of the CCPIP involves the delivery of around 7,000 new commuter car spaces at 29 railway stations across the Sydney, the Central Coast, Illawarra and Blue Mountains. Stage 2 of the program was announced as part of the Metropolitan Transport Plan and involves the construction of 21 new car parks, interchanges and station upgrades. Construction of projects in stage two will be managed by TIDC (now known as TCA) and RailCorp and is due to commence in 2010-11. The total budget, including the preliminary budget for stage two, for projects being delivered by TIDC in the CCPIP is \$394 million.

TIDC and RailCorp are managing the construction of 25 commuter car parks under stage one of the CCPIP. Of these, 22 are being delivered by TIDC and three by RailCorp. During the year, TIDC completed four car parks at Helensburgh, Seddon Park, Werrington and Woonona. RailCorp completed two car parks at Holsworthy and Windsor. TIDC advises all remaining car parks are expected to be completed by the end of October 2011, in line with the overall CCPIP stage one completion target.

In addition to the car parks being managed by RailCorp and TIDC, a further four car parks are being constructed by the NSW Department of Services, Technology and Administration and local councils. These car parks include Campbelltown, Tuggerah and Wentworthville which are now completed and open to the public.

For further information on the CCPP, refer to the comments on RailCorp and TIDC in this volume.

2009-10 Transport Funding Announcements

In June 2010, the Government announced the 2010-11 Budget. It will invest \$7.0 billion on operating and expanding the New South Wales public transport system and \$4.7 billion on maintaining and upgrading the New South Wales road network.

The Transport Services sector's capital program is \$5.8 billion in 2010-11 and includes:

- \$2.8 billion for reinforcing capacity of existing road networks and increasing capacity on major roads and highways within the Sydney region, Pacific Highway, Great Western Highway, Hume Highway and Princes Highway
- \$304 million for the Rail Clearways Program
- \$278 million for the South West Rail Link
- \$299 million for rolling stock acquisition (includes Waratah train enabling works)
- \$323 million for 506 new/replacement buses for both State Transit and private operators.

Major Capital Projects

I recommend TNSW continues to monitor major capital projects being delivered by transport entities to help ensure they are delivered on time and within budget.

Transport entities are responsible for the delivery of a range of major capital projects that will provide improved infrastructure and public transport assets to the people of New South Wales.

The table below provides details on the original and latest revised budget of the top five capital projects for each of the major transport entities at 30 June 2010. Sydney Metro is specifically excluded from the analysis below following the Government's decision in February to stop work on the CBD and West Metros. Refer to the Sydney Metro comment in this volume for more information.

Transport entity*	Number of Projects	Original Budget (\$m)	Latest Revised Budget (\$m)
RailCorp**	5	7,108	7,241
State Transit	5	204	207
Sydney Ferries	5	42	50
RTA	5	3,444	3,500
TIDC	5	4,029	6,767
RIC	5	45	40
PTTC***	1	1,200	1,200
Total	31	16,072	19,005

Source: Information provided by the respective transport entities (Unaudited).

* TNSW, ITSIR and OTSI did not have any major capital infrastructure projects at 30 June 2010.

** Includes the net present value of the PPP whole of life contract.

*** This cost is related to PTTC's only project, being the introduction of the electronic ticketing system.

The table shows the above transport entities are committed to a substantial capital works program totalling over \$19.0 billion. The expected completion dates for these projects range between 2010-11 and 2024-25.

Variations between the original and the latest revised budgets are primarily related to changes in the scope of the projects since the initial cost estimates or cost escalations over the period of the project. TIDC advises the major increase in project budgets is related to the inclusion of escalation in the revised budget for the ECRL; the inclusion of both interest and escalation, as well as increases in scope and additional works in the Rail Clearways Program; and a significant increase in the scope of work on the South West Rail Link where the original budget was for only to the Glenfield Transport Interchange, while the revised budget also includes the Glenfield to Leppington Rail line.

The above agencies advise they expect to deliver 18 of the 31 projects on time and within budget. Of the remaining projects, nine are over budget and behind schedule, while a further four are either over budget or behind schedule.

Refer to the individual agency comments in this volume for further information on major capital projects.

Safety Performance

Passenger safety performance indicates the number of passenger injuries/fatalities that occurred as a result of the agency's service operations. In the five year period, management of these agencies have advised there have been no passenger fatalities reported by RailCorp, State Transit and Sydney Ferries. Non passenger related fatalities do occur, however, these are primarily outside of the agencies' control.

Number of passenger Injuries	2010	2009	2008	2007	2006
RailCorp (Trains)	613	478	348	363	379
State Transit (Buses)	370	283	404	370	365
Sydney Ferries (Ferries)	15	12	16	35	17

Source: Information provided by the respective transport entities (Unaudited).

The table above shows the number of passenger injuries increased from 2008-09, with RailCorp experiencing the highest increase of 62 per cent over the past five years.

Section Two



Commentary on Government Agencies

Minister for Lands

Land and Property Management Authority

State Property Authority

Refer to Appendix 1 for:

Board of Surveying and Spatial Information

Chipping Norton Lake Authority

Lake Illawarra Authority

Land and Property Management Authority

AUDIT OPINION

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

QUALIFICATION

I was unable to obtain all the information required to form an opinion on the value of Crown reserve land, the buildings and infrastructure on those reserves, or coastal infrastructure that should be recorded in the Authority's accounts.

More information is required to identify these assets, determine who controls them, and then to value them before they can be recognised in the Authority's financial statements.

The preliminary estimate of the total value of Crown reserves controlled by the Authority, but not currently recognised in the Authority's accounts, is between \$3.0 billion and \$5.0 billion. In addition, the preliminary estimate of the value of buildings and infrastructure on Crown reserves is between \$4.0 billion and \$5.5 billion.

The value of Coastal Infrastructure assets under the Authority's control is difficult to estimate as some of the land may be subject to tenure arrangements. Approximately \$2.8 million was spent by the Authority on maintaining these coastal infrastructure assets during 2009-10.

KEY ISSUES

Buildings and Infrastructure on Crown Land

I recommend the Authority identifies and values all assets under its control so they can be recognised in its financial statements.

The current Crown reserves project is working towards addressing the non-recognition of Crown reserve land, but a similar project has not commenced to resolve the same issue with buildings and infrastructure on Crown reserves and coastal infrastructure. The Authority should commence such a project as soon as possible.

Land and Property Management Authority

On 27 July 2009, the 'Public Sector Employment and Management (Departmental Amalgamations) Order 2009' established the Land and Property Management Authority from the former Department of Lands. The Order also transferred the following to the Authority.

- Office of State Property Authority
- Office of Biofuels
- Employees of the Hunter Development Corporation
- Employees of the Lake Illawarra Authority
- Employees of the Chipping Norton Lake Authority

The Authority also manages the functions of the previous Crown Leasehold Entity, Land Development Working Account, Crown Lands Homesites Program and Crown Reserves, effective from 1 July 2009.

The *Public Sector Restructure (Miscellaneous Acts Amendments) 2010* transferred the Office of Strategic Lands from the Department of Planning to LPMA with effect from 1 July 2009.

The Public Sector Employment and Management (SHFA) Order 2010 transferred the Office of Sydney Harbour Foreshore Authority to LPMA with effect from 4 June 2010.

The Public Sector Employment and Management (Land and Property Management Authority) Order 2010 transferred the Office of Rural Affairs from the Authority to the Department of Industry and Investment with effect from 19 March 2010.

Inventory of Crown Land (Repeat Issue)

I recommend the Authority establish an appropriate centralised record of all Crown land in New South Wales to meet its responsibilities under the *Crown Lands Act 1989*.

The Authority is responsible for establishing a programme of assessment of all Crown land in New South Wales in accordance with the *Crown Lands Act 1989*. The assessment must include an inventory of Crown land; an assessment of the capabilities of the land; and the identification of suitable uses for the land indicating, where practicable, the preferred use or uses for the land.

In 2007, I reported that whilst the Department of Lands had information on the State's Crown lands, it did not have a centralised inventory of all Crown land in New South Wales, or a mechanism to record all required information. As a result, the Department cannot demonstrate it has fulfilled its responsibilities under the *Crown Lands Act 1989*.

The Authority has received funding from The Treasury to establish a centralised record of all Crown lands, which it expects to complete by June 2012.

Government Property Register (Repeat Issue)

I recommend the Authority develops a strategic framework to guide the future maintenance, development and use of the Government Property Register.

I also recommend the limitations identified in the Government Property Register be resolved so that it becomes a complete and reliable record of all New South Wales Government property assets.

A 2002 performance audit on the Government Property Register (GPR) noted that despite being on the agenda for many years (formally, at least since 1988), there was no comprehensive record of all government property assets in New South Wales. While significant progress has been made with developing the GPR, the Government still does not have a complete record of all property held by New South Wales Government agencies.

Whilst individual government agencies have responsibility for managing property assets they control, the law requires that a central register of government property be kept. Development and maintenance of the GPR by the Authority provides the means of achieving compliance with the law.

The register still has the following limitations, which were initially identified and reported in the 2002 performance audit:

- changes in control or ownership are not always recorded
- much of the land held by RailCorp has no title
- some Crown land is still unidentified
- some agencies are excluded from the legal requirements to provide information for the register (e.g. State owned corporations)
- many agencies have unique property identifiers which may relate to a part of, one or many lots.

The Authority is currently developing the functionality of the GPR to enable it to capture all land without title. This function is scheduled for completion in January 2011.

The Authority is also undertaking Title Conversion Programs, which identify untitled land parcels and create computerised titles.

The GPR is also being expanded to enable it to capture property information supplied by State owned corporations. This work is scheduled for completion in December 2010.

Currently, there is no strategic framework to support future development, maintenance and use of the GPR, although the Authority is preparing an overview document to provide for the strategic framework. During 2009-10, the Authority introduced regular meetings for GPR users to clarify its vision for the GPR, ascertain the needs and requirements of the Government and reporting agencies, and reinforce agency responsibilities in maintaining GPR data. The Authority advises these meetings also serve to guide future enhancements to the GPR.

I recommend the Authority continues to work with agencies experiencing difficulty finalising 2010 annual reconciliations of the GPR with agency records, to ensure a complete reconciliation is achieved as soon as possible.

In March 2010, the Chief Executive of the Authority issued a letter to 193 New South Wales public sector agencies:

- confirming the statutory powers under which reporting agencies are required to supply property data to the GPR
- requesting agencies to reconcile their property assets with the GPR.

Of the 193 agencies contacted, 135 agencies have responded equating to approximately 95 per cent of the properties currently registered in the GPR.

Of the responding agencies, 119 have successfully reconciled their property assets with the GPR. The Authority is working with the remaining 16 agencies to complete the process by ensuring the information accessed in the GPR is accurate and reliable.

The Authority asked agencies with no assets recorded in the GPR to confirm they do not hold, lease or occupy any property. Of the 58 agencies that have yet to respond to the initial reconciliation request, 32 are to have no property assets recorded in the GPR.

Aboriginal Land Claims (Repeat Issue)

Since 2007, I have been recommending that the Authority significantly reduces the time taken to process Aboriginal Land Claims and transfer legal title to successful claimants.

I have also been recommending that legal title over land granted to successful Aboriginal land claimants be issued as soon as practicable.

The Authority investigates Aboriginal Land Claims made under the *Aboriginal Land Rights Act 1983*. Under the Act, claims can be made over claimable Crown land, being lands that can be lawfully sold or leased, or are reserved or dedicated for any purpose under the *Crown Lands Act 1989* or *Western Lands Act 1901* and are not required for an essential purpose, nor for residential land, nor are not lawfully used and/or occupied.

Of the 26,895 Aboriginal Land claims lodged under the Act to 30 June 2010, 17,436 (64.8 per cent) were unresolved at 30 June 2010, with 293 claims unresolved for more than ten years.

During the year, 8,756 (2,056 in 2008-09) claims were lodged with 69 granted and 1,152 refused. Most of the claims lodged in 2009-10 were over freehold land. Claims over freehold land cannot be granted under the *Aboriginal Land Rights Act 1983*, and these claims do not require further investigation.

On 13 July 2009, the Premier directed that all current outstanding claims submitted between 1983 and 1993 must be determined, as a matter of priority, by 31 December 2009. The Authority met this target.

The Premier also set a target to reduce the current number of outstanding land claims at 30 June 2010 by 65 per cent from July 2009 to June 2010. The Authority was unable to meet this target due to the large volume of claims lodged in 2009-10. The Authority advises the number of determinations made in the current year was a significant increase on the long term average number of determinations.

Legal title cannot pass until the land has been surveyed and recorded on the State's Digital Cadastral Database. Once this has occurred, formal title can pass to the relevant local Aboriginal Land Council. Claimants cannot fully access or use the land until title has passed. Based on current survey resourcing capacity, it may take more than 20 years for all current granted claims to be cleared. We initially reported this matter in 2005.

The land is included as both an asset and a liability of the Authority on the basis that, whilst the Crown retains control of the land until legal title passes, a present obligation exists to transfer the land.

At 30 June 2010, the Authority had a \$966 million liability for land claims granted to claimants. During 2009-10, land valued at \$220 million was transferred to the successful claimants following finalisation of legal title.

Treasury Online Entry System Input Preparation

I recommend the Land and Property Management Authority implement improved quality control procedures over its Treasury Online Entry System (TOES) input processes.

The Treasury Online Entry System (TOES) is the financial reporting system agencies use to report financial results and balances to The Treasury for the Total State Sector Accounts. Most agencies, including the Authority, are required to complete a TOES return each month.

The initial TOES input for 2010 was incorrect and contained errors that were material to the Total State Sector Accounts. These errors were only identified during the audit. This delayed the audit of the Authority's financial statements and contributed to the delay in finalising the Total State Sector Accounts.

The Authority should implement robust review and quality control procedures around the TOES input process as a priority.

PERFORMANCE INFORMATION

The largest source of the Authority's revenue comes from its titling business, which includes document registrations, plan registrations and title copies. Land valuations also provide a significant portion of the Authority's revenue. The following table provides information on the Authority's activity in these areas:

Year ended 30 June	Target*	Actual				
	2010	2010	2009	2008	2007	2006
Title copies ('000s)	4,000	4,169	4,064	4,496	4,400	4,305
Document registrations ('000s)	700	781	730	799	794	810
Plan registrations ('000s)	10	10	10	11	11	12
Total Titling activities ('000s)	4,710	4,960	4,804	5,306	5,205	5,127
Titling revenue (\$'000)	129,337	141,948	123,219	123,092	104,066	103,660
Total valuations ('000s)	2,400	2,429	2,417	2,404	2,389	2,373
Valuations revenue (\$'000)	39,561	38,352	37,870	35,297	33,175	27,993

* Source: LPI Statement of Business Intent 2009-10 (unaudited).

Titling activities have decreased 3.3 per cent, from 5.1 million transactions in 2005-06 to 5.0 million in 2009-10. Titling revenue increased significantly, by 36.9 per cent, from \$104 million to \$142 million over the same period due to price increases.

The numbers of valuations has remained steady over the last 5 years. Significant increases in valuation revenue during 2006-07 were due to the IPART determination, which agreed to recover the increase in costs associated with valuations by incrementally increasing prices. Valuation revenue has increased 37.0 per cent, from \$28.0 million to \$38.4 million over the 5 year period from 2006 to 2010.

OTHER INFORMATION

Torrens Assurance Fund

The Torrens Assurance Fund was established to meet claims for losses arising out of fraud or errors made by the Authority. It is funded by a \$4 fee to the Registrar-General for any land dealing lodged. Fees charged raised \$3.1 million in 2009-10 (\$2.9 million) for the Fund. At 30 June 2010, the balance of the Fund totalled \$16.1 million (\$16.5 million).

The Registrar-General paid \$3.5 million (\$4.8 million) in claims during the year from the Fund, including compensation payments and disbursements, such as legal counsels' fees. As at 30 June 2010, there were 19 (47) unresolved claims with a total estimated value of \$11.4 million (\$13.9 million). Unresolved claims are disclosed as contingent liabilities in the Authority's financial report.

New arrangements under the *State Revenue Legislation Amendment Act 2010* changed the existing arrangements of the Torrens Assurance Fund. From 1 July 2010, the Torrens Assurance Fund levy became a separate charge paid under the Act and will be payable into the Consolidated Fund.

Major Projects

The Authority has a number of projects integral to meeting its purpose of providing quality, timely and reliable geospatial information, and land management products and services. We have included details below on the current status of projects with forecast costs exceeding \$3.0 million:

At 30 June 2010	Original Forecasted Cost \$'000	Current Forecasted Cost \$'000	Original Completion Date	Current Completion Date
Crown Parcels Conversion Stage 2	6,530	6,530	2012	2012
National Electronic Conveyancing System	4,000	4,448	2010	2011
Digitisation of Historical Plans	4,000	3,683	2006	2011
Survey Infrastructure Project	3,050	7,246	2011	2014

The initial stage of the Crown Parcels Conversion project was completed in 2009. Stage 2 has now commenced and the completion date is 2012.

The forecast cost for the Digitisation of Historic Plans project decreased due to process efficiencies. However, its completion date has been extended to 2011 due to reprioritisation of the project. The remaining projects with increased forecast costs and extended completion dates are largely due to increases in project scopes, in particular, the Survey Infrastructure project. Due to funding issues, this project has been delayed, requiring an extension in funding and timeframe.

National Electronic Conveyancing System

The National Electronic Conveyancing System (NECS) is to be a single national facility serving industry and government needs in all State and Territory jurisdictions. It aims to provide a convenient electronic means for legal practitioners, conveyancers, banks and mortgage processors.

In July 2008, the Council of Australia Governments (COAG) announced a commitment to implement the NECS with the commencement of a new e-conveyancing system targeted by March 2010.

In March 2009, the agreement was extended and confirmed through the National Partnership Agreement to deliver a Seamless National Economy, which schedules the introduction of the NECS by the end of 2011.

In January 2010, the National E-Conveyancing Development Ltd (NECDL) was formed to progress work previously being guided by the National Steering Committee of government and industry representatives through the National Electronic Conveyancing Office (NECO).

The NECDL has been funded by a grant of \$1.67 million from the governments of New South Wales, Queensland and Victoria. The Authority contributed the grant to the NECDL on behalf of the New South Wales Government.

Until NECDL becomes fully operational, NECO has continued its work during a transition period in 2009-10.

The NECO administration and the National NECS work program has received funding from the Authority totalling \$6.0 million over five years, including \$1.8 million in 2009-10. NECDL is negotiating the procurement of the NECS intellectual property created by NECO since 2005, from the Authority. Following the formation of NECDL, the Authority is winding down its NECO activities and expects to handover the outstanding work to NECDL by December 2010.

Human Resources

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

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- extent of contract staff
- flex leave.

Issues identified from my review will be reported in a management letter to the Authority. A summary of the results of my review follows.

Workforce Ageing

The Authority faces challenges from the potential loss of a large number of skilled employees through retirement over the next 10 to 15 years. Thirty per cent of the Authority's employees are 55 years of age and over and 48 per cent are 50 years of age and over.

The Authority will need to actively monitor its workforce age profile and have strategies in place to develop, attract and retain employees whose skills are aligned to the strategic direction of the entity.

In response to this risk, the Authority advises it has implemented the 'Graduate and Trainee Intake' programs and 'Vision 2013' strategy with the objective to attract, develop and retain suitable numbers of people.

The age profile of the Authority employees is shown below:

At 30 June Age Group	2010	
	No. of Employees	%
Up to 35	289	18
35 – 39	158	10
40 – 44	175	11
45 – 49	219	13
50 – 54	301	18
55 – 59	359	22
60 – 64	107	6
65+	26	2
Total	1,634	100

Source: Land and Property Management Authority (Unaudited)

Contractors

I recommend the Authority establish a central registry of all contractors and periodically review the roles and responsibilities of all its contractors to ensure:

- its reliance on contractors is not excessive
- using contractors instead of permanent employees is appropriate
- contractors do not become de facto employees by virtue of being with the Authority for an extended period of time
- using a contractor continues to represent good value for money.

The Authority spent \$7.5 million on contract employees in 2009-10, 5.4 per cent of salaries and wages.

I understand the Authority has a Recruitment Review Committee to review business cases for staffing requests, including temporary and casual staff. However, the Authority does not have a central registry of all contractors and is unable to determine how many contractors are working at one time and how long they have been engaged by the Authority.

While the use of contractors has benefits, particularly on projects, extensive reliance on this employment source generally results in higher employment costs to an organisation and less ownership and commitment to organisational goals and objectives.

Flex Leave

I recommend the Authority develop mechanisms to centrally review flex time records to help ensure excessive flex time is not being accrued and forfeited by employees.

The Authority does not know the extent to which flex time is being accrued and forfeited by employees, as it does not keep central records of forfeited flex time. Records are decentralised and manually maintained by each branch. If flex time is not monitored centrally, employees may be accruing and/or forfeiting excessive flex time. The Authority advises that an electronic flex system is currently being implemented.

FINANCIAL INFORMATION

As the Authority is a new entity, no comparatives for prior financial years are shown in the information below.

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000
Employee related	172,187
Grants and subsidies	38,306
Other expenses	246,224
OPERATING EXPENSES	456,717
OPERATING REVENUE	369,569
Loss on disposal	(100,757)
Other losses	(22,189)
NET COSTS OF SERVICES	210,094
Government Contributions	(2,087)
DEFICIT	(212,181)
OTHER COMPREHENSIVE INCOME	
Increase in Property Plant and Equipment Asset Revaluation Reserve	118,063
Superannuation actuarial losses	(43,386)
TOTAL COMPREHENSIVE EXPENSE	(137,504)

During the year, the Authority incurred expenses of \$116 million on Aboriginal Land Council claims granted and related changes in valuation estimates. The Authority also incurred a loss of \$101 million on the disposal of Crown lands as the majority were disposed for little or no consideration to Reserve Trusts or Local Government.

In 2009-10, the Authority earned \$142 million from titling, its main source of income. The Authority also manages properties under lease and licence and earned \$55.1 million for this tenure management.

Included in Government Appropriations are transfers to The Treasury and payments to the Office of State Revenue, totalling \$83.2 million.

Abridged Statement of Financial Position

At 30 June	2010 \$'000
Current assets	160,445
Non-current assets	6,289,160
TOTAL ASSETS	6,449,605
Current liabilities	1,109,575
Non-current liabilities	205,231
TOTAL LIABILITIES	1,314,806
NET ASSETS	5,134,799

The Authority's property, plant and equipment balance at 30 June 2010 was \$6.2 billion. This includes \$0.7 million and \$5.3 billion of tenured and untenured Crown land respectively. Untenured Crown Land includes the continental shelf within the Three Nautical Mile Zone valued at \$359 million.

During the year, the Authority revalued its land and buildings resulting in a \$118 million increase in value.

Included in non-current liabilities above are superannuation liabilities of \$192 million.

Abridged Service Group Information

The Authority's net cost of services and net assets on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services*	Net Assets
	2010 Actual \$'000	2010 Actual \$'000
Crown Land Services	53,498	60,334
Soil Conservation Service and Rural Service	9,119	9,626
Personnel Services	(1,300)	2,058
Commercial Activity – Land and Property Information	(21,426)	(61,212)
Commercial Activity – Crown Leaseholds Entity	178,076	5,083,334
Commercial Activity – Land Development Working Account	(1,372)	10,349
Commercial Activity – Crown Lands Home sites Program	(6,501)	30,310
Not attributable	--	--
Total all service groups	210,094	5,134,799

* The table above does not contain budget figures, as the entity is new.

AUTHORITY ACTIVITIES

The Authority has commercial, semi commercial and non-commercial activities, which include the provision of information about property on a commercial basis, such as surveying, mapping, titling, valuations and related geospatial information. Its Soil Conservation Services provide conservation and land management services on a semi commercial basis. Non-commercial activities include the sustainable management of Crown lands including the tenure management for properties under lease and licence, and the management of Aboriginal Land Claims and Native Title applications.

For further information on the Authority, refer to www.lpma.nsw.gov.au.

State Property Authority

AUDIT OPINION

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

KEY ISSUE

Contaminated Land

I recommend the Authority review its property remediation activities, including:

- assessing the risk of further increases in estimated remediation costs
- identifying how the Authority will fund any further increases
- developing strategies to minimise the risk of further increases.

The Authority has significant obligations to remediate contaminated land. At 30 June 2010, its remediation liabilities totalled \$115 million. Some of these obligations are in respect of land not owned by the Authority.

Accurately estimating the cost and timing of remediation is difficult and the Authority's remediation liabilities at 30 June 2010 are greater than were originally estimated, resulting in unbudgeted expenses of \$10.0 million in 2009-10. All New South Wales Government agencies with remediation obligations face a risk that remediation will cost more than planned.

Hunters Hill

The Authority is managing the remediation of three Hunters Hill properties to make them suitable for residential development. At 30 June 2009, the Authority estimated the costs of remediation at \$4.9 million. At 30 June 2010, this estimation had increased to \$9.6 million.

The Authority's 2010 estimation of costs is based upon transfer of contaminated waste material to a licensed site located at Kemp's Creek. However, the Premier has subsequently instructed the Authority to explore other options for waste disposal. Changes to waste disposal plans and any resulting delays could increase the final remediation cost.

The Authority acquired the properties from NSW Health in 2008-09, which are contaminated by residues from a uranium processing plant that operated on the site from 1911 to 1916. The plant was run by the Radium Hill Company, a commercial enterprise that no longer exists.

Newcastle

The Authority is responsible for remediating various contaminated lands in Newcastle. These properties were acquired in 2002 from BHP Billiton. At the time, BHP Billiton paid the Government \$104 million to indemnify them from any ongoing liability for contamination on the transferred lands. This was an amount equal to the expected total remediation costs.

At 30 June 2010, the balance of the funds remaining was \$96.4 million and the expected remediation costs are \$105 million. The NSW Government is unable to recover the additional costs from BHP Billiton. The Authority will need to fund any further deterioration in the estimated remediation costs.

In July 2009, various parcels of Newcastle land were transferred to Newcastle Port Corporation (NPC), a New South Wales statutory State owned corporation. NPC is indemnified by the Crown from any liability for contamination on the transferred lands. As result, the Authority still has a liability for remediation of the transferred land.

Any deterioration in remediation costs in the future will result in an expense to the Authority. However, any increase in land value arising from the remediation process will benefit NPC. This division of risks and benefits increases the risk of inefficient outcomes for the Government as a whole.

PERFORMANCE INFORMATION

Vacancy Rates

Records maintained by the Authority show vacancy rates for properties managed by the Authority ranged from 1.2 per cent in July 2009 to 0.7 per cent in June 2010. This performance is comparable with the prior year when vacancy rates ranged from 0.9 per cent to 1.6 per cent. The Authority sets a vacancy benchmark of 1.5 per cent.

At 30 June 2010, 5,470 square metres representing 0.7 per cent of the Authority's office accommodation, remained vacant (5,200 square metres representing 1.2 per cent at 30 June 2009). This is better than reported vacancy rates for Sydney commercial office space, being 8.5 per cent at July 2010 and 7.7 per cent at July 2009.

OTHER INFORMATION

Property Portfolio

The Authority's property portfolio includes:

At 30 June	2010 \$'000	2009 \$'000
Land and buildings held for operations and investment	707,803	728,319
Vacant land	124,192	152,563
Finance lease assets	78,574	81,793
Emerging interests in properties subject to long term leases	1,800	5,750
Work in progress	3,836	3,912
Other	8,116	3,230
Total Property	924,321	975,567

The Authority advises its property portfolio is around 1.3 million square metres at 30 June 2010.

Vesting Program

Ownership of 86 properties and management of 552 leases vested with the Authority over the last two financial years. On 1 October 2010, a further 6 properties and 266 leases were transferred to the Authority. Substantial completion of the vesting program is expected by 30 June 2011. This will see the ultimate vesting of around 980 Government owned and leased property assets since the commencement of the program in 2008.

Premier's Memorandum 2008-06, 'State Property Authority and Government Property Principles' established the framework for management of government property assets. Key initiatives of the framework included:

- ownership of all government owned office accommodation vesting in the Authority
- transferring to the Authority management responsibility of all government leased office accommodation.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Property rental income	255,398	184,569
Grants and contributions	18,854	23,357
Other income	3,221	9,585
REVENUE	277,473	217,511
Property related outgoings	201,956	121,031
Depreciation and amortisation	25,313	21,983
Other operating expenses	20,358	12,132
Employee related expenses	16,021	17,272
EXPENSES	263,648	172,418
Loss on disposal and revaluation of property	(15,420)	(1,903)
(DEFICIT)/SURPLUS	(695)	43,190
(Loss)/gain on revaluation of property	73,787	(163,521)
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	73,092	(120,371)

Property rental income and related outgoings increased as a result of the additional owned and leased properties obtained during 2009-10.

Grants and contributions received from the State Government include \$13.7 million (\$17.4 million in 2009) for major capital projects and asset renewals.

The Authority made distributions to Government of \$97.7 million during 2009-10 (\$39.0 million). Distributions represent \$32.6 million of surplus on rental operations (\$39.0 million) and \$65.1 million of proceeds from asset sales (nil).

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	169,509	232,566
Non-current assets	989,372	925,716
TOTAL ASSETS	1,158,881	1,158,282
Current liabilities	71,002	59,801
Non-current liabilities	374,833	324,918
TOTAL LIABILITIES	445,835	384,719
NET ASSETS	713,046	773,563

Current assets include cash and cash equivalents of \$96.4 million (\$94.7 million) set aside for remediation of land acquired by the government from BHP Billiton in 2002. Cash and cash equivalents also includes \$2.8 million (\$13.9 million) held in trust for another government agency for property acquisitions in progress.

At 30 June 2010, current and non-current provisions for remediation totalled \$115 million (\$97.1 million).

AUTHORITY'S ACTIVITIES

The *State Property Authority Act 2006* established the Authority as a statutory body from 1 September 2006. The Authority's principal objectives are to:

- improve operational efficiencies in the use of properties by government agencies
- manage properties of government agencies in a way that supports the delivery of government services by agencies
- advise government on property matters
- operate at least as efficiently as any comparable business

The Authority is subject to the control and direction of the Minister for Lands.

For further information on the Authority, refer to www.lpma.nsw.gov.au/spa.

Minister for Mineral and Forest Resources

Mine Subsidence Board

Mine Subsidence Board

AUDIT OPINION

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

FINANCIAL INFORMATION

The following information relates to the Board's finances:

Year ended 30 June	2010 \$'000	2009 \$'000
Revenue	24,828	25,115
Expenditure	18,285	12,068
Surplus	6,543	13,047
Net assets (at 30 June)	58,420	51,877

The increase in expenditure was mainly due to increased subsidence claims, \$6.7 million. The increase in net assets was mainly due to an increase in the value of investment bonds and term deposits by \$10.9 million. This was offset by a \$5.7 million increase in the provision for subsidence claims and preventive works.

BOARD ACTIVITIES

The Board's main objective is to provide compensation payments for damage caused by mine subsidence on land anywhere within the State following coal or shale prospecting, or extracting coal or shale.

The Board was established under the *Mine Subsidence Compensation Act 1961*. It is subject to the control and direction of the Minister for Mineral Resources.

For further information on the Board, refer to www.minesub.nsw.gov.au.

Minister for Planning

Department of Planning

Landcom

Barangaroo Delivery Authority

Sydney Harbour Foreshore Authority

Refer to Appendix 1 for:

Festival Development Corporation

Hunter Development Corporation

Department of Planning

AUDIT OPINION

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

KEY ISSUE

Accounting for Revenue

Last year, I noted a number of issues with the recognition of development application fees and development contributions in the financial statements. At that time the Department advised it would review revenue procedures and controls in 2009-10.

The Department's Internal Auditors reviewed revenue management processes in 2009-10 and found that while some issues persist around establishing the debt and reconciliations, significant progress has been made to address the issues. I will continue to monitor and report actions taken by management during 2010-11 to address the remaining issues.

OTHER INFORMATION

Annual Leave Balances

At 30 June 2010, 81 (86 at 30 June 2009) employees had accrued annual leave entitlements in excess of 40 days. This represents 11.4 per cent (11.0 per cent) of all employees. The accumulation of excessive annual leave entitlements may result in increased financial costs, because the entitlements will be paid out at higher salary rates in the future, and may have occupational health and safety implications.

FINANCIAL INFORMATION**Abridged Statement of Comprehensive Income**

Year ended 30 June	2010 \$'000	2009 \$'000
Employee related	72,083	67,757
Other operating expenses	17,081	19,290
Grants and subsidies	28,421	32,632
Other expenses	1,839	1,319
TOTAL EXPENSES	119,424	120,998
Sale of goods and services	35,878	39,369
Other revenue	7,681	14,359
TOTAL REVENUE	43,559	53,728
Other losses	3,590	13,644
NET COST OF SERVICES	79,455	80,914
Government contributions	66,224	69,111
TOTAL COMPREHENSIVE EXPENSE	(13,231)	(11,803)

Employee related expenses increased by \$4.3 million due to the engagement of additional staff to accelerate rezoning and development assessments and planning reforms. Grants and subsidies decreased by \$4.2 million mainly due to the cessation of funding for the South West Rail corridor.

Revenue from the sale of goods and services decreased by \$3.5 million. This was largely due to the reduction of personnel services revenue resulting from the restructure of government agencies. Other revenue decreased by \$6.7 million mainly due to the recognition of development contributions associated with two large developments in the previous year. Other losses decreased \$10.1 million largely due to land transferred to other government agencies in the previous year.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	29,743	22,833
Non-current assets	14,347	18,836
TOTAL ASSETS	44,090	41,669
Current liabilities	20,581	11,822
Non-current liabilities	17,405	10,513
TOTAL LIABILITIES	37,986	22,335
NET ASSETS	6,104	19,334

Current assets increased by \$6.9 million due to a delay in the payment of developer contributions and an increase in major project debtors in June 2010. Non-current assets have decreased by \$4.5 million mainly due to the decrement in the revaluation of coastal lands.

Current liabilities are higher by \$8.8 million mainly due to payables for developer contributions, grants to councils for coastal cycleways and contractor expenses. Non-current liabilities are higher due to a \$7.0 million increase in new loans to fund the operations of the Growth Centres Commission.

Service Group Information

Year ended 30 June	Net Cost of Services			Net Assets	
	2010 Budget \$'000	2010 Actual \$'000	2009 Actual \$'000	2010 Actual \$'000	2009 Actual \$'000
Strategies and land release	19,504	22,141	22,641	(14,320)	(6,465)
Plan making and urban renewal	36,549	33,218	42,978	14,195	18,877
Development assessment	18,632	24,096	15,295	6,229	6,922
Total all service groups	74,685	79,455	80,914	6,104	19,334

The actual net cost of services was \$4.8 million higher than budget primarily due to a loss on disposal of property, plant and equipment and a decrement on the revaluation of coastal land.

DEPARTMENT ACTIVITIES

The Department oversees and implements Government policies on land use planning and development, and facilitates and manages sustainable growth.

It plays a critical role in key State investment decisions in its role as lead agency advising the Minister and Government on the approval of major development and infrastructure projects of significance to New South Wales' economy and employment.

The Department leads and coordinates State-wide planning strategies to guide growth and development, and to inform infrastructure planning, staging and delivery.

Key legislation includes the *Environmental Planning and Assessment Act 1979*, the *Heritage Act 1977* and the *Coastal Protection Act 1979*.

For further information on the Department, refer to www.planning.nsw.gov.au.

Landcom

AUDIT OPINION

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

PERFORMANCE INFORMATION

Financial Performance

The table below compares Landcom's financial results against targets set in its Statement of Corporate Intent (SCI). Landcom exceeded all its financial targets for 2009-10.

Year ended 30 June	Target*	Actual				
	2010	2010	2009	2008	2007	2006
Earnings before interest and income tax (\$m)	43.7	53.1	51.6	59.5	68.4	72.6
Dividend to Consolidated Fund (\$m)	41.3	51.8	42.9	36.0	39.6	44.3
Income tax to Consolidated Fund (\$m)	10.9	12.6	15.3	15.1	17.7	17.5
Return on equity (%)	7.7	9.6	9.6	9.8	11.6	12.3
Return on assets (%)	3.9	4.5	4.8	5.0	5.8	7.3
Debt to total equity (%)	49.3	27.1	32.8	48.3	56.5	48.6

* Performance indicators included in Landcom's 2009-10 SCI.

Landcom's five-year performance against economic, social, environmental and governance targets have been published in its Annual Report for 2010.

OTHER INFORMATION

Human Resources

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

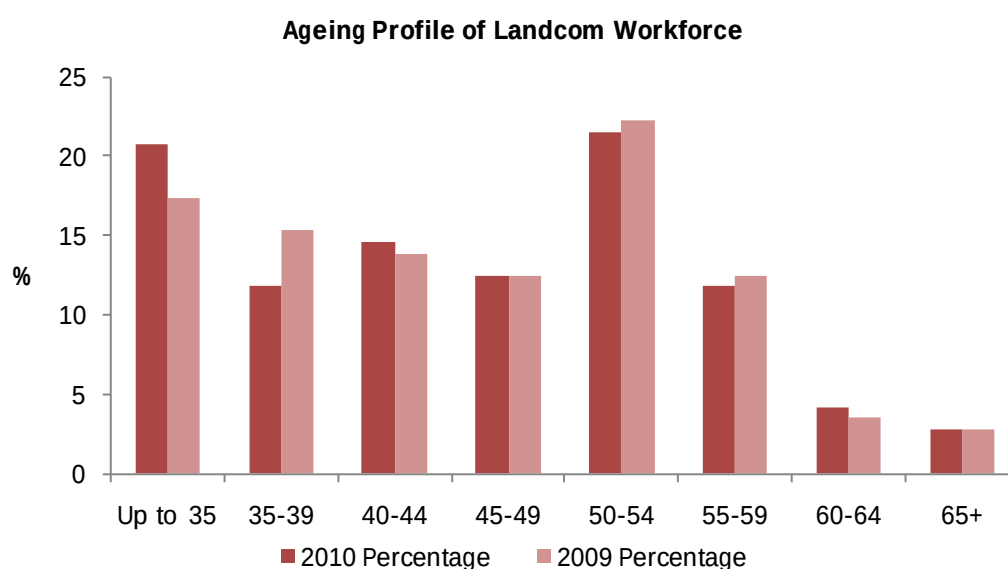
- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risk arising
- trend in long service leave liabilities
- management of annual leave balances
- extent of overtime.

A summary of the results of my review follows.

Workforce Ageing

Nineteen per cent of Landcom's employees are over 55 years of age and 41.0 per cent are over 50. A large number of employees are likely to retire over the next five to ten years increasing the risk of losing critical knowledge and skills. Landcom has introduced strategies in recent years to mitigate this risk, the impact of which is reflected in the increase in the under 35 demographic from 17.0 per cent to 21.0 per cent.

The age profile of Landcom employees is shown below:



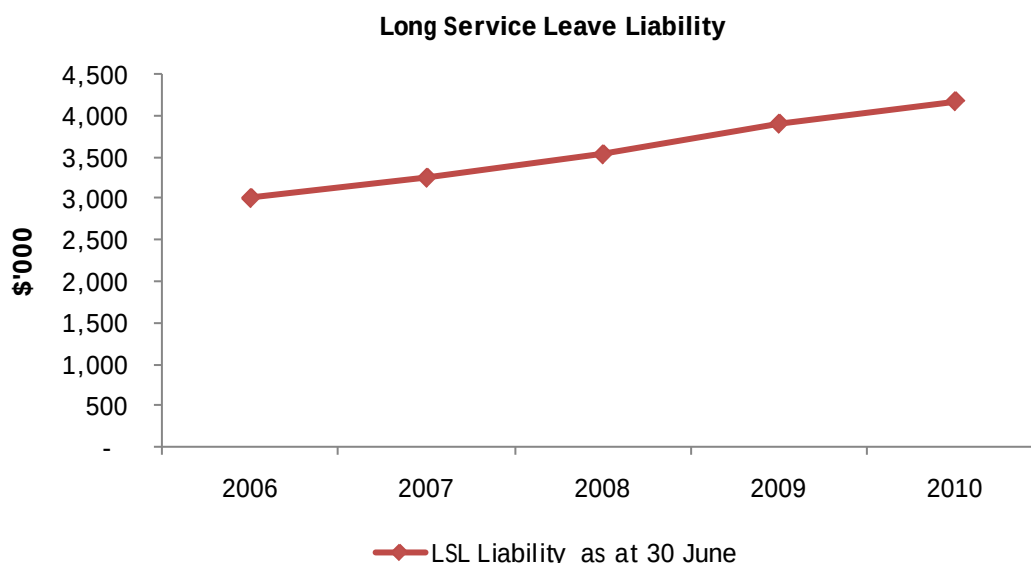
At 30 June Age Group	2010	2009
	No. of Employees	No. of Employees
Up to 35	30	25
35-39	17	22
40-44	21	20
45-49	18	18
50-54	31	32
55-59	17	18
60-64	6	5
65+	4	4
Total	144	144

Source: Landcom Human Resources Department (unaudited)

Landcom advises that it will implement a Graduate Program and talent development strategies to develop skills of younger staff and provide knowledge sharing from retiring staff. The Board will also review the personnel mix each year.

Long Service Leave Liability

Landcom's long service leave liability of \$4.2 million at 30 June 2010 (\$3.9 million at 30 June 2009) has increased by 38.4 per cent over the last five years.



Source: Landcom 2006 – 2010 audited financial statements

The increase in the long service leave liability is mainly driven by remuneration increases and the accumulation of staff service.

Annual Leave Balances

Landcom has actively managed employees with excessive annual leave balances in recent years with positive results. The number of employees with annual leave balances in excess of 40 days has declined from 15 at 30 June 2007 to seven at 30 June 2010. The annual leave liability as a percentage of total employee liabilities (excluding superannuation) has also dropped from 28.3 per cent in 2007 to 21.3 per cent in 2010.

Overtime

Overtime payments in 2009-10 amounted to \$17,871 which was only 0.1 per cent of base salary expense for the year. On average, 8 Landcom employees received \$2,234 in overtime payments in 2009-10 and 5.6 per cent of employees received a payment for working overtime.

Distribution to the Treasury

Landcom's dividend payment is agreed with its shareholders annually as part of the Statement of Corporate Intent process. For 2009-10, it agreed to pay 100 per cent of the net profit after tax, adjusted for certain non-cash items, and \$18.2 million from retained earnings as a dividend. The dividend totalled \$51.8 million, which equated to 166 per cent of net profit after tax (\$42.9 million or 129 per cent in 2008-09).

FINANCIAL INFORMATION**Abridged Statement of Comprehensive Income**

Year ended 30 June	2010 \$'000	2009 \$'000
Sales income	384,526	278,665
Cost of sales	290,735	187,375
GROSS PROFIT	93,791	91,290
Other income	8,074	1,924
Employee related expenses	(15,917)	(13,205)
Other expenses	(32,852)	(28,392)
PROFIT BEFORE INTEREST AND INCOME TAX	53,096	51,617
Finance income	3,710	9,985
Finance expense	(12,959)	(13,060)
Income tax equivalent expense	(12,627)	(15,329)
PROFIT	31,220	33,213
OTHER COMPREHENSIVE INCOME		
Superannuation actuarial losses (net of income tax)	(1,065)	(3,608)
Other	--	11
TOTAL COMPREHENSIVE INCOME	30,155	29,616

Sales income increased by \$105.9 million primarily due to the improved property market, and Australian and State Government initiatives, such as the First Home Buyers Grant.

Despite the increase in sales, the gross margin dropped from 32.8 per cent in 2008-09 to 24.4 per cent in 2009-10 mainly due to the completion of the Prince Henry, Potts Hill East, Punchbowl – Carrissbrook, and Greenway Views projects, which suffered from low margins in the final stages of the projects.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Inventory	498,696	488,281
Other	193,336	203,375
TOTAL ASSETS	692,032	691,656
Borrowings	88,088	113,519
Other	279,076	231,632
TOTAL LIABILITIES	367,164	345,151
NET ASSETS	324,868	346,505

Inventory increased primarily due to additional development costs for various projects, particularly the Ponds and Oran Park.

Other assets reduced mainly due to the repayment of a \$25.0 million loan from New South Wales Treasury Corporation (TCorp) and the transfer of \$9.4 million in deposits for Schofields Pole Site during the year. These were partially offset by an increase in trade debtors of \$23.3 million.

Total liabilities increased largely due to increases in the provision to complete projects of \$17.3 million, creditors and accruals of \$13.7 million, provision for distribution to The Treasury of \$8.9 million and current tax liabilities of \$6.5 million. This was offset by the repayment of the TCorp loan mentioned above.

LANDCOM ACTIVITIES

Landcom is constituted under the *Landcom Corporation Act 2001*. Landcom develops and sells residential, commercial and industrial properties. As part of urban management, it develops land for residential purposes and redevelops inner city land for medium/high density housing. It also provides for the development of shopping centres, aged care and commercial facilities to complement its residential developments.

The principal objectives of Landcom are to:

- be a successful business, and to this end:
 - to operate at least as efficiently as any comparable business
 - to maximise the net worth of the State's investment in it
- exhibit a sense of social responsibility by having regard to the interests of the community in which it operates
- protect the environment by complying with the principles of ecologically sustainable development contained in section 6(2) of the *Protection of the Environment Administration Act 1991*
- approach regional development and decentralisation responsibly
- undertake, or assist the Government in undertaking, strategic or complex urban development projects
- assist the Government in achieving its urban management objectives
- be a responsible developer of residential, commercial and industrial land.

For further information on Landcom, refer to www.landcom.nsw.gov.au.

Barangaroo Delivery Authority

AUDIT OPINION

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

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

KEY ISSUE

Project Governance Risks

I recommend the Authority enhance its project governance arrangements to manage the increasing risks during the implementation of this landmark project.

Barangaroo development is a significant landmark waterfront project that will be delivered at no cost to tax payers. The developer estimates the total investment value of this project on completion is approximately \$6.0 billion. The delivery of the development comprises three phases, namely Barangaroo South, Central and the Headland Park.

Barangaroo South phase has commenced and will:

- add 430,000 square metres of commercial, residential and retail space
- accommodate over 23,000 workers and residents.

The project governance risks are increasing as the project progresses to the implementation stage. The Authority's risk profile includes the global financial crisis, public confidence, infrastructure outcomes, etc. Failure to implement robust risk identification and mitigation strategies may result in project delays and potential loss of share of its revenue from the financial success of the project.

Management advised it has the appropriate team and processes to proactively identify and manage project risks on a continuous basis.

OTHER INFORMATION

Headland Park

Headland Park will cover six hectares of picnic areas, walking paths, water access and tidal pools with an expected floor area of over 10,000 square metres. Construction of the park is expected to commence in 2011 with completion expected by 2014.

Management advised that the Cabinet Standing Committee approved this project in principle in 2009. The formal planning approval is still in progress.

Working Capital

At balance date, the Authority's current liabilities of \$68.4 million exceeded current assets of \$621,000. The Board confirmed the Authority is a going concern because its borrowing is guaranteed by the Government and it received a letter of financial support from The Treasury.

Major Projects

The table below provides the forecast completion dates and costs for the Authority's major projects.

Year ended 30 June 2010	Initial Estimated Completion Date	Forecast Completion Date	Initial Project Estimate* \$m	Cost to 30 June 2010 \$m	Forecast Final Cost \$m	Forecast Variance \$m
Headland Park	2014	2014	150	2.8	na	--
Contribution to Pedestrian Link to Wynyard station	2014	2014	100	1.1	na	--

Source: Barangaroo Delivery Authority (unaudited).

* The initial project estimate provided by the Authority.

na not available

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June 2010	Consolidated		Authority	
	2010 \$'000	2009 \$'000 *	2010 \$'000	2009 \$'000 *
Other revenue	172	12	172	12
TOTAL REVENUE	172	12	172	12
Employee related expense	2,618	324	2,618	324
Finance costs	9,133	1,821	9,133	1,821
Other expenses	30,194	2,334	30,194	2,334
TOTAL EXPENSE	41,945	4,479	41,945	4,479
DEFICIT	41,773	4,467	41,773	4,467
OTHER COMPREHENSIVE INCOME				
Gain on revaluation of land	20,000	--	20,000	--
TOTAL OTHER COMPREHENSIVE INCOME	20,000	--	20,000	--
TOTAL COMPREHENSIVE EXPENSE	(21,773)	(4,467)	(21,773)	(4,467)

* Financial information for 2009 covers activities for three months from 1 April to 30 June 2009.

The increase in other expenses was due to a change in estimating a property development expense and interest on increased borrowings.

Gain on revaluation of land represents the movement on the market value of the land asset.

Abridged Statement of Financial Position

At 30 June	Consolidated		Authority	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	621	2,853	621	2,853
Non-current assets	414,346	410,028	414,346	410,028
TOTAL ASSETS	414,967	412,881	414,967	412,881
Current liabilities	68,442	4,465	68,442	4,465
Non-current liabilities	234,102	274,220	234,102	274,220
TOTAL LIABILITIES	302,544	278,685	302,544	278,685
NET ASSETS	112,423	134,196	112,423	134,196

Total assets represent the value of the Barangaroo land asset. Total liabilities reflect provisions for property development and borrowings.

The movement between current and non-current liabilities reflects the reclassification of borrowings due for settlement in the next 12 months to 30 June 2011.

AUTHORITY ACTIVITIES

The Authority is a statutory body under the *Barangaroo Delivery Authority Act 2009*.

Its principal role is to manage the development of the Barangaroo site as a vibrant, commercial, sustainable location for national and global business.

For further information on the Authority, refer to www.barangaroo.com.

CONTROLLED ENTITY

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

Entity Name	Website
Office of the Barangaroo Delivery Authority	*

* This entity does not have a website.

Sydney Harbour Foreshore Authority

AUDIT OPINION

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

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

KEY ISSUES

Governance Arrangement

Following a Cabinet decision on 20 September 2010, the Board of the Authority was replaced by an interim Board comprising the Chief Executive Officer of the Land and Property Management Authority and the Director General of NSW Planning.

PERFORMANCE INFORMATION

The Authority provided the following information regarding its performance.

Property Management

Year ended 30 June	Target*	2010	2009	2008	2007	2006
Number of rental properties	na	135	134	133	134	135
Value of rental properties (\$m)	na	598.0	598.0	516.0	487.0	475.0
Rental revenue (\$m)	na	50.5	51.6	52.7	54.7	56.9
Return on rental properties (%)	na	8.5	8.6	10.2	11.2	12.3
Commercial Vacancy Rate (%)	< 7.8	17.1	17.9	15.9	2.3	na
Retail Vacancy Rate (%)	< 6.0	2.4	1.6	1.8	4.1	na

Source: Sydney Harbour Foreshore Authority (unaudited)

* Target is set by management

na not available.

The decrease in rental revenue was mainly due to reclassification of a major lease to a separate venue hire arrangement. The decrease in rental revenue in prior years was a result of disposal of certain rental properties.

Lease Profile

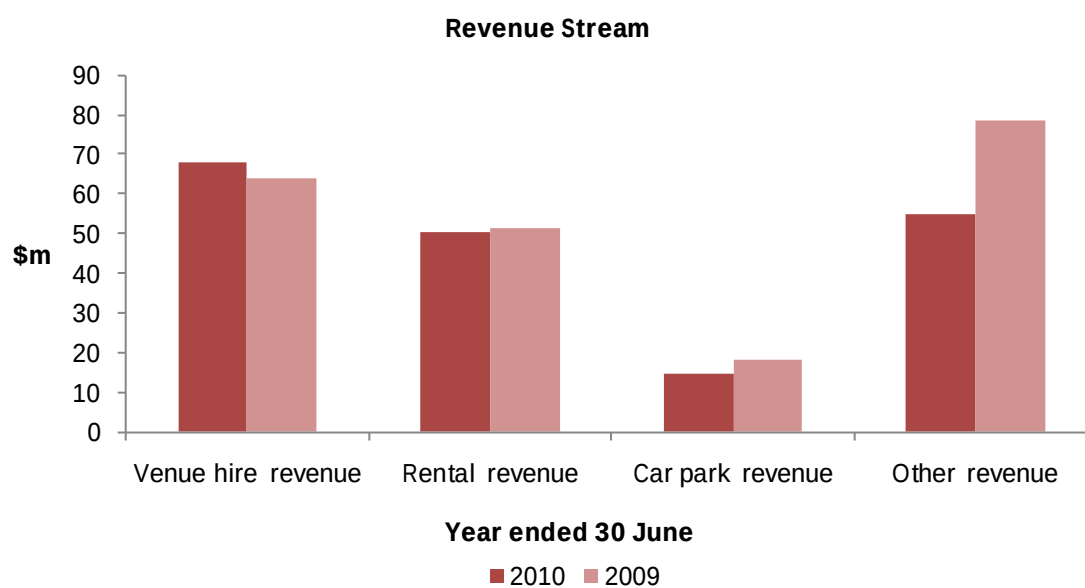
Year ended 30 June	2010	2009	2008	2007	2006
Number of new leases	13	21	24	24	30
Number of lease renewals	21	17	42	12	18
Value of rent abatement (\$'000)	86	24	145	82	267
Number of lease incentives	7	6	11	14	22
Value of lease incentives (\$'000)	240	168	217	560	385

Source: Sydney Harbour Foreshore Authority (unaudited)

The increase in rental abatements and lease incentives has resulted from the soft market conditions.

Revenue Streams

The following chart shows the Authority's sources of revenue.



Conferences and Exhibitions

Year ended 30 June	Target*	2010	2009	2008	2007	2006
International events	14	25	26	23	31	25
Attendance ('000s)	26	31	22	23	24	21
National conferences	388	579	538	524	495	422
Attendance ('000s)	656	759	837	1,027	969	1,040
Contribution to NSW's economy (\$m)	> 398	501	466	474	478	482

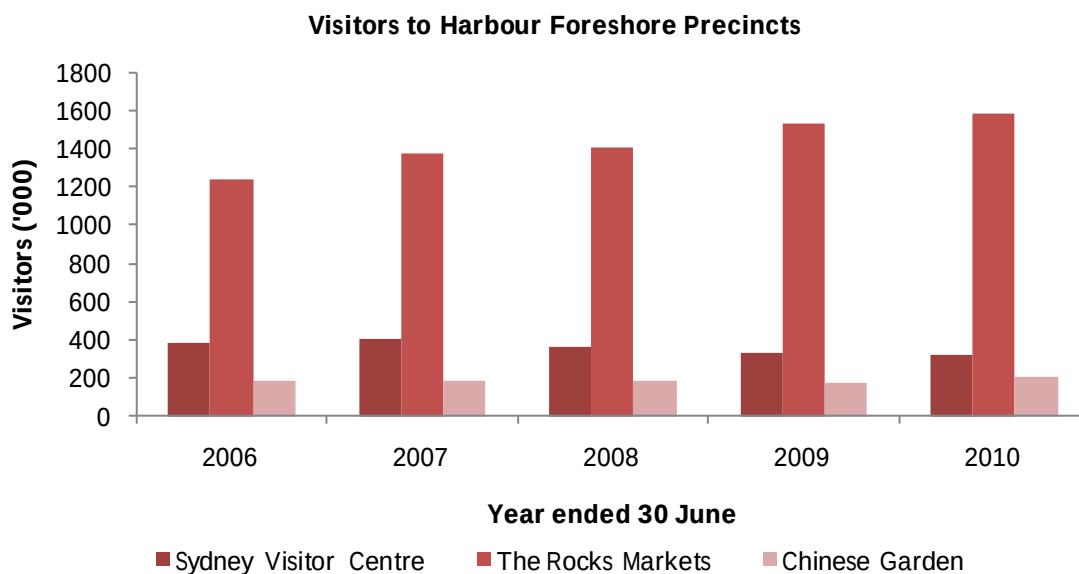
Source: Sydney Harbour Foreshore Authority (unaudited)

* Target is set by management

na: not available

Visitors to Harbour Foreshore Precincts

The chart below illustrates the trend in the number of visitors to the Harbour Foreshore Precincts.



Source: Sydney Harbour Foreshore Authority (unaudited).

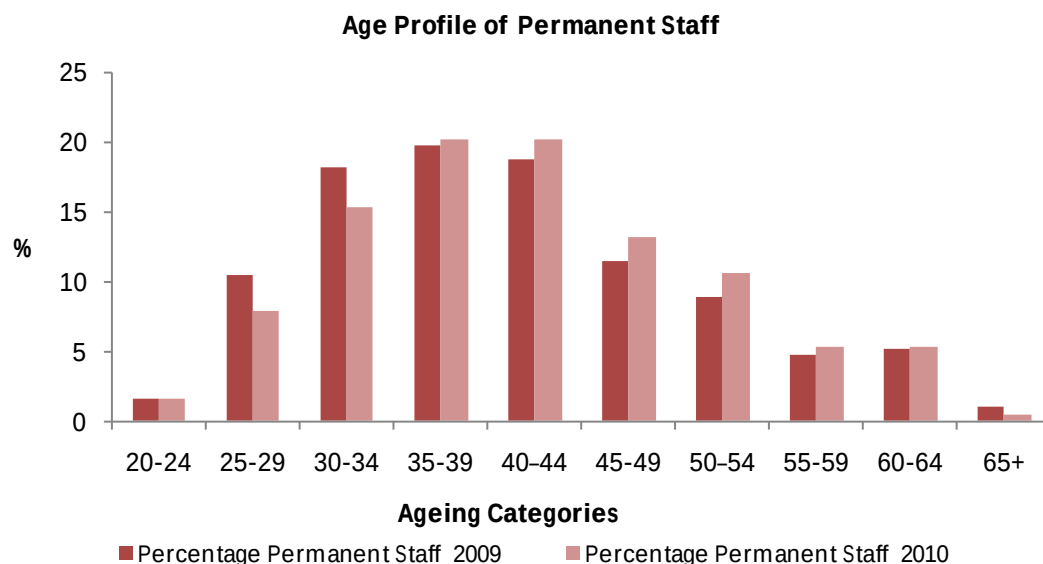
OTHER INFORMATION

Divestment of Commercial Leases

In November 2008, the Government announced a divestment plan for some of the Authority's \$168 million commercial leases excluding the Darling Walk property. Following a tender process, the Authority disposed of two properties in November 2010 at a total value of \$26.5 million. The Authority recognised a surplus on disposal of these assets.

Workforce Ageing

Just over 11.0 per cent of the Authority's employees are over 55 years of age and 21.7 per cent are over 50. The age profile of the Authority's employees, as shown below, does not indicate that the Authority faces the same risks many other public sector entities face from an aging workforce.

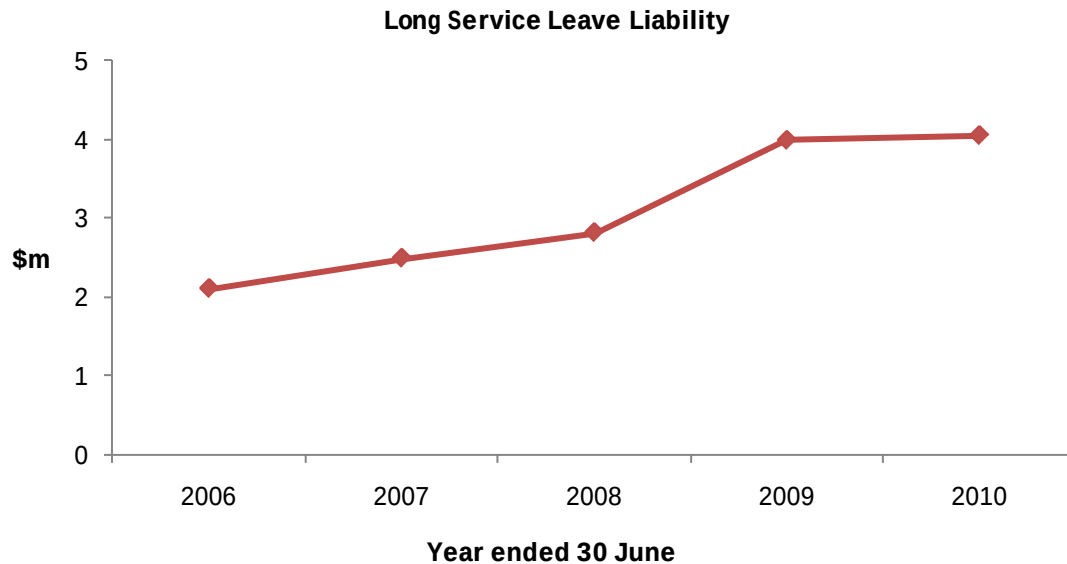


As at 30 June Age Group	2010		2009	
	No. of Staff	%	No. of Staff	%
20 – 49	148	78.3	154	80.2
50 – 54	20	10.6	17	8.9
55 – 59	10	5.3	9	4.7
60 – 64	10	5.3	10	5.2
65+	1	0.5	2	1.0
Total	189	100.0	192	100.0

Source: Sydney Harbour Foreshore Authority (unaudited)

Long Service Leave Liability

The Authority's liability for long service leave entitlements at 30 June 2010 amounted to \$4.0 million. This liability has increased by 92.6 per cent over the last five years.



The increase in the long service liability has resulted from continuous growth in long service leave balances and the increase in employee remuneration levels. It also increased due to the impact of a reduced Government bond rate used to discount the liability to present value.

Although the Authority has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities, which generally increase over time with increase in employee remuneration levels.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Venue hire revenue	67,916	64,113	67,916	64,113
Rental revenue	50,494	51,601	50,494	51,601
Car park revenue	14,818	18,033	14,818	18,033
Other	55,126	78,692	55,126	78,692
TOTAL REVENUE	188,354	212,439	188,354	212,439
Property related expenses	73,065	68,983	73,065	68,983
Employee related expenses	27,992	29,220	27,992	33,791
Depreciation and amortisation	16,940	18,380	16,940	18,380
Other expenses	40,155	58,623	40,155	58,623
TOTAL EXPENSE	158,152	175,206	158,152	179,777
SURPLUS	30,202	37,233	30,202	32,662
OTHER COMPREHENSIVE EXPENSE				
Superannuation actuarial losses	--	(4,571)	--	--
Loss on revaluation of land and buildings	--	(55,109)	--	(55,109)
TOTAL OTHER COMPREHENSIVE EXPENSE	--	(59,680)	--	(55,109)
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	30,202	(22,447)	30,202	(22,447)

Car park revenue fell by \$3.2 million due to a one-off parking levy accounting adjustment in 2008-09.

The decrease in other revenue was mainly due to a lower gain from the valuation of investment properties.

Abridged Statement of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	114,644	64,208	114,644	64,208
Non-current assets	1,197,137	1,215,315	1,197,137	1,215,315
TOTAL ASSETS	1,311,781	1,279,523	1,311,781	1,279,523
Current liabilities	60,915	53,211	60,915	53,211
Non-current liabilities	448,435	441,914	448,435	441,914
TOTAL LIABILITIES	509,350	495,125	509,350	495,125
NET ASSETS	802,431	784,398	802,431	784,398

The increase in current assets is mainly due to \$38.9 million of cash receipts from a legal settlement.

AUTHORITY ACTIVITIES

The Authority's roles are to:

- protect and enhance the natural and cultural heritage of the foreshore area
- promote, coordinate, manage, undertake and secure the orderly and economic development and use of the foreshore area, including the provision of infrastructure
- promote, coordinate, organise, manage, undertake, secure, provide and conduct cultural, educational, commercial, tourist, recreational, entertainment and transport activities and facilities.

The Authority owns and manages land within its precincts, including The Rocks and Darling Harbour. The Authority also manages the Cooks Cove project in Arncliffe and the Luna Park Reserve Trust.

The Authority provides place management services on behalf of other organisations including the Circular Quay and King Street Wharf promenades and Blackwattle Bay.

The Authority was established under the *Sydney Harbour Foreshore Authority Act 1998*.

For further information on the Authority, refer to www.shfa.nsw.gov.au.

CONTROLLED ENTITIES

Cooks Cove Development Corporation

In January 2006, the Corporation contracted with a private entity for development at the Cooks Cove site. In April 2009, the contracted developer went into voluntary administration. The status of the project is still under negotiation.

Office of the Sydney Harbour Foreshore Authority

The Office of the Sydney Harbour Foreshore Authority was abolished by the *Public Sector Employment and Management (Land and Property Management Authority) Order 2010*. All employees of the Authority other than the casual employment division were transferred to the Land and Property Management Authority from 4 June 2010.

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

Entity Name	Website
Sydney Harbour Foreshore Authority Casual Staff Division	*

* This entity does not have a website.

Minister for Primary Industries

Department of Industry and Investment

Forestry Commission of New South Wales (trading as Forests NSW)

New South Wales Rural Assistance Authority

NSW Food Authority

Refer to Appendix 1 for:

Agricultural Scientific Collections Trust

Banana Industry Committee

Belgenny Farm Agricultural Heritage Centre Trust

C.B. Alexander Foundation

Game Council of New South Wales

NSW Ovine Johne's Disease Transaction Based Contribution Scheme

Rice Marketing Board for the State of New South Wale

Riverina Citrus

Veterinary Practitioners Board

Department of Industry and Investment

AUDIT OPINION

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

KEY ISSUES

Amalgamation Arrangement

I recommend the Department establish appropriate governance arrangements throughout its cluster, including seeking Crown Solicitor's advice, if necessary.

On 1 July 2009, the former Department of Primary Industries, State and Regional Development as well as the Energy function of the former Department of Water and Energy were abolished and their functions transferred to the Department of Industry and Investment as a result of the Public Sector Employment and Management (Departmental Amalgamations) Order 2009. In March 2010, the former Office of Rural Affairs was incorporated into the Department of Industry and Investment.

The Forestry Commission of New South Wales is no longer a controlled entity upon the formation of the Department.

Following the amalgamation order, the Department established a single audit and risk committee for the new department and encouraged other authorities within its cluster to use its committee. A summary follows.

Entity	Uses Department's Committee	Board
Department of Industry and Investment	Yes	No
Forestry Commission of New South Wales	Yes	No
NSW Food Authority	Yes	No
Mine Subsidence Board	No, own Committee	Yes
NSW Rural Assistance Authority	No, own Committee	Yes
Screen NSW	Yes	No
Game Council of New South Wales	No, own Committee	Yes

I have concerns as to the legality of autonomous agencies having common audit committee arrangements. My concerns are:

- agency staff in attendance at committee meetings are informed of the operations and issues of other agencies
- my staff are unable to discuss matters relating to an agency if staff of another agency are in attendance due to confidentiality obligations under the *Public Finance and Audit Act 1983* (PF&A Act).

As mentioned in Volume Three of my Report, I advised that legal advice indicates that these arrangements are not contemplated by either the PF&A Act or the Treasury's Policy Paper 'Internal Audit and Risk Management Policy for the New South Wales Public Sector' (TPP09/05).

Value for Money

In addition to the Public Sector Employment and Management (Department Amalgamation) Order 2009, the New South Wales Government announced the Better Service and Value Plan in its 2009-10 budget. One of the five initiatives was a 'value for money' review on expenditure. Management has advised that:

- no performance measures were established to measure whether the amalgamation produces value for money for the Department and Government
- one of the initial actions undertaken on the creation of the Department was to centralise the corporate services function. Substantial work has occurred in this area and will result in efficiencies and savings in the provision of these services
- the Department has been reviewed by the Better Services Value Taskforce (BSVT). Once the final report of the BSVT has been approved by Cabinet a series of performance targets will be established and reported to Cabinet in May and August 2011.

Derelict Mines

I recommend the Department seek adequate funding to identify, assess and rehabilitate derelict mine sites.

The Derelict Mines Program maintains a database of more than 570 derelict mines, which is regularly updated as new derelict mines are found and assessed.

The Derelict Mines Program received \$1.9 million this year (\$1.9 million in 2009), which was used to rehabilitate 26 mines (28 mines). The Department advised these funds were allocated on a risk basis to manage the more critical environmental and safety issues at derelict mine sites.

To qualify for inclusion in the Derelict Mines Program, a derelict mine must meet the following criteria:

- mining must have been formerly authorised by a title that is now extinguished and mining permanently discontinued
- no person or company can be located that has direct responsibility for the rehabilitation of the site.

The Department has no legislative responsibility for the rehabilitation of derelict mines. However, the State Government provides annual funding to undertake rehabilitation works through the Derelict Mines Program which is administered by the Department. The aims, direction and selection of major projects are determined by the Derelict Mines Steering Committee which consists of representatives from the Department of Environment, Climate Change and Water, Land and Property Management Authority (LPMA) and the New South Wales Minerals Council.

PERFORMANCE INFORMATION

Key Performance Indicator (KPI) Targets

Management of Natural Resources

Year ended 30 June	Target#	Actual		
	2010	2010	2009	2008
Mines operating to agreed operation plans and management subsidence plans (%)	97	97	97	97
Primary/target and secondary fish species harvested at biologically sustainable levels (%)	90	89	>91	>90
Reduction in net emissions from primary industries (%)	3	3	2	3

Source: Department of Industry and Investment (unaudited).

Current estimates at 30 June 2010, based on latest available data from The Treasury Budget Estimates (2010-11).

In 2009-10, the Department met its KPIs on management of natural resources.

Safety, Health and Biosecurity

Year ended 30 June	Target#	Actual		
	2010	2010	2009	2008
Compliance with National Animal Health performance standards (%)	95	95	97	97
Fatal injury frequency rate in the mining industry				
- Coal five year average	--	0.02	0.04	0.04
- Non- coal five year average	--	0.02	0.04	0.04

Source: Department of Industry and Investment (unaudited).

Current estimates at 30 June 2010, based on latest available data from The Treasury Budget Estimates (2010-11).

To continue to improve occupational, health and safety (OHS) performance in the mining industry, the Department is working with the industry on an OHS cultural change program through the Mine Safety Advisory Council. The Department is also carrying out audits of mine sites to assess the level of implementation of the new legislation (*Health and Safety Act 2004*, the *Coal Mine Health and Safety Act 2002* and the associated regulations).

OTHER INFORMATION

Human Resources

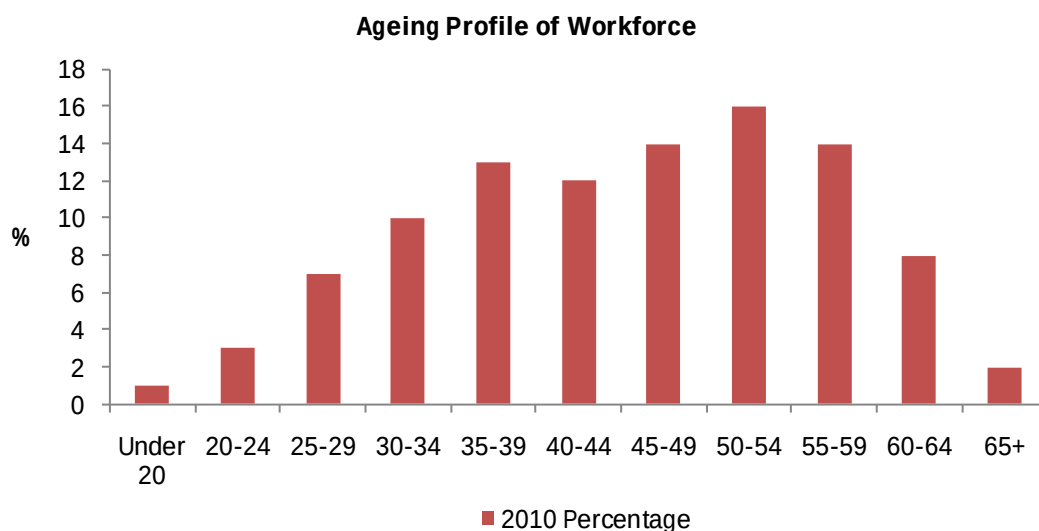
This year I reviewed the following areas relating to human resources:

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- management of excessive flex leave balances
- extent of overtime
- extent of contract staff.

Workforce Ageing

The Department has 24 per cent of its employees over 55 years of age and 40 per cent of its employees over 50. This represents a large number of employees who are likely to retire over the next five to ten years. This will result in a potential loss of knowledge and skills for the Department.

The age profile of the Department's employees is shown below:



At 30 June Age Group	2010	
	No. of Employees	%
Up to 34	715	21
35-39	462	13
40-44	427	12
45-49	505	14
50-54	573	16
55-59	510	14
60-64	297	8
65+	83	2
Total	3,572	100

Source: The Department of Industry and Investment (unaudited).

The Department advised it has established the People Learning and Culture Branch which is working towards addressing ageing workforce concerns.

Annual Leave Balances

The Department has actively managed employees with excessive annual leave balances in recent years. Of the 3,572 employees, 447 had annual leave balances in excess of 40 days, this category represented 12.5 per cent of total employees at 30 June 2010.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts future cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

The Department has advised that staff are regularly advised of their leave balances and reminded of the need to reduce their entitlements. The Department has a close down period for the Christmas holidays and this assists in decreasing the leave liability. A recent change to the Conditions of Employment Award allows staff to be denied access to flex leave until they reduce their annual leave to below 40 days. Managers have been given the responsibility to manage the leave balances of their staff and they are progressively working through this issue.

Flex Leave

I recommend the Department develop mechanisms to centrally review flex time records to ensure excessive flex time credits are not being forfeited by staff.

The Department has actively managed its flex leave policy whereby managers are responsible for ensuring their staff do not regularly work excessive hours. There are approximately 10 different flex schemes in operation within the Department. The most commonly used agreement allows staff to carry forward a credit of 40 hours. If staff exceed this amount then these hours are forfeited.

I note that management of flex time is a manual process and a system is not in place to allow central monitoring of the management of excessive flex leave.

Overtime

Overtime payments in 2009-10 amounted to \$1.1 million which was 0.4 per cent of base salary expense for the year.

The Department advised that it continually reviews its budget reports and that line managers are accountable for the justification of any overtime.

Use of Contract Staff

I recommend the Department maintain a central register for contractors not paid through the human resource systems to reduce the risk of non-compliance with taxation and employment legislation.

The Department engaged the services of many contractors during 2009-10. A list of these contractors is kept by each of the different divisions which utilise these staff. The Department does not assess annually whether long-term contractors are entitled to employee related entitlement and the Department liable for related taxes.

The Department should also periodically review the roles and responsibilities of all its contractors to ensure:

- its reliance on contractors is not excessive
- use of contractors instead of a permanent employees is appropriate
- contractors do not become de facto employees by virtue of being with the Department for an extended period of time
- use of contractors continues to represent value for money.

Fisheries

The *Fisheries Management Act 1994* has been amended as a result of the *Fisheries Management Amendment Act 2009*. Changes include increased penalties, recognition of Aboriginal cultural fishing activity and practices, and to give further powers to fisheries officers. A review is being undertaken by the Department to determine whether the *Fisheries Management Act 1994* is fulfilling its purpose and will be tabled in Parliament in November 2010.

The table below summarises the activities carried out by the Department during the year.

	2010	2009
Prosecutions		
Commercial Prosecutions (\$'000)	29.7	31.7
Recreational Prosecutions (\$'000)	432.3	485.2
Fines		
Number of Commercial Prosecutions	80	80
Number of Recreational Prosecutions	1,647	1,925

Source: The Department of Industry and Investment (unaudited).

Improving Internal Controls

I identified opportunities to improve internal controls, which have been discussed and reported to the Department. These include:

- reconciling the Department's land holdings to the Governments Property Register maintained by the LPMA
- addressing expired security deposits for mining
- ensuring current security deposits are sufficient
- addressing general journal control deficiencies.

Drought Relief

The following table shows a comparative analysis of drought transport claims paid.

Drought Transport Subsidies	Number of Claims			Claim Amounts Paid		
	2010	2009	2008	2010 \$'000	2009 \$'000	2008 \$'000
Agistment	2,755	2,226	3,434	5,876	3,731	4,614
Bee food	3	4	--	17	3	--
Fodder	5,021	5,035	8,228	7,734	6,669	10,307
Slaughter/sale	3,180	3,540	5,029	2,941	3,048	3,250
Stock water	408	511	990	292	378	834
Domestic water	782	726	1,021	203	164	269
Total	12,149	12,042	18,702	17,063	13,993	19,274

Source: Department of Industry and Investment (unaudited).

The significant increase in claim payments in 2009-10 is attributable to an increase in the amounts paid per claim for fodder and agistment payments. Since 30 June 2010, the State has been declared drought free for the first time in 10 years.

FINANCIAL INFORMATION**Abridged Statement of Comprehensive Income**

Year ended 30 June	2010 \$'000
Employee related	361,014
Other operating expenses	143,377
Depreciation and amortisation	23,428
Grants and subsidies	223,884
Finance costs	1,276
Other expenses	102,408
OPERATING EXPENSES	855,387
Sales of Goods and Services	71,688
Investment Income	4,511
Retained taxes, fees and fines	13,257
Grants and Contributions	84,950
Other revenue	7,660
Personnel services revenue	66,505
OPERATING REVENUE	248,571
Gain/(loss) on disposal	473
Other gains	346
NET COST OF SERVICES	605,997
Government contributions	641,136
SURPLUS	35,139
OTHER COMPREHENSIVE INCOME	
Increase in Property Plant and Equipment Asset Revaluation Reserve	5,056
Available for sale financial assets valuation gains	938
TOTAL OTHER COMPREHENSIVE INCOME	5994
TOTAL COMPREHENSIVE INCOME	41,133

Employee related expenses were higher than budget mainly due to an approved redundancy program of \$9.0 million.

Grants and subsidies were lower than budget with under expenditure in the:

- Energy Division for the Pensioner Energy Rebate and Energy Accounts Payment Assistance schemes
- Primary Industries Division for the Clean Coal program relating to the sequestration of carbon by-product from coal generated electricity
- State and Regional Development Division.

Sale of Goods and Services was lower than budget as recovery of mining exploration costs is above budget.

Abridged Statement of Financial Position

At 30 June	2010 \$'000
Current assets	237,618
Non-current assets	421,131
TOTAL ASSETS	658,749
Current liabilities	186,494
Non-current liabilities	75,401
TOTAL LIABILITIES	261,895
NET ASSETS	396,854

Abridged Service Group Information

The Department's net cost of services on a service group basis is detailed below:

Year end 30 June	Net Cost of Services		Net Assets
	2010 Budget \$'000	2010 Actual \$'000	2010 Actual \$'000
Division of Primary Industries			
Agriculture, Biosecurity and Mine Safety	108,509	113,617	108,504
Mineral Resources	14,604	16,362	58,738
Fisheries and Compliance	37,887	42,285	66,394
Science and Research	90,048	91,781	171,620
Personnel services	--	--	(55,334)
Investment and Industry Development/Investment Attraction	72,828	35,726	4,854
Division of Energy			
Enterprise, Small Business & Regional Development	87,821	68,851	(2,237)
Division of State and Regional Development			
International Markets and Trade	--	12,381	(80)
Innovation and Research Policy	52,355	58,079	181
Tourism	46,486	49,028	1,062
Energy Supply and Use	173,965	122,040	29,913
Not attributable	--	(4,153)	13,239
Total	684,503	605,997	396,854

The Primary Industries division advised the actual net cost of service for Agriculture, Fisheries and Compliance was higher than budget because of salary related expenses (voluntary redundancies). The Energy division advised the actual net cost of service for Energy Supply and Use was lower than the budget because of underspend on Energy Projects and Reform, pensioner energy rebates, life support rebates, energy accounts payments assistance, customer assistance policy, administration for energy concessions, contribution to PIAC, and renewable remote power generation.

ADMINISTERED ACTIVITIES

The Department administers certain activities on behalf of the Crown Entity, including the collection of royalties from mining. Mineral royalties and fees collected in 2009-10 totalled \$989 million (\$1.3 billion). The decrease of 24 per cent from mining is mainly because the significant drop in the coal prices in 2009-10. Coal prices rose to unprecedented levels in 2008-09 due to the strong demand for coal from Asia and supply constraints from key exporter nations. As a result the value of New South Wales coal exports rose to a historic high of \$17.1 billion, which resulted in the high royalty in 2009. However, over the course of 2009-10 coal prices, in particular coking coal prices eased quite sharply on the back of a decline in demand, driven in particular by lower demand from traditional thermal coal markets such as Japan and a decline in global steel production.

DEPARTMENT ACTIVITIES

The Department of Industry and Investment was established to assist in building a diversified state economy that creates jobs. The Department aims to attract investment to New South Wales and support innovative, sustainable and globally competitive industries through strong technical knowledge and scientific capabilities. It aims to achieve this through effective partnerships with the State's industry sectors and by linking them to the State's knowledge and skills capacity. The key duties of the Department are:

- increased jobs and investment across New South Wales
- competitive and productive industries
- Sydney and New South Wales highly valued for tourism and investment
- secure, efficient and affordable energy supplies
- sustainable management and use of natural resources
- safe, healthy and biosecure industries
- positive business environment
- service delivery excellence.

For further information on the Department, please refer to www.industry.nsw.gov.au.

Forestry Commission of New South Wales (trading as Forests NSW)

AUDIT OPINION

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

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

KEY ISSUES

Valuation of Softwood Plantations and Native Forests

I recommend the Commission continues to review and improve its valuation method for its plantation and native forests.

Cash flow projections for native forests show a negative cash flow position. As a result, the valuation of these estates was nil at the 30 June 2010 (nil at 30 June 2009).

The valuation approach was implemented in 2008-09. It is a complex approach and the Commission is committed to continuous refinement. For 2010-11, the Commission will ensure that inputs for the valuation model, such as the weighted average cost of capital and overhead costs, are accurate and reflect the Commission's position at each reporting date. The 2010-11 process should also focus on valuing new native forest contracts, if any.

Land Valuation

Each year, agencies must consider whether there are impairment indicators for their assets. Last year I recommended the Commission perform a land valuation.

The Commission adopted the indexation approach in valuing its land at 30 June 2010. The indices were applied for each financial year subsequent to the Commission's full revaluation in 2006-07. The resulting adjustment to the land values was an increase in land value of \$7.7 million (net).

Deferred Tax Liability

Non-current liabilities increased by \$239 million due to the removal of \$797 million in plantation establishment costs from the Commission's deferred tax liability calculation. This followed advice received from The Treasury.

OTHER INFORMATION

Human Resources

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

- the trend in annual leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies
- the extent of contract staff.

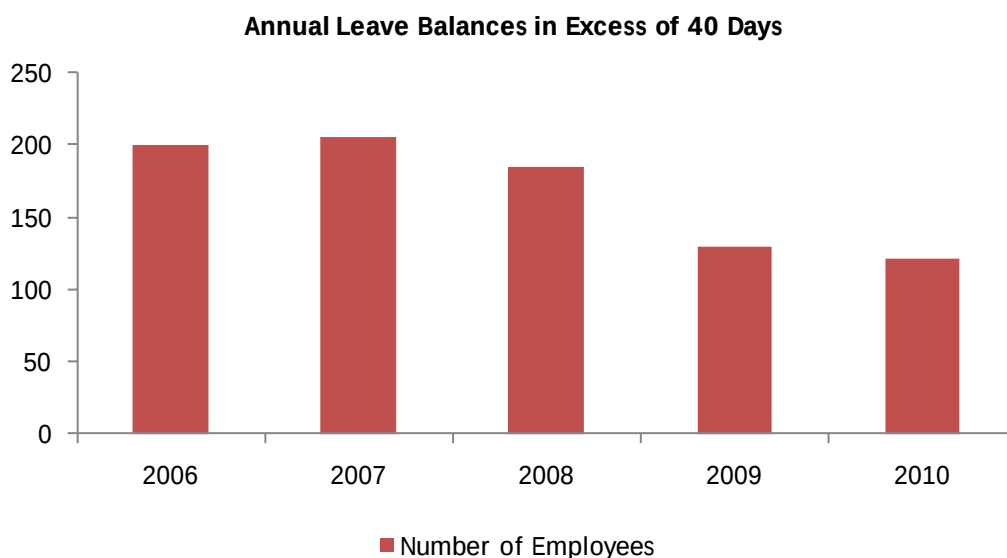
Issues identified from my review will be reported in a management letter to the Commission. A summary of the results of my review follows.

Annual Leave

I recommend the Commission continue to enforce individual plans with employees to reduce excessive annual leave balances within an acceptable timeframe.

The Commission's liability for annual leave entitlements at 30 June 2010 amounted to \$7.3 million (\$7.1 million in 2009). Although the Commission has improved cash flows, it will need to ensure it has an adequate plan to fund these liabilities, which generally increase over time with increases in employee remuneration levels. This will be compounded as other liabilities will also be payable with the pending retirement of a significant portion of the ageing workforce.

The Commission continues to actively manage employees with excessive annual leave balances. At 30 June 2010 there were 121 employees with annual leave balances in excess of the maximum threshold allowed under the Commission's leave policy of 40 days. This represented 14.4 per cent of total employees.



Excess leave balances can adversely affect an organisation. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

Employment of Contractors

I recommend the Commission maintain a central register for contractors not paid through the human resource systems to reduce the risk of non-compliance with taxation and employment related legislation.

The Commission has advised that it has implemented changes to policies, practices and procedures to better manage taxation compliance risks associated with contractors. However, the Commission does not hold a central register for contractors unless paid through the human resources systems. This increases the risk of non-compliance with taxation and other employment laws and regulations.

Company Acquisition

During 2009-10, the Commission acquired Tokyo Electric Power Company International. The company's principal activity is forestry development and the production of carbon credits. Prior to acquisition, the Commission provided the company with forestry services. Once acquired, the Commission changed the company's name to Timber and Carbon Plantation Pty Ltd. The company was purchased for \$4.6 million and holds 7,058 hectares of plantation forests.

Annual Report

The continuing accounting and reporting process improvements made by the Commission contributed to its 2009-10 Annual Report being tabled in Parliament on time and the Independent Auditor's Report being issued earlier than last year.

Other Control Issues

I have identified areas where opportunities exist to improve internal controls. These have been discussed and reported to the Commission.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Forest sales	286,864	262,893	286,864	262,893
Other Revenue	41,848	23,366	42,515	23,366
TOTAL REVENUE	328,712	286,259	329,379	286,259
Expenses from operations	213,565	203,018	213,560	203,018
Employee related	26,615	28,085	--	--
Personnel services	62,349	106,613	91,280	141,629
Other	21,574	40,236	24,348	40,236
TOTAL EXPENSES	324,103	377,952	329,188	384,883
PROFIT/(LOSS) BEFORE FAIR VALUE ADJUSTMENT	4,609	(91,693)	191	(98,624)
Gain (Loss) in fair value of estates	(8,723)	45,020	(9,443)	45,020
LOSS BEFORE TAX	(4,114)	(46,673)	(9,252)	(53,604)
Income tax benefit/(expense)	(228,103)	2,402	(228,103)	2,402
LOSS AFTER TAX	(232,217)	(44,271)	(237,355)	(51,202)
OTHER COMPREHENSIVE INCOME				
Realised gain on disposal of assets	805	11,199	805	11,199
Superannuation actuarial gain(loss)	(2,316)	(6,931)	--	--
Income tax on other comprehensive income	350	11,714	350	11,714
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENCE)	(1,161)	15,982	1,155	22,913
TOTAL COMPREHENSIVE EXPENSE	(233,378)	(28,289)	(236,200)	(28,289)

The increase in other revenue was mainly due to losses of \$16.0 million incurred on the disposal of assets in 2008-09.

Personnel services expenses decreased by 41.5 per cent mainly due to a decrease in superannuation liabilities. The movement in the value of the forests estates was mainly due to changes in valuation assumptions. Estimates for overhead costs were increased and the rate used to discount the valuation to present values decreased from 10.0 per cent to 9.8 per cent.

Abridged Statement of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	128,751	117,643	128,862	117,643
Non-current assets	1,744,152	1,754,222	1,741,219	1,754,222
TOTAL ASSETS	1,872,903	1,871,865	1,870,081	1,871,865
Current liabilities	176,171	122,837	163,347	109,581
Non-current liabilities	626,912	440,806	639,736	454,062
TOTAL LIABILITIES	803,083	563,643	803,083	563,643
NET ASSETS	1,069,820	1,308,222	1,066,998	1,308,222

COMMISSION ACTIVITIES

The Commission is a corporation sole constituted by the *Forestry Act 1916*. Its objectives include:

- conserving and utilising the timber on Crown-timber lands and other land it controls
- supplying timber from these lands for building, commercial, industrial, agricultural, mining and domestic purposes
- preserving and improving, in accordance with good forestry practice, the soil resources and water catchment capabilities of these lands
- encourage the use of timber derived from trees grown in the State.

It manages approximately 2.4 million hectares of native forests across New South Wales of which one million hectares is mapped as harvestable. The largest areas are concentrated on the coast and coastal escarpment. The Commission has established softwood and hardwood plantations to complement wood products harvested from native forests. Plantations include approximately 209,000 hectares of softwood and approximately 63,000 hectares of hardwood.

From 1 July 2009, the Commission was no longer considered a controlled entity of the Department of Industry and Investment as a result of the Public Sector Employment and Management (Department Amalgamations) Order 2009. This Order had no effect on the Commission as a Corporation Sole.

For further information on the Commission, refer to www.dpi.nsw.gov.au/forests.

CONTROLLED ENTITIES

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

Entity Name	Website
Forestry Commission Division	*
Timber and Carbon Plantation Pty Ltd	*

* This entity does not have a website.

New South Wales Rural Assistance Authority

AUDIT OPINION

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

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

OTHER INFORMATION

Rural Adjustment Scheme

This Scheme assists farmers and small businesses through the provision of grants to a maximum of 80 per cent of the interest payable on loans. The Australian Government contributes 90 per cent of this Scheme's funding and the New South Wales Government ten per cent. The amount of subsidy to an approved applicant can be up to \$100,000 per year. Special assistance is provided under the Exceptional Circumstances (EC) provisions of the Scheme, which requires areas to be specifically declared an EC area.

Exceptional Circumstances Interest Rate Subsidy - Primary Producers

Year ended 30 June	2010	2009	2008	2007	2006
Applications received	4,920	10,504	9,081	10,183	5,649
Applications withdrawn	22	15	91	61	25
Applications declined	568	765	931	899	813
Applications approved	4,609	8,741	9,604	7,614	4,825
Amount approved (\$m)	188	246	385	242	155
Pending 30 June	1,151	1,430	447	1,992	383

Source: NSW Rural Assistance Authority (unaudited).

Exceptional Circumstances Interest Rate Subsidy - Small Business

In November 2006, the Australian Government introduced EC assistance for small rural businesses (those with less than 100 employees) in recognition of the extreme hardship they were facing due to the drought and their direct reliance on primary producers.

Year ended 30 June	2010	2009	2008	2007
Applications received	544	1,068	1,030	640
Applications withdrawn	5	4	23	3
Applications declined	147	222	269	121
Applications approved	457	785	795	351
Amount approved (\$m)	13.1	17.6	24.5	11.1
Pending 30 June	100	165	108	165

Source: NSW Rural Assistance Authority (unaudited).

Natural Disaster Relief Assistance Scheme

This Scheme provides loan funds to farmers and small businesses in rural and regional New South Wales to allow them to continue operations following a natural disaster (e.g. bushfires, hailstorms and floods). Assistance is by way of a concessional, fixed interest rate loan, to a maximum of \$130,000. There is an interest and repayment-free period of two years followed by a maximum repayment term of ten years. The interest rate for loans at 30 June 2010 was 2.56 per cent (2.85 per cent at 30 June 2009).

Additional assistance measures have been available since June 2007 as part of the Community Recovery Package to provide immediate relief to eligible primary producers and small businesses for clean-up and restoration costs in the aftermath of extreme natural disasters.

During March to May 2010, inclusive, there was a significant increase in the number of applications for recovery grants. 2,447 of these applications were in relation to the North Coast Floods.

Year ended 30 June	2010	2009	2008	2007	2006
Applications received	2,806	505	3,288	268	169
Applications withdrawn	32	15	61	5	7
Applications declined	473	110	399	19	68
Applications approved	2,575	186	2,848	139	98
Amount approved (\$m)	46	11.3	31.2	3.4	7.1
Pending 30 June	30	304	110	130	25

Source: NSW Rural Assistance Authority (unaudited).

Special Conservation Scheme

This Scheme is an incentive based scheme aimed at promoting improved land management practices in rural New South Wales. These loans are for up to 90 per cent of the net cost of eligible works to a maximum of \$150,000. A maximum repayment term of 15 years is available with half yearly repayments in line with the client's cash flow. The interest rate applicable to the Scheme at 30 June 2010 was five per cent (five per cent at 30 June 2009).

Year ended 30 June	2010	2009	2008	2007	2006
Applications received	214	371	371	556	240
Applications withdrawn	59	115	45	155	77
Applications declined	25	28	125	49	37
Applications approved	158	270	204	319	137
Amount approved (\$m)	10.2	18.6	11.7	12.8	5.4
Pending 30 June	11	39	81	84	51

Source: NSW Rural Assistance Authority (unaudited).

FINANCIAL INFORMATION**Abridged Statements of Comprehensive Income**

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related and other operating expenses	5,856	6,692	5,856	6,692
Finance costs	6,110	5,410	6,110	5,410
Grants and subsidies	232,797	270,519	232,797	270,519
TOTAL EXPENSES	244,763	282,621	244,763	282,621
TOTAL REVENUE	37,493	12,041	37,493	12,041
NET COST OF SERVICES	207,270	270,580	207,270	270,580
Government contributions	209,240	273,487	209,240	273,487
SURPLUS	1,970	2,907	1,970	2,907
OTHER COMPREHENSIVE INCOME	--	--	--	--
TOTAL COMPREHENSIVE INCOME	1,970	2,907	1,970	2,907

Grants and subsidies decreased in 2009-10 due mainly to a fall in expenditure for the Rural Adjustment Scheme. The decrease in expenditure resulted from a reduction in geographical areas eligible for assistance. This reduction is a result of significant improvement in general seasonal conditions and the withdrawal of Exceptional Circumstances drought declarations as determined by the Australian Government. The New South Wales Government contributions fell in line with the reduced expenditure.

Total revenue increased due to more natural disasters resulting in increased government reimbursements.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	50,795	46,484	50,795	46,484
Non-current assets	89,352	81,638	89,352	81,638
TOTAL ASSETS	140,147	128,122	140,147	128,122
Current liabilities	25,650	23,149	25,650	23,149
Non-current liabilities	89,598	82,044	89,598	82,044
TOTAL LIABILITIES	115,248	105,193	115,248	105,193
NET ASSETS	24,899	22,929	24,899	22,929

The increase in current assets was due to a rise in cash held at year-end from \$29.0 million to \$34.1 million. Non-current assets and liabilities increased due to the extent of new loans issued throughout 2009-10.

AUTHORITY ACTIVITIES

The Authority was constituted under the *Rural Assistance Act 1989*. Its principal function is to assist and administer financial assistance schemes for farmers and other eligible borrowers. The Authority is subject to the control and direction of the Minister.

For further information on the Authority refer to www.raa.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	Website
Office of the Rural Assistance Authority	www.raa.nsw.gov.au

NSW Food Authority

AUDIT OPINION

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

OTHER INFORMATION

The 'Name and Shame' Register

The Authority maintains a 'Name and Shame' register, which gives consumers access to important food safety information. The register publishes the names of food businesses around the State that received penalty notices or convictions for alleged food breaches. The register only publishes breaches assessed to have the potential to cause a public health and safety issue. The name and shame register continued to be accessed by the public, with four million hits on the site recorded since its inception two years ago.

Food Regulation Partnership

The Food Regulation Partnership (FRP) between the 152 local councils in New South Wales and the Authority, has continued to evolve since its inception in July 2008. It is responsible for food surveillance in the food retail and food service industry in New South Wales. Local councils became food safety enforcement agencies under the FRP and help the Authority monitor and regulate more than 36,000 food retail and food service businesses across the State. Under the partnership, councils are required to report annually to the Authority on how they carry out their functions.

The second twelve month 'summary report of New South Wales enforcement agencies activities' for the period July 2009 to June 2010 highlighted:

- 50,055 primary inspections were conducted by councils
- 8,044 warning letters were issued
- 4,517 food complaints were received of which 99.0 per cent were investigated
- 1,399 improvement notices were issued
- 2,049 penalty notices were issued
- 22 council generated prosecutions were initiated.

Compliance and Enforcement

The Authority investigates food businesses across the State for breaches of the *Food Act 2003*. It has enforcement strategies in place to ensure food sold in New South Wales is safe and correctly labelled.

The table below shows the Authority's compliance and enforcement activities:

Activity	2010	2009	2008
Improvement notices issued (a)	753	876	1,245
Prohibition orders issued (b)	16	10	17
Penalty Notices	249	220	229
Prosecutions	120	53	58

Source: NSW Food Authority (unaudited).

(a) Issued where cleaning, repair, replacement, revision of a food safety program, implementation of a food safety program or implementation of the Food Safety Standards is required.

(b) Issued to control certain activities where there is failure to comply with an Improvement Notice or to prevent or mitigate a serious danger to public health.

In 2009-10, there was 98.0 per cent (98.9 per cent 2008-09) compliance following the Authority issuing a statutory improvement notice.

Food safety Supervisors

The Food Safety Supervisor (FSS) initiative was developed to encourage safer handling of food, reduce the incidence of foodborne illnesses and improve consumer confidence in the food served by the hospitality industry in New South Wales. Poor food handling practices in hospitality businesses cause over a third of foodborne illness outbreaks in New South Wales and cost the community around \$416 million every year according to NSW Food Authority's analysis.

This mandatory program will ensure most retail foodservice and hospitality businesses in New South Wales have a designated and appropriately trained 'food safety supervisor'.

The *Food Amendment (Food Safety Supervisors) Act 2009* was passed by Parliament on 11 November 2009 to introduce mandatory food handler training. The Food Safety Supervisors must be trained by a Registered Training Organisation. The scheme is due to be fully operational by 2011 and businesses will have until 1 October 2011 to appoint their Food Safety Supervisors.

Scores on doors

A food safety ratings system, 'Scores on Doors' will be trialled from 1 July 2010 before the State-wide implementation begins on 1 July 2011. This new initiative involves providing businesses with a certificate that has a score, and indicates the businesses performance in complying with food safety regulations. This voluntary program will allow the public to see how a foodservice business complies with food safety and hygiene requirements via a 'scorecard' displayed on their door or window. The rating system ranges from 'A (excellent-highest level of compliance) to C (acceptable)'.

FINANCIAL INFORMATION

Year ended 30 June	2010 \$'000	2009 \$'000
Grants and contributions	11,461	11,747
Industry levies and licence fees	5,227	6,290
Other revenue	4,399	4,331
Expenditure	20,405	21,529
Surplus	682	839
Net assets (at 30 June)	10,493	9,647

Grants and contributions are received from Government through the Department of Industry and Investment NSW.

AUTHORITY ACTIVITIES

The Authority monitors and regulates the safe production, processing, wholesale and distribution of all primary produce and seafood for human consumption from the paddock or ocean to the point-of-sale.

The Authority is under the control and direction of the Minister for Primary Industries. It was established under the *Food Act 2003* and also has certain legislative responsibilities under the *Dairy Industry Act 2000* and the *Meat Industry Act 1978*.

On 1 July 2009, the Authority became a partner agency to the newly formed Department of Industry and Investment NSW (I&I NSW) under the Public Sector Employment and Management (Departmental Amalgamations) Order 2009.

For further information on the Food Authority, refer to www.foodauthority.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	Website
Milk Marketing (NSW) Pty Limited	*
Office of the NSW Food Authority	*
Pacific Industry Services Corporation Pty Limited	*

* This entity does not have a website.

Milk Marketing (NSW) Pty Ltd

An independent review of the objectives and functions of the Company is in progress to ensure the Authority's activities are not being duplicated.

Pacific Industry Services Corporation Pty Limited

The company has not operated for a number of years and is in the process of being wound up by 2011.

Minister for Redfern Waterloo

Redfern-Waterloo Authority

Redfern-Waterloo Authority

AUDIT OPINION

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

However, the Independent Auditor's Reports for the Authority and its controlled entity, Australian Technology Park Precinct Management Limited, was modified by an emphasis of matter paragraph which drew attention to significant uncertainty relating to the extent to which liabilities for rates and taxes should be recognised in the financial statements.

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

KEY ISSUE

Funding Agreement

The Authority's funding agreement with the New South Wales Government expires on 30 June 2011.

Management advised that a new entity, Sydney Metropolitan Development Authority (SMDA) will be established to absorb the functions of the Authority including funding arrangements. This is expected to occur by the end of 2010.

PERFORMANCE INFORMATION

The Authority provided the following information regarding its performance.

Property Management

Year ended 30 June	2010	2009	2008	2007	2006
Value of investment properties(\$m)	158.5	176.8	213.2	166.6	132.8
Rental revenue (\$m)	14.9	12.8	10.2	9.4	8.6
Return on rental properties (%)	9.4	7.2	4.8	5.6	6.5
Average vacancy rate (%)	2.7	2.5	<2.0	<2.0	<2.0

Source: Redfern-Waterloo Authority (unaudited).

The value of investment properties decreased by \$18.3 million mainly due to softening property market conditions in Sydney. The rise in rental revenue was due to annual rent increases. Both factors contributed to the increase in return on rental properties.

Conferences and Exhibitions

Year ended 30 June	2010	2009	2008	2007	2006
Events	437	503	632	642	645
Attendance ('000)	46.8	59.9	40.9	36.9	35.4
Revenue (\$m)	3.9	4.1	4.7	4.1	2.8

Source: Australian Technology Park Precinct Management Limited (unaudited).

The decrease in the events and attendance was due to the impact from the global financial crisis.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Venue hire revenue	3,929	4,114	--	--
Rental revenue	14,865	12,769	766	766
Grants and contributions	8,635	6,499	8,635	7,585
Affordable housing voluntary contributions	6,600	6,000	6,600	6,000
Other	3,007	6,899	5,368	4,240
TOTAL REVENUE	37,036	36,281	21,369	18,591
Loss valuation of investment property	18,475	36,500	17,835	26,040
Employee related expense	4,199	4,364	2,132	2,645
Depreciation and amortisation	1,997	888	1,156	237
Other expenses	18,360	17,260	6,082	9,295
TOTAL EXPENSE	43,031	59,012	27,205	38,217
DEFICIT	(5,995)	(22,731)	(5,836)	(19,626)
OTHER COMPREHENSIVE EXPENSE	(33)	(204)	--	--
TOTAL COMPREHENSIVE EXPENSE	(6,028)	(22,935)	(5,836)	(19,626)

Grants and contributions increased by \$4.0 million largely due to additional contributions received from Department of Planning for the asset divestment program, offset by a reduction in its regular payments.

Other revenue in the prior year included a one-off saving on developer charges of \$2.7 million.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	53,912	40,060	20,605	8,460
Non-current assets	187,253	206,380	170,879	189,181
TOTAL ASSETS	241,165	246,440	191,484	197,641
Current liabilities	6,885	5,517	1,516	1,431
Non-current liabilities	53,368	53,983	43,776	44,182
TOTAL LIABILITIES	60,253	59,500	45,292	45,613
NET ASSETS	180,912	186,940	146,192	152,028

The increase in current assets was due mainly to an increased cash balance from additional contributions of:

- \$6.0 million from developers towards affordable housing in North Eveleigh
- \$4.0 million from the Department of Planning to fund the sale of Australian Technology Park Precinct Management Limited.

The decrease in non-current assets by \$19.1 million was due to investment property valuation losses on its property portfolio.

AUTHORITY ACTIVITIES

The Authority was constituted by the *Redfern-Waterloo Authority Act 2004* (the Act).

The Authority has an operational area described in the Act and has principal functions that require the Authority to promote, coordinate, manage, undertake and secure the orderly and economic development and use of the operational area. This includes the development and management of land, the provision of infrastructure, and the creation of public areas.

For further information on the Authority, refer to www.redfernwaterloo.com.au.

CONTROLLED ENTITIES**Australian Technology Park Precinct Management Limited****KEY ISSUE****Rates and Taxes**

The Australian Technology Park Precinct Management Limited (the 'Company') determined that no liabilities should be recognised for rates and taxes until it has confirmed this position with the relevant parties.

The Company is seeking confirmation of its existing tax exemptions from the Office of State Revenue and is involved in negotiations with Sydney City Council relating to council rate assessments. Until the outcome of these matters is known, the Company is uncertain as to the extent to which liabilities for rates and taxes should be recognised in the financial statements.

FINANCIAL INFORMATION

Year ended 30 June	2010 \$'000	2009 \$'000
Revenue	20,947	23,030
Expenses	20,324	33,351
Surplus/(deficit)	623	(10,321)
Net assets (at 30 June)	48,336	47,713

Revenue in the prior year included a one off saving on a negotiated settlement with a developer of \$2.7 million.

The decrease in expense is mainly due to lower loss on investment property valuation of \$600,000 (\$10.4million).

For further information on the Company, refer to www.atp.com.au.

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

Entity Name	Website
Office of the Redfern-Waterloo Authority	*

* This entity does not have a website.

Minister for Roads

Roads and Traffic Authority of New South Wales

Roads and Traffic Authority of New South Wales

AUDIT OPINION

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

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

KEY ISSUES

Driver and Vehicle Computer System Project

I recommend the Authority strengthen its project management techniques to ensure its computer system project is managed efficiently and effectively.

The Driver and Vehicle System (DRIVES) is a vast, complex and critical computer system the Authority uses at motor vehicle registries to administer approximately seven million motor vehicle registrations and two million driver licences within the State of New South Wales.

With the growth in demand for on-line transactions, changes in computing technology and changing legal requirements, the Authority started a major project upgrade of this system in 2004.

My review of the past five year's project management identified:

- project expenditure to milestones were not adequately monitored
- the project cost was estimated at \$9.3 million in 2004, but this escalated to \$23.2 million in 2006 and \$32.0 million in 2009. This is due to increased scope and changes in direction of the project
- deficiencies in the effectiveness of project management
- insufficient project management record keeping
- improvements in project management and reporting from 2009.

Management advised it has implemented a formal project methodology and a governance framework in the past two years. The Authority now manages all system projects through its Project Management Office with appropriate project management techniques and controls. It has improved documentation for this project and will continue this to project completion.

Valuation of Land Under Roads

Following the introduction of a new Australian Accounting Standard and guidance issued by the Australasian Valuers-General in October 2009, the Authority changed the method of valuation of its land under roads for accounting purposes. The revised method decreased the value of land under roads by \$33.0 billion.

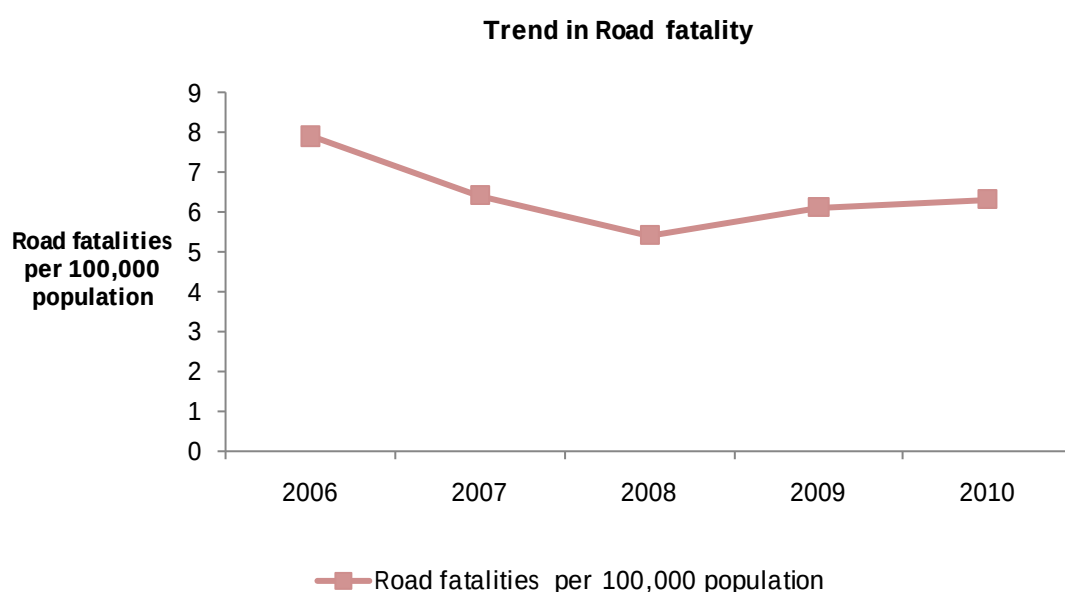
PERFORMANCE INFORMATION

The Authority provided the following information regarding its performance:

Road Safety Performance Outcomes

I recommend the Authority continue to monitor the outcome of its Road Toll Response initiatives to achieve the primary safety target by 2016.

The New South Wales Government State Plan, issued in November 2006 (State Plan), included safer roads as one of the priorities. The target of this plan is to achieve 0.7 road fatalities per 100 million vehicle kilometres travelled by 2016. The revised State Plan of October 2009 introduced a primary road safety target of 4.9 fatalities per 100,000 population by 2016. The previous measure remains as the secondary road safety target.



In March 2010, the Government announced \$170 million Road Toll Response Package to address the factors behind the recent road toll increases by focussing on the areas of speed management, road environment, heavy vehicle safety, local government roads, highway safety reviews and pedestrian safety.

Key initiatives of the package include:

- re-introduction of mobile speed cameras in New South Wales from July 2010
- speed enforcement on all 200 safety camera locations
- increase in speeding fines by five per cent from July 2010
- additional \$5.0 million funding per annum for road safety marketing for two years
- funding of \$10.0 million per annum for wire rope barriers and road widening for five years
- funding of \$10.0 million per annum for State highway route safety reviews and works for five years
- allocation of \$9.0 million per annum for targeted safety works for council managed roads for five years
- funding of \$4.0 million for pedestrian fencing at intersections and long busy roads for three years.

Statistics on fatalities and injuries from road traffic crashes were:

Year ended 30 June	Actual				
	2010	2009	2008	2007	2006
Road fatalities per 100,000 population*	6.3	6.1	5.4	6.4	7.9
Road fatalities per 100 million vehicle kilometres travelled*	0.67	0.65	0.59	0.71	0.86
Total Fatalities	456	433	376	442	536
Key Factors include**					
Speed related	187	180	131	163	205
Fatigue related	93	69	63	84	103
Illegal level of alcohol***	78	96	78	92	109
Seat belt fitted but not worn	40	69	41	51	59
Total Injuries***	20,643	24,103	24,775	26,065	25,125
Key Factors include**					
Speed related	3,531	3,916	4,039	4,221	4,298
Fatigue related	1,812	2,110	2,036	2,018	1,939
Illegal level of alcohol	1,075	1,399	1,487	1,470	1,429
Seat belt fitted but not worn	262	346	326	335	340

Source: Roads and Traffic Authority of New South Wales (unaudited).

* Fatality and population figures for 2008-09 and 2009-10 are provisional and subject to change. Fatality rates for 2008-09 and 2009-10 have been calculated using projected estimated travel growth since 2008.

** Factors are not mutually exclusive. For example, a speed related fatality may also involve illegal levels of alcohol. In this case the fatality would be counted in both the speed related and the illegal level of alcohol categories.

*** Injuries and illegal level of alcohol for 2009-10 are as at August 2010 and as such are preliminary and incomplete. Injury data for 2009-10 are therefore not comparable with 2008-09.

Pavement Rebuilding Targets (Repeat Issue)

I have previously recommended the Authority develop strategies to achieve its annual target of two per cent rebuilding of road pavements to ensure the long term sustainability of its roads.

The pavement rebuilding represents the percentage of the road surface area repaired for structural damages to the total area of road surfaces. The Authority achieved its short term target of 1.2 per cent, but not its long term target of two per cent. The Authority advised that this target is unlikely to be achieved under the existing funding arrangements.

Year ended 30 June	Target*	Actual				
	2010	2010	2009	2008	2007	2006
Pavement rebuilding rate (%)	1.2	1.4	1.2	1.1	1.1	1.0

Source: Roads and Traffic Authority of New South Wales (unaudited).

*Targets are set by the Authority.

The Authority submitted a draft ten year Strategic Asset Maintenance Plan to Treasury in 2007 with interim and long-term funding proposals to meet the long term target of two per cent pavement rebuilding. The funding needs were updated to Treasury in 2009 and 2010 via the Authority's 'Maintenance of Effort' submissions. The Plan uses a risk-based approach to determine strategic maintenance priorities and renewal of infrastructure assets.

The Strategic Asset Maintenance Plan has not been finalised due to the substantial impact of the above initiatives on the conclusions and recommendations included in the Plan. The Plan is expected to be finalised in 2010-11.

Ride Quality and Pavement Durability

Overall, the Authority achieved its target for ride quality and pavement durability for the year. Ride quality measures the 'roughness' of travel over road surfaces (including national highways) and is a primary indicator of road condition. Pavement durability measures road surface cracking on sealed State roads. These measures, as a percentage of total roads, over the last five years have been:

Year ended 30 June	Target*	Actual				
	2010 %	2010 %	2009 %	2008 %	2007 %	2006 %
Ride quality						
Good	89.0	89.2	89.1	88.6	87.9	87.5
Fair	7.0	6.8	7.0	7.2	7.7	7.9
Poor	4.0	4.0	3.9	4.2	4.4	4.6
Pavement durability						
Good	76.0	77.4	76.3	78.0	76.5	78.1
Fair	15.1	14.9	15.0	13.5	14.0	12.4
Poor	8.9	7.7	8.7	8.5	9.5	9.5

Source: Roads and Traffic Authority of New South Wales (unaudited).

*Targets are set by the Authority.

The 'Good' ride quality percentage is now a State Plan target of 93.0 per cent in 2016.

Average Travel Speed on Seven Major Routes to and from Sydney

The State Plan also charges the Authority with improving the efficiency, as measured by travel speeds, on Sydney's major roads during peak times.

Average speed trend for seven major routes to and from Sydney:

Year ended 30 June	Actual Speed (km/h)				
	2010	2009	2008	2007	2006
Morning Peak Speeds					
F3/Pacific Highway/F1	34	35	35	35	38
M2/Lane Cove Tunnel/Gore Hill Freeway**	39	36	31	38	36
M4/Parramatta Road/City West Link	28	29	28	25	31
M5/Eastern Distributor	35	41	34	40	44
Pittwater Road/Military Road/F1	25	26	26	27	25
Princes Highway	31	30	28	28	28
Victoria Road	26	21	23	22	23
Combines seven routes*	31	31	30	30	32
Afternoon Peak Speeds					
F3/Pacific Highway/F1	53	50	52	45	52
M2/Lane Cove Tunnel/Gore Hill Freeway**	65	66	61	47	40
M4/Parramatta Road/City West Link	35	39	40	38	43
M5/Eastern Distributor	54	56	48	50	50
Pittwater Road/Military Road/F1	34	38	39	38	40
Princes Highway	32	32	36	35	36
Victoria Road	34	33	32	31	32
Combines seven routes*	43	43	43	41	42

Source: Roads and Traffic Authority of New South Wales (unaudited).

* Combined seven routes average speed was calculated by the total travel distance over total travel time of the seven routes.

** From 2007-08, the Lane Cove Tunnel is part of the M2 corridor (formerly parallel sections including Epping Road).

Management advised that:

- the morning peak speed increased notably on Victoria Road, due to measures implemented by the Authority to improve the inner sections of the route and staged road works
- the afternoon peak travel speed for M4 corridor decreased due to road works to remove the toll plaza.

OTHER INFORMATION

Receipt of Motorway

At the expiry of the contract with the private operator, the ownership of the Western Motorway (M4) reverted to the Authority in February 2010. The value of the motorway at the time of hand-back was \$270 million. This represented a \$46.7 million increase over the value of the asset recognised by the Authority.

Human Resources

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

- use of skill hire contractors
- overtime
- management of annual leave balances in excess of threshold policies
- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities.

A summary of the results of our review follows.

Use of Skill Hire Contractors (Repeat Issue)

I recommend the Authority review its application of skill hire practices to ensure it complies with its established policies, the *Income Tax Act* and other industrial relations matters.

Skill hire (contract employees) are a short term employment option used by the Authority for a period of generally not more than one year.

The number of Authority's contractors decreased to 8.4 per cent of the workforce from 8.9 per cent in 2008-09. Further, 56.6 per cent (47.7 per cent) of its contractors had been engaged for more than 12 months. The longest serving contractor has been with the Authority for over eight years.

The retention of contract staff for extended periods may result in additional costs to the Authority. Costs incurred by extended use of contractors, as well as the benefits, should be compared to hiring permanent employees. Also, critical business knowledge may be lost when contractors leave the organisation.

The Authority advised that the use of contractors is a result of:

- skill shortages in engineering and information technology
- salaries offered being below comparables available in the industry
- New South Wales government recruitment freeze
- construction and information technology industry norms within of using contingent workforces
- growth in the overall road program due to higher Australian government funding levels.

The Authority needs to review its current practices relating to use of contractors to ensure it achieves its intended outcomes. Further, it should assess its compliance with all applicable laws and regulations.

The number of skill hire contractors and the duration since the current skill hire contractor start date is shown below:

Year end 30 June	Number of skill hire contractors		
	2010	2009	2008
Cost of skill hire contractors (\$m)	93.7	92.0	75.4
Duration since current skill hire contract start date			
Over 6 years	68	73	71
5 - 6 years	18	10	14
4 - 5 years	14	24	17
3 - 4 years	44	23	26
2 - 3 years	78	69	64
1 - 2 years	173	147	124
less than 1 year	303	380	285
Total	698	726	601

Source: Roads and Traffic Authority of New South Wales (unaudited).

Overtime (Repeat Issue)

I have previously recommended the Authority review its overtime approval procedures and monitor overtime levels to ensure overtime is effectively managed and achieves desired outcomes.

Overtime for the year amounted to \$44.3 million (\$42.9 million), 7.6 per cent (7.9 per cent) of base salaries and wages. On average, Authority employees received \$5,000 in overtime and 61.4 per cent of employees received a payment for overtime. The highest amount paid to a single employee was \$118,000 (\$114,000).

Top 10 overtime earners as a percentage of overtime to salary:

Employee	2010			2009		
	Percentage of Overtime to salary	Annual Salary \$	Overtime \$	Percentage of Overtime to Salary	Annual Salary \$	Overtime \$
1	133	77,037	102,111	139	47,488	66,221
2	126	92,958	117,589	138	74,074	101,921
3	126	59,885	75,552	135	71,155	95,799
4	124	48,177	59,603	127	89,383	113,886
5	122	48,177	58,956	118	54,433	64,315
6	117	74,001	86,614	117	46,324	54,076
7	117	48,177	56,284	116	46,324	53,623
8	109	51,792	56,486	107	54,433	58,225
9	109	52,998	57,525	101	49,799	50,055
10	108	48,177	52,250	99	79,488	78,684

Source: Roads and Traffic Authority of New South Wales (unaudited).

Management advised that the monitoring of overtime is performed through quarterly reporting to directorates. The Authority's Human Resource Division works with directorates to ensure overtime worked complies with the Authority's policy.

Annual Leave Balances (Repeat Issue)

I recommend the Authority continue to monitor and manage annual leave entitlements to minimise the impact on the Authority's financial position.

The Authority actively manages excessive annual leave balances. The number of employees with annual leave in excess of 40 days has declined from 749 employees at 30 June 2007 to 542 employees at 30 June 2010. Employees in this category represented 6.3 per cent (8.1 per cent) of total employees at 30 June 2010.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

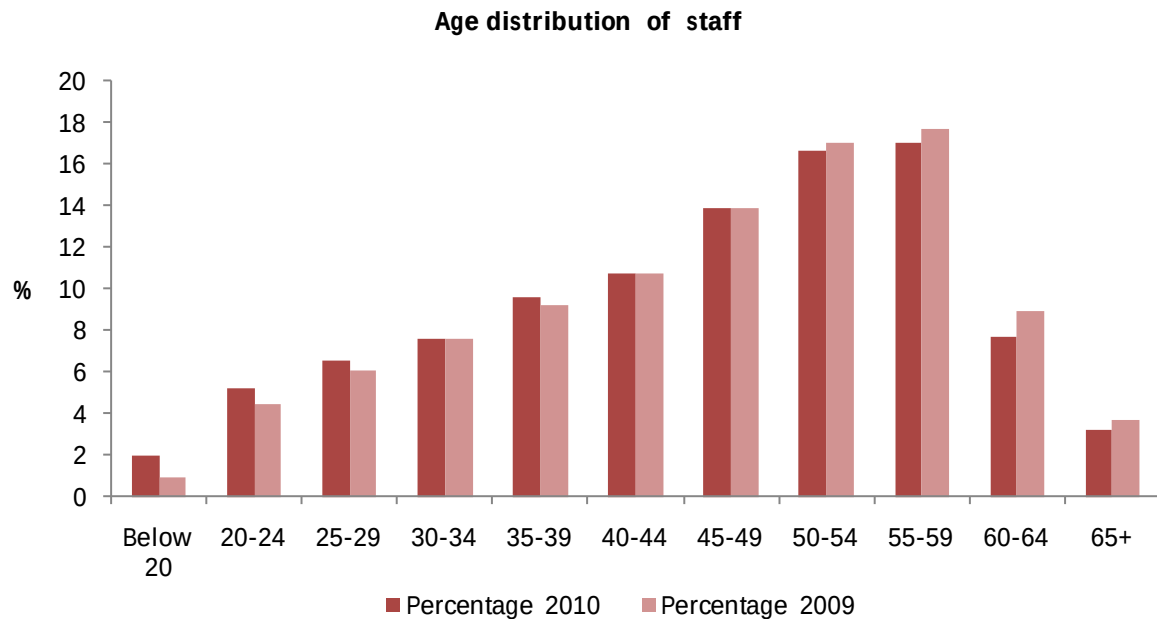
Entitlement (days)	2010			2009		
	No of Personnel	Total Days	Amount \$'000	No of Personnel	Total Days	Amount \$'000
Annual Leave						
> 100	2	213	73	1	117	40
81 – 100	9	815	301	7	625	344
61 – 80	43	2,913	1,109	58	3,950	1,209
41 – 60	488	23,025	7,824	610	28,334	8,590
Total	542	26,966	9,307	676	33,026	10,183

Workforce Ageing

I recommend the Authority continually reviews the effectiveness of its existing policies and program in managing its ageing workforce.

The Authority has 27.9 per cent of its employees over 55 years of age and 44.5 per cent of its employees over 50. This represents a large number of employees who are likely to retire over the next ten years, increasing the risk of a significant loss of accumulated knowledge and skills.

The age profile of the Authority's employees is shown below:



As at 30 June Age Group	2010		2009	
	No. of Employees (FTE)	%	No. of Employees (FTE)	%
Up to 34	1,546	21.3	1,346	18.9
35 – 39	693	9.6	650	9.2
40 – 44	777	10.7	757	10.7
45 – 49	1,006	13.9	991	13.9
50– 54	1,202	16.6	1,206	17.0
55-59	1,234	17.0	1,260	17.7
60-64	558	7.7	632	8.9
65+	229	3.2	260	3.7
Total	7,245	100.0	7,102	100.0

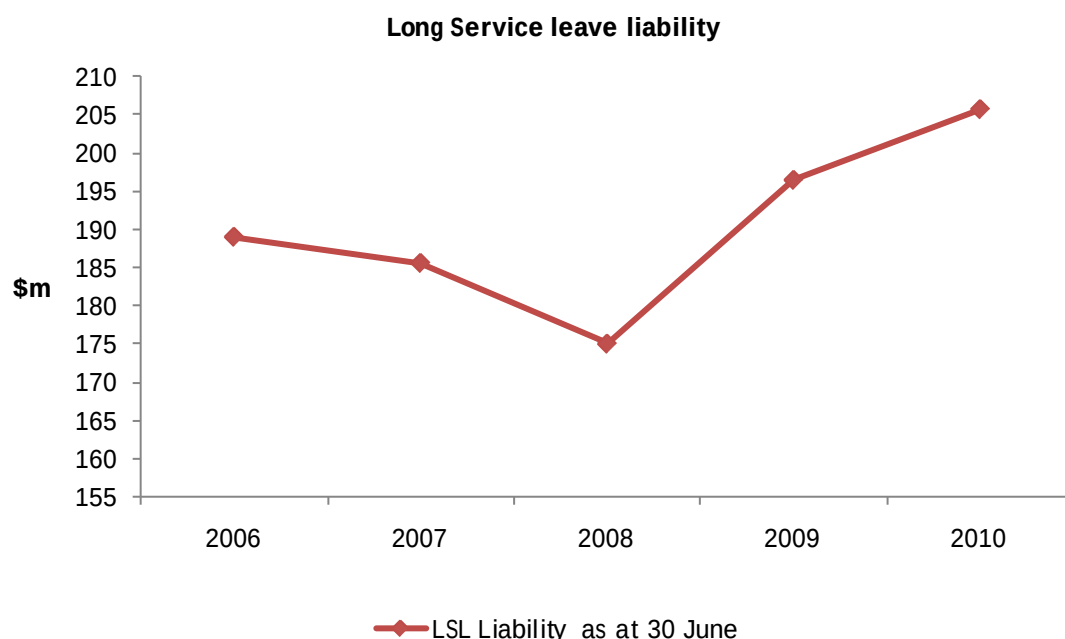
Source: Roads Traffic Authority (unaudited).

In response to this risk, the Authority advised that it actively monitors its workforce age profile. It has a workforce strategy as part of its Corporate Plan 2008-12. The strategy is to develop, recruit and retain employees whose skills are aligned with the strategic direction of the Authority.

The Authority has taken positive steps towards succession planning and has implemented a new 'MyJourney Program'. This targets all Authority's staff aged 55 and over to focus on knowledge sharing, working intentions and retirement preparedness.

Long Service Leave Liability

The Authority's liability for long service leave entitlements at 30 June 2010 amounted to \$206 million (\$196 million). This liability has increased by 8.8 per cent over the past five years.



The increase in the long service leave liability resulted from continuous growth in leave balances and increased employee remuneration levels. It also increased due to the impact of a reduced Government bond rate used to discount the liability to present value.

Although the Authority has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities, which generally increase over time with increases in employee remuneration levels. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

Transport Restructure

On 1 July 2010 the *Transport Administration Amendment Act 2010* established Transport NSW (TNSW). Under this Act, the Chief Executive of the Authority is authorised to manage and control the affairs of the Authority in accordance with the directions of the Director-General of Transport NSW for the purposes of exercising the functions of the Director-General. The Authority became a controlled entity of Transport NSW from 1 July 2010.

Further information on the transport restructure is included in the Transport Services Overview in this volume.

Major Projects

The table below provides the completion dates and costs for the highest valued projects listed in 2009-10 budget papers of the Authority.

Year ended 30 June 2010	Year of Budget Paper with Initial Estimates	Initial Estimated Completion Date per Budget Paper	Forecast/ Actual Completion Date	Initial Project Estimate* \$m	Cost to 30 June 2010 \$m	Forecast/ Actual Final Cost \$m	Forecast Variance \$m
Hunter Expressway- F3 to Branxton Freeway	2010-11	2013	2013	1,700	91	1,700	--
Hume Highway, Southern Hume Duplication	2007-08	2009	2009	900	889	905	5
Pacific Highway, Coffs Harbour (Sapphire) to Woolgoolga	2001-02	na**	2014	280	120	705	425
Pacific Highway, Ballina Bypass	1997-98	2002	2012	118	473	640	522
Pacific Highway Moorland to Herons Creek	2001-02	na**	2010	230	370	378	148
Pacific Highway Banora Point, Upgrade	2010-11	2012	2012	359	57	359	--
Bus Priority on Strategic Corridors	2005-06	2012	2012	295	230	295	--
Hume Highway, Tarcutta Bypass	2010-11	2011	2011	290	67	290	--
Hume Highway, Woomargama Bypass	2010-11	2011	2011	265	63	265	--
Pacific Highway Karuah to Bulahdelah, sections 2 & 3	2006-07	2009	2009	227	253	253	26

Source: Roads and Traffic Authority of New South Wales (unaudited).

* The initial project estimates represented the initial strategic or concept estimates prior to any detailed planning or project development.

na** Not available - The initial estimated completion dates for these projects were not reported in the respective Budget Paper because the projects were at the early stage of planning.

Management advised the key reasons for the forecast variance of the Pacific Highway Ballina Bypass include:

- initial estimate did not account for lengthy extensions of the Bruxner Highway due to the intersection added at Teven Road
- flood modelling of the area requires additional bridging through the flood plain area.

The increase in the cost of the Sapphire to Woolgoolga section of the Pacific Highway is due to:

- initial proposal based on a simple upgrade using the existing roads as one of the carriage ways, did not eventuate and was replaced by a new dual carriageway with a separate parallel route for local traffic movement
- the need for six interchanges to address access for current and planned urban development north of Coffs Harbour, not originally anticipated.

The forecast variance on the Mooreland to Herons Creek project is due to:

- scope changes to provide a higher standard upgrade including interchanges and service roads
- actual delays for wet weather during peak construction (45.0 per cent) were considerably higher than the original estimate (27.0 per cent).

School Zone Flashing Lights

In my Performance Audit 'Improving Road Safety: School Zones' in February 2010 the RTA advised:

'The RTA is continuing the risk based rollout of flashing lights in school zones, with 365 out of the proposed 565 flashing light sites installed to date. The 565 flashing light sites includes:

- pre 2008 trial sites
- additional sites such as, where fixed speed cameras have been installed
- the \$46.5 million program to install flashing lights at 400 sites (2008 to 2011).'

The Authority has advised that:

- prior to the phase one trial, 65 lights were installed during 2005-06, funded from the combined road safety, licensing and vehicle management budget and not a specific allocated program
- phase one started in 2006-07, involving the installation of 100 lights as a trial at a cost of \$9.1 million (an average cost of \$91,000 each)
- phase two, started in 2007-08, with a budget of \$23.8 million to install 400 lights and \$22.7 million to maintain all flashing light installations over the next four years. At 30 June 2010, the Authority had installed 251 lights at a cost of \$13.0 million (average cost of \$52,000 each)
- The combined average cost per unit for phases one and two to 30 June 2010 for the 351 sites is \$63,000 each.

Administered Revenue

Revenue collected on behalf of the State and remitted to the Consolidated Fund was:

Year ended 30 June	Actual				
	2010 \$m	2009 \$m	2008 \$m	2007 \$m	2006 \$m
Vehicle registration fees	270	249	243	232	223
Drivers licences fees	146	116	91	96	141
Vehicle transfer fees	38	36	38	35	35
Stamp duty	586	538	605	555	548
Motor Vehicle Weight Tax and Fines	1,316	1,236	1,191	1,118	1,062
Other	76	70	58	58	53
Total	2,432	2,245	2,226	2,094	2,062

FINANCIAL INFORMATION**Abridged Statements of Comprehensive Income**

Year ended 30 June	Consolidated		Parent	
	2010 \$m	2009 \$m	2010 \$m	2009 \$m
Employee related	569	553	673	906
Maintenance	572	605	572	605
Depreciation and amortisation	921	853	921	853
Grants and subsidies	743	310	743	310
Finance costs	96	103	96	103
Other expenses	417	474	417	474
TOTAL EXPENSES	3,318	2,898	3,422	3,251
Sale of goods and services	398	386	398	386
Other revenues	512	172	512	172
TOTAL REVENUE	910	558	910	558
Loss on disposal of non current assets	54	34	54	34
NET COST OF SERVICES	2,462	2,374	2,566	2,727
Government Contributions	3,772	3,723	3,772	3,723
SURPLUS	1,310	1,349	1,206	996
OTHER COMPREHENSIVE INCOME				
Gain on revaluation of property plant and equipment	4,534	4,579	4,534	4,579
Superannuation actuarial losses	(104)	(353)	--	--
TOTAL OTHER COMPREHENSIVE INCOME	4,430	4,226	4,534	4,579
TOTAL COMPREHENSIVE INCOME	5,740	5,575	5,740	5,575

Following a state-wide review of road classifications the Authority transferred \$361 million of roads and bridges to various councils. This is reflected in the increase in grants and subsidies expenses.

The same review also gave rise to transfers of \$313 million of roads and bridges from a number of councils, contributing to the increase in other revenue.

Abridged Statement of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$m	2009 \$m	2010 \$m	2009 \$m
Current assets	391	385	391	385
Non-current assets	62,119	56,303	62,119	56,303
TOTAL ASSETS	62,510	56,688	62,510	56,688
Current liabilities	1,233	1,132	1,880	1,667
Non-current liabilities	2,119	2,139	1,472	1,604
TOTAL LIABILITIES	3,352	3,271	3,352	3,271
NET ASSETS	59,158	53,417	59,158	53,417

The Authority's non-current assets increased by \$5.8 billion mainly due to \$2.1 billion construction of infrastructure assets and accounting adjustment for \$4.3 billion as a result of the Authority's change in accounting estimates for road earthworks.

Abridged Service Group Information

The Authority's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2010 Budget* \$m	2010 Actual \$m	2009 Actual \$m	2010 Actual \$m	2009 Actual \$m
Road development	(44)	(4)	(2)	2,149	2,603
Road management	1,827	2,103	2,042	57,030	50,796
Road user	381	263	226	(19)	20
M4/M5 cash back scheme	104	99	108	(2)	(2)
Total all service groups	2,268	2,461	2,374	59,158	53,417

* Source: New South Wales 2009-10 Budget Papers (unaudited).

Net cost of services exceeded budget as a result of the transfer of roads and bridges to councils.

AUTHORITY ACTIVITIES

The Authority is responsible for improving road and traffic safety management, enhancing road network efficiency, maintaining and renewing the existing road system and constructing new roads and bridges throughout New South Wales. Other major responsibilities include road safety education, assessing and collecting tax on the registration of motor vehicles, licensing drivers and collecting stamp duty on motor vehicle related transactions for the Office of State Revenue.

The Authority was constituted under the *Transport Administration Act 1988*.

For further information on the Authority, refer to www.rta.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

Roads and Traffic Authority Division

Minister for Small Business

Refer to Appendix 1 for:

Small Business Development Corporation of New South Wales

Minister for State and Regional Development

Refer to Appendix 1 for:

New South Wales Film and Television Office

Ministerial Corporation for Industry

Minister for Transport

Department of Transport and Infrastructure

Public Transport Ticketing Corporation

Rail Corporation New SouthWales

Rail Infrastructure Corporation

State Transit Authority of New South Wales

Sydney Ferries

Sydney Metro

Transport Infrastructure Development Corporation

Refer to Appendix 1 for:

Chief Investigator of the Office of Transport Safety Investigations

Independent Transport Safety and Reliability Regulator

Department of Transport and Infrastructure

AUDIT OPINION

The audit of the Department of Transport and Infrastructure's (now Transport NSW) financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

OTHER INFORMATION

Corporate Governance

With effect from 1 July 2010, the Department of Transport and Infrastructure was renamed and is now known as Transport NSW. This change was brought about by the *Transport Administration Amendment Act 2010*, which established a new framework for the administration and governance of the delivery of transport services and infrastructure by public transport agencies under the general direction of the Director-General of Transport NSW. The Department is referred to by its new name, Transport NSW, throughout this and other reports.

Transport NSW is the lead transport agency with primary responsibility for transport policy, planning and coordination functions as well as oversight of infrastructure delivery and asset management. The new transport structure is intended to deliver streamlined, integrated transport planning and service delivery, and consolidation of similar functions to reduce costs and provide additional funds for front line staff and services. For the year end 30 June 2011, Transport NSW will control most public sector transport agencies for consolidation purposes.

Sydney Ferries Contract

As part of the Government's response to the Special Commission of Inquiry into Sydney Ferries, the Government commenced the Sydney Ferries Market Review in October 2008. The review included a two stage expression of interest process and a request for tender (RFT). The RFT was issued to two private sector respondents. The Government used input from Sydney Ferries to develop the Public Sector Comparator as a cost and quality benchmark.

In December 2009, the Government announced that it made the policy decision that Sydney Ferries should run the ferry services as a Government agency, rather than a private operator. In making this decision, Transport NSW advises the Government noted the improved operational performance of Sydney Ferries and the opportunities arising from the creation of Transport NSW to transfer certain strategic and planning functions from Sydney Ferries to Transport NSW.

The final negotiation stage resulted in a seven year contract term between Transport NSW and Sydney Ferries. The contract also includes \$30 million funding for replacement vessels.

Transport Concessions for University Students

I have previously referred to a review by Transport NSW of processes and procedures for issuing transport concession cards to tertiary students. The review was undertaken following my enquiries into these arrangements and it identified that procedures for removing cards from ineligible students were inconsistent.

Transport NSW advises it had improved its website information regarding concession arrangements and Tertiary Issuance Guidelines in 2008. Institutions are now required to recall the cards from ineligible students or remove the eligibility sticker/bitmap from the student's identification card.

Transport NSW advises it will review and assess the impact of the improved guidance and new requirements.

Transport NSW conducted a survey in 2010 to gauge the effectiveness of the new requirements across the 2009 academic year. The survey, which focuses on processes for cancelling concession entitlements, was distributed to tertiary institutions. Transport NSW will shortly analyse the responses to determine if further mitigation strategies are required.

Private Vehicle Conveyance Scheme

I recommend Transport NSW ensure the independent review of the Private Vehicle Conveyance Scheme is finalised as soon as possible and implement accepted recommendations in a timely manner.

The Private Vehicle Conveyance (PVC) scheme is designed to help parents meet the cost of transporting their children between home and school if they live in an area with no public transport for all or part of the journey. Transport NSW paid \$24.3 million in PVC subsidies in 2009-10.

Transport NSW advises that distances detailed in the PVC application forms are only subject to random sample checks. It also advises it is developing a geospatial database, which will enable it to more efficiently check all applications to ensure distance details are correct and the applicant is entitled to a PVC subsidy.

An independent review of the PVC scheme made draft recommendations to the Minister in early 2009 to improve the transparency and efficiency of the scheme. Transport NSW advises it is arranging further advice on some of the recommendations and therefore has not yet implemented any of the major recommendations. Transport NSW is however progressing with a number of administrative improvements focussed on eligibility checking and validating benefits processes.

Nexus Taxi Licences

In accordance with recent amendments to the *Passenger Transport Act 1990*, Transport NSW advises it is taking action to standardise nexus arrangements under conditions which resemble existing arrangements. This means:

- both the nexus and paired accessible taxi must be kept in operation
- the nexus and paired accessible licence may only be transferred as a pair and only to an authorised network which is an accredited operator.

Transport NSW advises it will gazette a list of nexus and paired accessible taxi licences. It will also issue new licence documents and it will monitor compliance performance. Transport NSW advises the final report of the Select Committee Inquiry into the NSW Taxi Industry recommended no further action be taken.

Human Resources

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

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- management of excessive flex leave balances
- extent of overtime
- extent of contract staff.

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

Employee Age Profile

I recommend Transport NSW establish appropriate policies to mitigate and manage the risks associated with its ageing workforce.

Transport NSW is facing challenges from the potential loss of a large number of retiring staff over the next 10 to 15 years. Its employee age statistics below show:

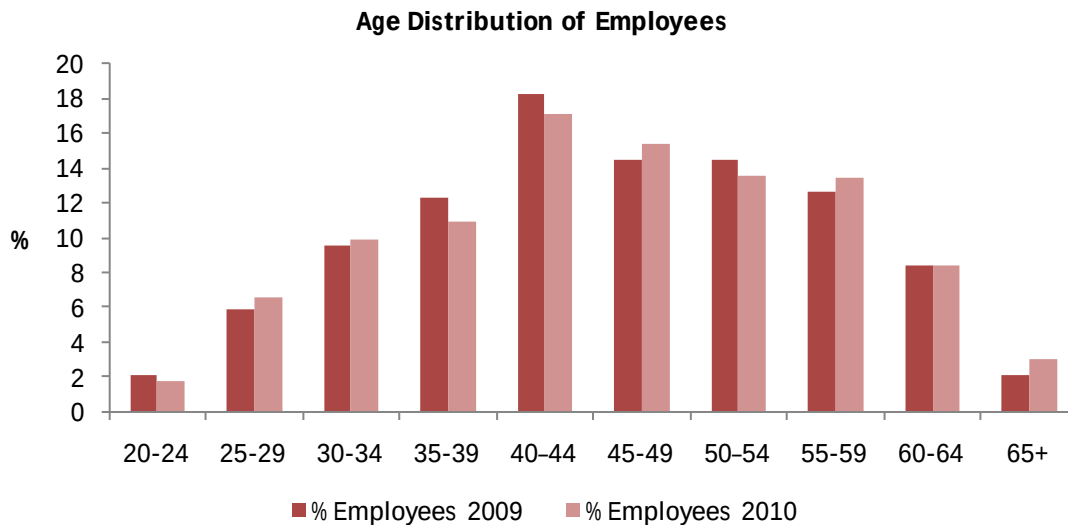
- 24.8 per cent are aged 55 years and over
- 38.3 per cent are aged 50 years and over.

As at 30 June Age Group	2010		2009	
	No. of Employees*	%	No. of Employees*	%
20 - 49	206	61.7	212	62.4
50 - 54	45	13.5	49	14.4
55 - 59	45	13.4	43	12.6
60 - 64	28	8.4	29	8.5
65+	10	3.0	7	2.1
Total	334	100.0	340	100.0

Source: Department of Transport and Infrastructure (unaudited)

* Number of employees refers to full time equivalent

The graph below demonstrates the age distribution of Transport NSW's employees.



Source: Department of Transport and Infrastructure (unaudited)

To ensure Transport NSW continues to have sufficient, appropriately skilled employees, it will need to actively monitor its workforce age profile and ensure strategies are in place to develop, attract and retain staff whose skills are aligned with its strategic direction.

Excessive Annual Leave Balances

Transport NSW appears to be actively managing excessive annual leave balances. At 30 June 2010, 36 employees (45 employees at 30 June 2009) had leave balances in excess of 40 days. Transport NSW advises that its strategies for managing this issue include developing leave plans for those employees with leave balances exceeding 40 days, as well as monitoring those plans to ensure planned leave is taken.

Flex Leave

I recommend Transport NSW consider implementing mechanisms to centrally monitor flex time records to help ensure excessive flex time is not being accrued and forfeited by staff.

Transport NSW does not know the extent to which flex time is being accrued and forfeited by staff, as it does not keep centralised records of flex time. Records are decentralised and manually maintained by each branch. If flex time is not monitored centrally, employees may be accruing and/or forfeiting excessive flex time.

Overtime

Total overtime paid to employees during 2009-10 was \$482,868 (\$485,345). This represents 1.5 per cent (1.5 per cent) of Transport NSW's salaries and wages for the year. The highest overtime payment to an employee was \$34,070 (\$30,747).

Employment of Contractors

I recommend Transport NSW develop and maintain an appropriate central register of all contractors engaged by it.

Transport NSW advises it maintains a central register of all contractors. However, the central register is not in a format which enables management to readily obtain information such as:

- total number and cost of contractors hired
- the period of service for each contractor
- total contract payments made to each contractor over the life of the contract.

Transport NSW advises it is currently developing an on-line database application which will strengthen its recording of contractor information. An appropriate centralised register will also help Transport NSW assess its overall reliance on contractors and the length of time each contractor has been engaged. Retention of contract employees for extended periods may result in additional costs to Transport NSW and it increases the risk of non-compliance with taxation and other employment laws and regulations.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000
Employee related	40,441
Grants and subsidies	3,746,602
Other expenses	1,068,972
OPERATING EXPENSES	4,856,015
OPERATING REVENUE	73,949
Loss on disposal of non-current assets	10
NET COST OF SERVICES	4,782,076
Government contributions	4,794,389
SURPLUS	12,313
OTHER COMPREHENSIVE INCOME	--
TOTAL COMPREHENSIVE INCOME	12,313

Grants and subsidies includes \$2.3 billion paid to Rail Corporation New South Wales and \$1.1 billion paid for other projects, including the South West Rail Link (\$536 million), Sydney Metro (\$384 million) and carparks and interchanges (\$123 million).

Other expenses includes \$595 million paid to the State Transit Authority and private bus operators for services provided under the Metropolitan and Outer Metropolitan bus contracts, as well as \$352 million paid for services provided under the rural and regional bus contracts.

Abridged Statement of Financial Position

At 30 June	2010 \$'000
Current assets	52,516
Non-current assets	669,246
TOTAL ASSETS	721,762
Current liabilities	65,923
Non-current liabilities	591,795
TOTAL LIABILITIES	657,718
NET ASSETS	64,044

Non-current assets and non-current liabilities include 1,452 buses acquired under a financing arrangement. In 2009-10, Transport NSW acquired 488 buses at a cost of \$229 million. The buses are used by the State Transit Authority.

Abridged Service Group Information

Transport NSW's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services		Net Assets
	2010 Budget* \$'000	2010 Actual \$'000	2010 Actual \$'000
Transport Planning, Policy and Infrastructure Programs and Initiatives	1,511,551	1,903,012	49,648
Targeted Transport Services	649,565	682,849	(5,392)
Transport Regulation, Service Provision and Contract Management	2,200,120	2,196,215	19,788
Total all service groups	4,361,236	4,782,076	64,044

Note: * Per the New South Wales 2009-10 Budget Papers of the former Ministry of Transport.

The variance between budgeted and actual is due to additional appropriations received by Transport NSW totalling \$451 million. The additional appropriations were mainly paid out as grants and subsidies to various agencies including:

- Rail Corporation New South Wales
- Transport Infrastructure Development Corporation.

DEPARTMENT ACTIVITIES

The Department of Transport and Infrastructure was established on 1 July 2009, but as mentioned above, its name was changed to Transport NSW on 1 July 2010. Transport NSW is the lead transport agency with primary responsibility for:

- transport coordination
- transport policy and planning
- transport services
- transport infrastructure.

For further information on Transport NSW, refer to www.transport.nsw.gov.au.

Public Transport Ticketing Corporation

AUDIT OPINION

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

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

KEY ISSUES

Electronic Ticketing System for the Greater Sydney Region

On 7 May 2010, the Corporation signed the Electronic Ticketing System (ETS) contract with Pearl Consortium. The Pearl Consortium includes Cubic Transportation Sydney (Australia) as the lead contractor, Downer EDI Engineering Power and the Commonwealth Bank of Australia. Under the contract, Pearl Consortium will build and then operate and maintain the ETS for a period of fifteen years.

The ETS will operate across greater Sydney's public transport network and extend as far as Newcastle and the Hunter region, as well as Wollongong and the Illawarra and the Blue Mountains. It will be based on the Myzone fare structure principles. Per the approved business case, the ETS will result in tangible and economic benefits that outweigh the cost. For example the ETS will result in:

- avoided capital and operating costs that operators would have incurred by introducing their own standalone systems
- more people shifting from private to public transport, resulting in greater farebox revenue, less road congestion, fewer road accidents and less environmental damage
- improved information management
- improved bus run time savings
- better customer experience resulting from reduced queues and quicker processing
- reduced fare evasion.

The total cost to build and maintain the ETS over fifteen years is about \$1.2 billion. This is made up of:

- \$398 million of fixed charges payable to Pearl Consortium
- \$250 million of variable charges payable to Pearl Consortium over approximately ten years
- \$550 million of costs to be incurred by various Government agencies and operators on managing the ETS. This cost includes commissions payable to the retail network, additional equipment for expansion of the transport network and growth in patronage.

The Corporation advised it will fund the ETS project through borrowings. The Corporation will then use operating revenue generated over the life of the ETS to repay the borrowings. The Corporation advised the rollout of the ETS is on track to meet the delivery timetable and the key dates are:

- mid 2011 – begin rollout of some equipment on the private bus network
- late 2012 – begin rollout of ETS on the ferry network
- mid 2013 – begin rollout of ETS on the train network
- 2nd half 2013 – begin rollout of ETS on government and private bus networks
- 2nd half 2014 – rollout of ETS completed across all modes of transport.

Tcard Litigation

The Corporation terminated its Tcard project on 23 January 2008 and commenced legal proceedings against the private sector contractor in the Supreme Court. The Corporation terminated the contract on the basis the contractor failed to meet the relevant milestone dates in the contract. The Corporation also claims the contractor failed to submit a satisfactory remediation program. The Corporation is seeking damages in excess of \$100 million. The contractor responded by lodging a cross claim against the Corporation. The Corporation advised the case may be heard in the second half of 2011.

OTHER INFORMATION

Use of Contract Personnel

In 2009-10, the Corporation spent \$17.5 million on contractors. This amount includes contractor personnel and external contractor services for the ETS project. At 30 June 2010, the Corporation had 62 contractor personnel, of which five had been employed for more than two years. The Corporation advised it continuously monitors the use and performance of contract personnel to ensure they represent value for money.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Corporation	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Government contributions	14,910	11,834	14,910	11,834
Other revenue	267	1,361	267	1,361
TOTAL REVENUE	15,177	13,195	15,177	13,195
Employee related expenses	1,456	1,321		
Personnel services			1,456	1,321
Finance costs	3,416	3,884	3,416	3,884
Other expenses	31,808	18,223	31,808	18,223
TOTAL EXPENSES	36,680	23,428	36,680	23,428
DEFICIT	21,503	10,233	21,503	10,233
Other Comprehensive Income	--	--	--	--
TOTAL COMPREHENSIVE INCOME	21,503	10,233	21,503	10,233

The increase in government contributions was mainly due to the Corporation receiving \$7.5 million from Department of Transport and Infrastructure to implement the Myzone project. The increase in other expenses was largely due to costs incurred on both the ETS and the Myzone projects.

Abridged Statements of Financial Position

At 30 June	Consolidated		Corporation	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	4,814	10,693	4,814	10,693
Non-current assets	17,559	475	17,559	475
TOTAL ASSETS	22,373	11,168	22,373	11,168
Current liabilities	102,608	85,274	102,608	85,274
Non-current liabilities	15,374	--	15,374	--
TOTAL LIABILITIES	117,982	85,274	117,982	85,274
NET LIABILITIES	95,609	74,106	95,609	74,106

The \$17.1 million increase in non-current assets was largely due to costs incurred on the ETS. The \$32.7 million increase in total liabilities was due to the Corporation borrowing funds to meet its operating and ETS project costs.

While the Corporation has negative net assets at 30 June 2010 of \$95.6 million (\$74.1 million), the Corporation is considered financially viable because its borrowings are guaranteed by the Government and it has loan facilities in place to meet its operating costs and ETS obligations. The Government has also guaranteed ongoing financial support to the Corporation.

CORPORATION ACTIVITIES

The Corporation is responsible for establishing and managing an electronic ticketing system for public transport users and operators in the greater Sydney metropolitan area.

On 1 July 2010, the *Transport Administration Amendment Act 2010* established Transport NSW and resulted in the removal of the Corporation's governance board. The affairs of the Corporation are now managed and controlled by the Director General of Transport NSW.

For further information on the Corporation, refer to www.pttc.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	Website
Public Transport Ticketing Corporation Division	*

* This entity does not have a website.

The Public Transport Ticketing Corporation Division (the Division) was dissolved on 1 July 2010. The Division's employees are now assigned to Transport NSW.

Rail Corporation New South Wales

AUDIT OPINION

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

KEY ISSUES

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

Recent Transport Restructure

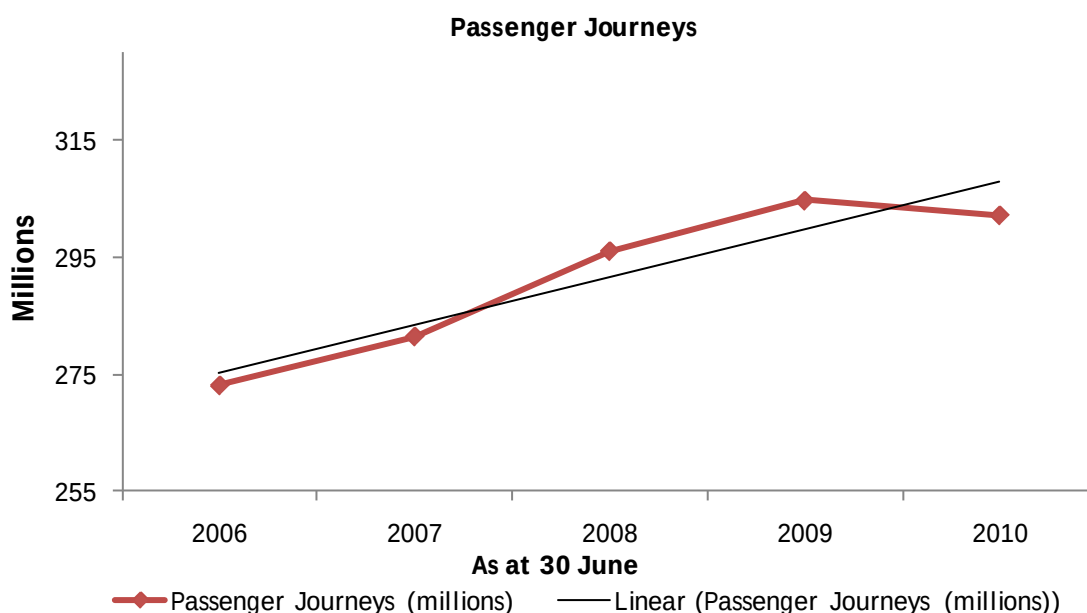
On 1 July 2010, the *Transport Administration Amendment Act 2010* established Transport NSW (TNSW) and abolished RailCorp's governance board.

Under this Act, the Chief Executive of RailCorp has the authority to manage and control the affairs of RailCorp subject to any directions of the Minister for Transport or the Director General of Transport NSW. For the year end 30 June 2011, RailCorp will be a controlled entity of Transport NSW for consolidation purposes.

For further information on the Transport restructure refer to the 'Transport Services Overview' in this volume.

Crowding on Trains

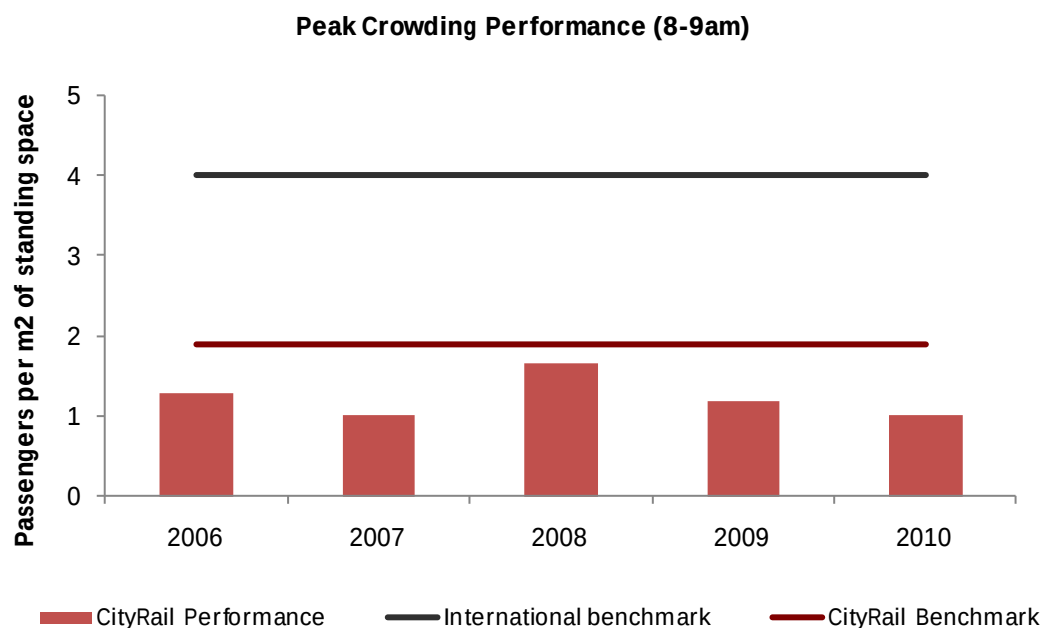
CityRail passenger journeys fell by approximately 0.8 per cent, from 305 million in 2008-09 to 302 million in 2009-10. The decrease in journeys is below the forecast annual growth rate of 1.1 per cent. Since July 2007 cumulative growth has been approximately 7.4 percent, slightly down on the State Plan target of 7.7 percent. RailCorp continues to advise the downturn was a direct result of the global financial crisis and its effect on employment, particularly in the CBD.



Source: RailCorp (unaudited)

Across the entire CityRail network, patronage grew on the Northern line (4.5 per cent) and the East Hills Line (2.8 per cent) in the 12 months to June 2010. Patronage on all other suburban and inter-city lines declined between 1.8 per cent and four per cent. The Northern and North Shore lines benefited from the integration of the Epping to Chatswood Rail Link (ECRL) plus significant station redevelopments at Chatswood and North Sydney. The Eastern Suburbs Line and South Coast Lines recorded the highest fall in patronage of 4.0 per cent.

CityRail measures passenger loads on its peak services twice yearly. RailCorp benchmarks passenger crowding on its services against other global operators. The benchmark measures the number of passengers per square metre of standing space.

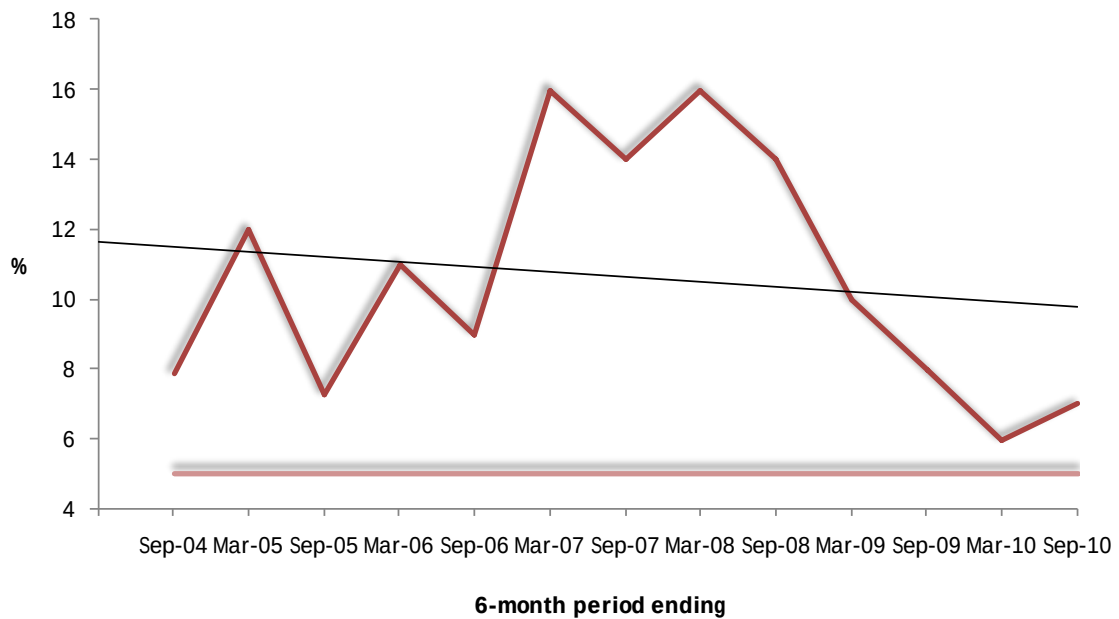


Source: RailCorp (unaudited). Surveys performed in March each year

CityRail's trains compare well against a global benchmark of no more than 4 passengers per square metre, achieving an average of 1.0 passenger in 2010 (1.2 passengers in 2009). This is well below RailCorp's own internal target of 1.9 passengers per square metre.

The percentage of peak hour trains carrying more passengers than 135 per cent of seat capacity has consistently exceeded the target of five per cent, previously set by the Minister in the Rail Performance Agreement. However, this rate is continuing to trend downwards with the percentage falling to seven per cent (eight per cent) in the September 2010 load factor survey.

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



Source: RailCorp (unaudited).

The September 2010 survey indicated approximately 45 morning (8am to 9am) trains and 12 evening (5pm to 6pm) trains have passengers standing for more than 20 minutes. The Western lines had the highest number of trains exceeding seat capacity 20 minutes out from the CBD in the morning with the East Hills line the highest in the afternoon.

To deal with crowding, RailCorp commenced a range of initiatives to boost capacity and expand the reach of the network including:

- new Oscar trains for outer suburban areas, which frees up more trains to service other parts of the network
- building six car trains up to eight car trains on more services
- timetable changes in October 2009, resulting in additional seat capacity
- the new Epping to Chatswood line joining the Northern and North Shore lines, introduced in October 2009.

The above initiatives have collectively provided an additional 8,000 seats during peak periods.

Procurement System

I recommend RailCorp continue to resolve the underlying issues associated with its new procurement system to ensure it operates effectively and that suppliers are paid on a timely basis.

During 2009, RailCorp implemented a new \$35.1 million procurement system. This system is intended to standardise and enhance the processing of transactions with suppliers and to reduce the risk of fraud.

During the five month period between the go live date and 30 June 2010, over \$100 million in supplier payments were late. This resulted in a 12.0 per cent deterioration in on-time payment performance, from 74.0 per cent in the first half of 2009-10 to 62.0 per cent in the latter half of 2009-10. Furthermore, during this same five month period, over \$4.0 million in duplicate payments were made to suppliers. The majority of this balance has been recovered.

Prior to the launch of this new procurement system, management had identified a number of system defects. The system went live despite these defects as procedures were in place to minimise their impact to the business. Permanent solutions were being developed at the time of go live to address these defects.

Within the first week of 'go live', further procurement processing defects were identified. The most significant related to integration issues between the general ledger and the procurement system. This, along with other business implementation issues, resulted in a high volume of invoices being mismatched, which in turn delayed the timeliness of supplier payments. The rate of mismatched invoices to purchase orders was as high as 70.0 per cent during the launch of the system and was still as high as 20.0 per cent at June 2010.

Management has advised action is being taken to resolve the procurement system issues as a priority. Additional staff have been assigned to this project to help rectify all existing system issues and clear the backlog of supplier payments. As a result, the volume of invoices being processed have returned to historical levels and the volume of overdue supplier payments is reducing steadily.

To date, over \$0.4 million in staff overtime costs have been incurred as a direct result of dealing with these procurement system issues.

MyZone Fares

In April 2010, Transport NSW, in conjunction with RailCorp, implemented the new MyZone ticketing system. This resulted in a simplified fare structure for the greater Sydney area.

MyZone reduced CityRail fare bands from twenty to five. MyMulti tickets were introduced across three new rail zones, and CityRail ticket fares and products were standardised. MyZone fares are the same or lower than fares previously in place for over 97.0 per cent of CityRail tickets.

The Independent Pricing and Regulatory Tribunal (IPART) Order 1998 was amended on 1 April 2010 to implement a limited range of MyZone fares. The relevant fares (approximately three per cent of ticket volume) were higher than those previously determined by IPART for the equivalent CityRail products.

RailCorp advised the introduction of MyZone fares reduced ticket sales during the last quarter of 2009-10 by approximately \$9.2 million, before any increase in patronage due to the lower prices.

Cost of Vandalism

RailCorp is spending an increasing amount on the removal and repair of malicious damage, including graffiti, on RailCorp premises, such as trains and stations.

	Trend	2010	2009	2008	2007
Cost of vandalism (\$ million)	↑	55	48	35	23

Source: RailCorp (unaudited).

In 2009-10, RailCorp spent \$55.0 million as part of a new program under the Customer Charter to address previous backlogs of repair and removal of vandalism and graffiti. The amount spent in 2008-09 included a major window replacement program.

Other measures RailCorp has implemented to manage vandalism include:

- deployment of plain-clothed transit officers to graffiti-hotspots
- working closely with NSW Police through the Rail Vandalism Task Force (RVTF) to gather intelligence concerning the activities of vandals
- employment of cleaning staff roving on trains and located at maintenance centres so trains can be returned to service as quickly as possible.

Independent Commission Against Corruption Investigation - Operation Monto

I recommend the Chief Executive ensures the scope, terms of reference, timing and performance of the independent review by an external reviewer RailCorp has engaged, will provide sufficient assurance the ICAC's recommendations have been fully implemented.

From Operation Monto (November 2008), the ICAC made 40 recommendations, which focused on improving deficiencies in procurement processes, management, policies and procedures, and executive and board oversight.

RailCorp advises it has fully implemented 37 recommendations and has started implementing the remaining three, which it expects to have completed by March 2011. RailCorp's status in implementing the 40 recommendations at 30 September 2010 is shown below.

Focus of Recommendations	Number of Recommendations made	Implementation Status	
		Fully Implemented	Partly Implemented
1. Deficiencies in Procurement Processes	15	14	1
2. Management Deficiencies	11	10	1
3. Deficiencies in Policies and Procedures	9	9	0
4. Deficiencies in Executive and Board Oversight	5	4	1

Source: RailCorp (unaudited).

In 2010, RailCorp appointed an external firm to independently review RailCorp's progress reports, provided to the ICAC, to confirm they accurately reflect progress made in closing out ICAC's recommendations.

As an external independent reviewer has been engaged to review the implementation of these recommendations, I do not intend to proceed with what would be an equivalent review.

Independent Commission Against Corruption Investigation - Operation Chaucer

In September 2009, the ICAC completed Operation Chaucer, which investigated the alleged corrupt conduct of a RailCorp contractor. The investigation found that in return for a plan to solicit \$200,000 in corrupt payments over four years, the contractor improperly arranged for a contract to be awarded to a company for security guard auditing services.

The investigation identified inadequately trained staff as the major risk area that allowed the corrupt conduct to occur. The ICAC made five recommendations to help RailCorp address the systemic causes of corruption. The recommendations mainly focus on:

- procurement training for staff
- establishing access for tender evaluation committees to obtain advice on whether proper procedures are being followed
- implement a system of randomly auditing procurement approvals
- review the effectiveness of RailCorp's new procurement system.

RailCorp advised three of the recommendations have been implemented and two have been partly implemented. The final recommendations are expected to be fully implemented by March 2012.

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

RailCorp has conducted Fraud and Corruption Prevention training throughout the organisation. At 31 October 2010, a total 16,960 managers, employees, contractors and consultants had participated in this training through attendance at either employee briefings or targeted workshops. RailCorp was recognised for this work and won a State Transport & Logistics Industry Excellence Award in the Professional Development category for its outstanding work in the entity wide roll out of training in Fraud and Corruption Prevention, Detection and Reporting.

Shortage of Signal Engineers for Testing and Commissioning

RailCorp has implemented initiatives to address the shortage of signal engineers who can test and commission new infrastructure assets, but a shortage still remains. This has led to increased project costs and delays in commissioning projects, such as the Rail Clearways Program.

Over the last 12 months, RailCorp increased its commissioning engineers from 12 to 15 and advised it needs a further 11 commissioning engineers to meet its projected workload. RailCorp advised that 15 staff will cover immediate needs, but it will need to carefully prioritise work until more staff can be recruited.

Apart from recruiting locally and overseas, RailCorp is also exploring options through its Novo Rail Alliance to increase the pool of signalling commissioning expertise. In addition, RailCorp is involved in a range of reforms to train, develop and retain critical electrical and signalling engineers on an ongoing basis, as well as succession planning to identify potential successors and managers.

Rolling Stock Acquisitions and Replacement

Over the last five years, RailCorp has initiated a range of projects to improve and expand its rail fleet. Apart from the acquisition of 74 new Outer Suburban rail cars (Stage 3), all rolling stock acquisitions were late or ran behind schedule. The current acquisition program takes RailCorp as far as 2014. It meets the required capacity for the suburban network on the assumption that patronage demand increases by 1.5 per cent per annum.

	Original Target Date	Forecast Completion Date	Months late	Project Approval* \$m	Forecast Final Cost \$m	Number of cars delivered at 30 June 2010
14 new Hunter Valley rail cars	31/12/2005	10/09/2007 ¹	21	109.0	109.0	14
41 new Outer Suburban rail cars – Stage 1	31/12/2006	31/12/2009 ²	36	171.5	171.5	41
81 new Outer Suburban rail cars – Stage 2	30/06/2008	31/12/2009 ²	18	279.0	279.0 ³	81
74 new Outer Suburban rail cars – Stage 3	30/06/2012	30/06/2012	--	370.0	370.0	--
626 new carriages via Public Private Partnership	05/09/2013	30/06/2014	10	-- ⁴	-- ⁴	--

¹ Interim Practical Completion. Practical completion on all 7 sets was completed on 22 January 2010.

² Interim Practical Completion of remaining 2 cars. Practical completion of all 122 Stage 1 and Stage 2 Outer Suburban cars was achieved on 31 March 2010.

³ Increase also related to Stage 1.

⁴ See comments below on PPP.

*This reflects the most recent project approval costs. It does not represent the original budget costs.

Source: RailCorp (unaudited).

Hunter Valley Rail Cars

All 14 cars had commenced passenger services by September 2007. RailCorp advised that the project is largely complete, achieving practical completion on 22 January 2010.

Outer Suburban Rail Cars - Stage 1 and Stage 2

The last remaining spare Outer Suburban rail car was delivered on 17 December 2009. RailCorp advised that manufacturing and testing delays experienced by the contractor were the main reasons for the forecast completion date being 36 months behind the original scheduled date. All 41 cars achieved practical completion on 31 March 2010.

Eighty Stage 2 Outer Suburban rail cars had commenced passenger services by June 2009. The last remaining spare car was delivered on 17 December 2009. RailCorp reports that manufacturing and testing delays experienced by the contractor were the main reasons for the forecast completion date being 18 months behind the original scheduled date. All 81 cars achieved practical completion on 31 March 2010.

Outer Suburban Rail Cars - Stage 3

In March 2009, RailCorp signed a contract for the manufacture of another 72 new Outer Suburban cars at a total cost of \$370 million, including works for associated stabling facilities. RailCorp advised the project is proceeding to schedule and on budget. Practical completion should be achieved by June 2012.

During the course of the year, RailCorp ordered an additional two Outer Suburban cars, within the \$370 million budget. RailCorp advised the first four-car set achieved practical completion on 24 September 2010, five weeks ahead of schedule. The stabling works at Eveleigh were completed on schedule on 30 September 2010.

Acquisition of 626 new cars via Public Private Partnership

RailCorp entered into the Rolling Stock Public Private Partnership contract with Reliance Rail on 7 December 2006 to:

- finance, design, manufacture and commission 626 new double deck cars
- finance, design, construct, manufacture and commission a new maintenance facility for these trains in Auburn
- build new train simulators for training of RailCorp drivers and guards
- ensure 72 eight car trains are available for service every day over a period of about 30 years
- maintain the new trains, the maintenance facility and train simulators, to meet specified contractual performance standards, throughout their operational periods.

The 626 new cars will be progressively introduced into service after December 2010 and by April 2011, with all cars expected to be in operation by June 2014, seven to ten months late. Initially these new cars will operate on selected corridors, which have had their electrical infrastructure upgraded. Refer to the section 'Electrical Infrastructure' appearing later in this comment for more information.

Reliance Rail is investigating a faster manufacturing delivery rate to overcome the current seven to ten month delay. However, RailCorp advised it will not agree to a faster delivery rate until Reliance Rail can demonstrate it can deliver trains at a faster rate, without compromising safety and reliability testing.

No milestone payments were made to Reliance Rail in 2009-10. Milestone payments to date total \$31.0 million.

Total payments by RailCorp to Reliance Rail, including finance costs, over the period of the contracts are estimated to be \$9.7 billion in nominal dollars. The latest cost estimate is within the original approved budget. Estimated total cost over the term of the project, including contract costs, risks not transferred to the private sector, and ancillary RailCorp costs required for the delivery of the project, was \$3.6 billion (net present costs) at 30 June 2006. RailCorp advised that aside from shifts in cash flows to later in the project, there is no net change to the overall project budgeted cost.

RailCorp provides quarterly reports to the Minister for Transport, Transport NSW, The Treasury and Cabinet on the progress of this project, including Reliance Rail's deliverables and RailCorp's commitments against the planned program, budget and proposed material variations.

Capacity to meet future needs

There is a ten year funding guarantee associated with the Metropolitan Transport Plan for additional rolling stock to be procured for South West Rail Line and Western Express services.

RailCorp advised the additional rolling stock broadly meets expected demand over the ten year period, but there may be crowding issues before delivery of the Western Express rolling stock. There are also risks associated with potential demand growth exceeding 1.5 per cent, network-wide or in particular sectors.

Customer Service Improvement Program

RailCorp continues to implement customer service improvement recommendations made by the Boston Consulting Group. These improvements are embedded in RailCorp's 'Everyday Service Essentials Program'. Since commencement of the program and release of the Customer Charter, RailCorp advised it has seen continued improvement in customer satisfaction. At June 2010, RailCorp had implemented 24 of the 30 recommendations and anticipates implementing the remaining six initiatives by 2012-13.

CityRail's Customer Charter

In December 2008, the Minister for Transport launched CityRail's first Customer Charter. The Charter outlines specific goals for improving customer service over the next three years, along with short term benefits expected to be achieved over the next 12 months.

The Customer Charter aims to improve the quality and consistency of CityRail's day-to-day service in customers' basic needs. In 2010, the new charter included an additional service area called 'Accessible Services and Facilities'. The eight areas of customers' basic needs are:

- on-time trains
- manage crowding
- fast, accurate, useful information
- secure and safe travel
- clean trains and stations
- fast ticket sales
- quick and fair complaint handling
- accessible service and facilities.

RailCorp advised it has successfully delivered all 20 commitments in the 2009 Customer Charter. Delivery of the commitments in the 2010 Customer Charter is progressing as planned, with 11 out of 25 commitments delivered at 30 June 2010. The remaining commitments are due for delivery before 31 December 2010. Some of the commitments delivered during the year include:

- increasing the frequency of the Olympic Park to Lidcombe service from every 20 minutes to every 10 minutes in peak periods
- introducing 24-hour automatic passenger information screens and announcements on seven additional stations
- installing 10 new EFTPOS only touch screen ticket vending machines across the network
- introducing paper recycling to 100 stations across the network
- extending the expiry date of weekly tickets over public holiday weekends to reduce ticket queues on Tuesday mornings.

RailCorp was awarded the National Customer Charter award recently in the Australian Service Excellence Awards. CityRail's Customer Charter was recognised by Australia's peak customer service association and the criteria used to judge the awards are based on International Customer Service Standards.

For more information on this program, refer to www.cityrail.info/about/customer_charter.

New timetable

A new CityRail timetable was introduced on 10 October 2010, which RailCorp advises has delivered faster, more frequent services on the Eastern Suburbs and Illawarra lines, as well as service improvements on the South Coast line.

RailCorp advised the new timetable has provided benefits for customers including:

- additional peak, off peak and weekend services between Cronulla and Kirrawee travelling to or from the City
- additional evening peak services to Cronulla, Waterfall and Hurstville
- additional weekend services between Cronulla and Bondi Junction as well as Glenfield and the City via Granville
- increased seating capacity and improved comfort by replacing diesel trains with electric trains between Kiama and Wollongong
- improved weekend journey time for customer travelling between Kiama and Sydney
- extension of the weekend South Coast intercity services through to Bondi Junction, while providing direct access to stations like Town Hall and Bondi Junction, without the need to change trains
- improved late night services from the City to the South Coast.

The new timetable provided 42 additional weekday services and 52 weekend services for customers at stations between Cronulla and Kirrawee. It is designed to take advantage of the increased capacity now available on the Cronulla branch line as a result of RailCorp's recent \$436 million investment in new infrastructure to improve services on the Eastern Suburbs, Illawarra and South Coast Lines.

Overtime

Overtime payments by RailCorp continue to represent a significant employee expense in 2009-10, amounting to \$128 million (\$126 million), 11.3 per cent (12.0 per cent) of base salary and wages expense for the year. On average, RailCorp employees, who were paid overtime, received \$10,352 in payments in 2009-10 (\$10,439). Just over 78.0 per cent (79.7 per cent) of RailCorp's employees received a payment for working overtime during the year.

A total of 413 employees (366 employees) were paid 50 per cent or more of their annual salary in overtime. The table below shows the number of employees who were paid overtime, split by overtime paid as a percentage of annual salary.

Year ended 30 June	2010		2009	
Overtime paid as a percentage of annual salary	Number of employees	Overtime paid \$'000	Number of employees	Overtime paid \$'000
90 - 100	--	--	4	232
80 - 89	11	454	5	258
70 - 79	23	909	27	1,053
60 - 69	95	3,555	89	3,249
50 - 59	284	8,972	241	7,739
40 - 49	713	18,349	651	16,755
30 - 39	1,268	25,418	1,394	27,040
20 - 29	2,325	32,504	2,398	33,159
10 - 19	3,136	26,480	3,114	26,391
>0 - 9	4,471	10,961	4,159	10,251
Nil overtime	3,431	--	3,078	--
Total	15,757*	127,602**	15,160*	126,127**

* Number of employees includes all staff who received payments processed through the payroll system during the year. It does not represent the RailCorp headcount at 30 June.

** Overtime paid represents the total overtime paid to employees during the year. It does not equal the overtime expense recorded in the financial statements due to the effects of accrual accounting. The overtime expense per the financial statements was \$130 million in 2010 (\$128 million).

The top 10 overtime earners in 2010, based on overtime paid as a percentage of their annual salary, have been included in the table below. The 2009 comparatives for these same employees are also shown below:

Employee	2010			2009		
	Percentage of Overtime to salary	Annual Salary* \$	Overtime \$	Percentage of Overtime to salary	Annual Salary \$	Overtime \$
A	87.9	41,819	36,748	76.5	41,819	31,970
B	86.1	56,595	48,723	63.3	56,595	35,815
C	84.9	56,595	48,046	30.8	56,595	17,446
D	84.6	41,869	35,434	73.7	41,869	30,889
E	83.8	48,822	40,900	80.0	48,822	39,072
F	82.5	50,561	41,725	77.8	50,561	39,318
G	82.1	56,595	46,468	67.7	56,595	38,336
H	81.5	41,819	34,085	73.4	41,819	30,677
I	81.5	47,595	38,778	54.0	47,595	25,698
J	80.3	55,053	44,214	82.7	55,053	45,529

* No change in annual salary from the prior year. EBA salary increases were not finalised at 30 June 2010.

The highest overtime paid to an employee was \$59,492 in 2009-10 (\$66,847).

Overtime management strategies implemented by RailCorp in 2009-10 have reduced overtime paid as a percentage of base salary and wages expense despite staff numbers and wage rates increasing over this time. However, overtime is still a significant area of controllable expenditure that needs more effective management by RailCorp.

RailCorp has advised the following initiatives were implemented to help achieve further reductions in overtime:

- better control over overtime approval
- greater accountability for budgets
- active management of workers compensation cases
- introduction of new rostering software application to increase efficiency and accountability
- requiring managers to attend training course structured to assist them manage attendance effectively
- improved relief arrangements
- review of rostering procedures
- station staff reform.

PERFORMANCE INFORMATION

Performance Reporting

I recommend RailCorp continues to liaise with benchmarking organisations, to derive industry averages that do not jeopardise the confidentiality of benchmarking participants, so it can publicly report its performance against industry averages.

RailCorp's external performance reporting is primarily against internal targets and measures. Last year, I recommended RailCorp develop a practice of comparing and reporting its performance against national and international benchmarks to help drive efficiency that leads to performance improvements.

I understand, that in 2009-10, RailCorp continued to evaluate its performance against domestic and overseas metro systems through benchmarking organisations, such as the Australasian Railways Association (National) and CoMET/Nova (International). Under current confidentiality agreements held with these organisations, RailCorp advised it cannot publicly report against the benchmarks, unless it obtains permission from the other participating operators to release the data publicly. The strict confidentiality requirements are designed to protect governance and commercial sensitivities of all members. Whilst unable to publicly disclose the results, RailCorp advises that some measures from the benchmarking exercises have been incorporated into its internal performance measures and targets.

Fleet Failures

This year, electric fleet failures impacting on peak period services decreased from an average of 44.6 to 42.0 incidents per month (i.e. on average 2.6 per cent of all carriages will suffer a failure during peak period services per month).

The table below provides an analysis of fleet reported faults for each train type monitored on a 24 hours basis.

Train Type**	No. of Carriages at 30 June 2010	Average Age (Years)	Average Monthly Carriage Reported Faults				
			Trend	Actual 2010	Rate* 2010 %	Rate* 2009 %	Rate* 2008 %
'R, S, L' Sets	496***	33.0	~	93	19	20	19
'K' Sets	160	27.0	↑	30	19	16	16
'V' Sets	224	25.4	↑	81	36	32	31
'C' Sets	56	23.4	↑	18	32	32	29
Tangara - 'T' Sets	393	18.8	~	95	24	23	25
Tangara - 'G' Sets	52	15.4	~	13	24	25	20
Millennium - 'M' Sets	141	6.6	↓	28	20	23	24
OSCAR - 'H' Sets	122	2.2	~	25	21	18	19
Total electric fleet	1,644	23.0	~	382	23	23	23

* Rates are measured as a percentage of total electric fleet.

** See www.cityrail.info for more information.

*** Carriages in revenue service.

na not applicable.

Key: ↑ Trend upwards, ↓ Trend downwards, ~ No trend.

Source: RailCorp (unaudited).

In 2009-10, 23.0 per cent of all carriages had a reported fault every month on average on a 24 hour basis. In 2009-10, the train sets 'K', 'V', 'T' and 'H' experienced more reported faults than the previous year.

At 30 September 2010, 84.0 per cent (84.0 per cent) of RailCorp's electric fleet was more than ten years old, 63.0 per cent (63.0 per cent) more than 20 years old, and 31.0 per cent (31.0 per cent) more than 30 years old. Typically, new trains will experience teething problems that impact reliability, for the first few years of operation. This is usually followed by long periods of relative stability with much higher levels of reliability, which decline during the final phase of the train's life, as levels of reliability progressively fall.

To reduce fleet failure rate in the shorter term, RailCorp is continuing its fleet reliability program, which includes replacing door motors and other initiatives, mentioned later in this comment. In the longer term, RailCorp is continuing its rolling stock replacement program.

Fleet Maintenance

Maintenance expenditure on the electric fleet during the year exceeded the budget of \$282 million by \$23.2 million, while expenditure on the diesel fleet was \$3.5 million below the budget of \$65.4 million.

Fleet type	2010			2009		
	Actual \$m	Budget \$m	Variance \$m	Actual \$m	Budget \$m	Variance \$m
Electric Fleet	305.2	282.0	23.2	260.4	246.8	13.6
Diesel Fleet	61.9	65.4	(3.5)	59.5	55.6	3.9

The electric fleet maintenance expenditure was over budget mainly due to the performance of additional customer service tasks, such as vestibule painting and glass replacement. At present, RailCorp does not have data which splits maintenance costs by train set type. However, RailCorp advised that through its maintenance reform program, it will establish standard maintenance times for all inspections and associated work orders, and have maintenance costing data by individual car from December 2011.

At 30 June 2010, 15 cars' (63 cars') scheduled component change-outs were overdue, 48 less than the previous year. On average, the 15 cars are overdue by 48 days, with the longest overdue period being 123 days. RailCorp advised the backlog of component change-out does not affect the safety and reliability of the fleet and it believes it will clear the backlog before the target date of March 2011. The cost of backlog fleet maintenance is around \$4.5 million (\$18.9 million).

RailCorp advised about 23.0 per cent (24.0 per cent) of incidents causing delays in peak periods are attributable to train failures. RailCorp implemented the following initiatives to reduce failures:

- the Six Sigma program to improve the operation of Tangara passenger doors, Double Deck Suburban traction motors and Intercity (V Set) doors
- the replacement program for Tangara passenger doors
- projects to modify or change brake levers (now 100 per cent complete)
- projects to replace Train Radio Handsets and PA reliability (now complete).

Infrastructure Assets Maintenance

RailCorp advised the safety and reliability performance of its infrastructure has improved significantly over recent years. This is reflected by a downward trend in the average number of monthly peak incidents attributable to infrastructure from 26.3 in 2005-06 to 18.2 in 2009-10. The average number of delays per month also decreased from 195 in 2005-06 to 96.8 in 2009-10.

Year ended 30 June	Trend	2010	2009	2008	2007	2006
Number of incidents (Monthly Average)	↓	18.2	19.2	22.8	24.6	26.3
Number of delays (Monthly Average)	--	96.8	87.7	136.3	152.5	194.6

Key: ↓ Trend downwards, - No trend.

Source: RailCorp (unaudited).

RailCorp advised that around 18.2 per cent (19.2 per cent) of incidents causing delays in peak period are due to infrastructure failures, of which 57.0 per cent (58.0 per cent) of these are signalling failures.

The 'Financial Gap' indicator is the difference between the actual funding level on the assets and the estimated 'steady state' funding level. RailCorp advised the estimated financial gap for infrastructure assets at 30 June 2010 was \$27.0 million (\$29.5 million), and that, subject to funding, it will progressively eliminate this gap. Furthermore, the maintenance backlog will also reduce through renewal activities planned as part of RailCorp's capital works program.

Reliability Indicators

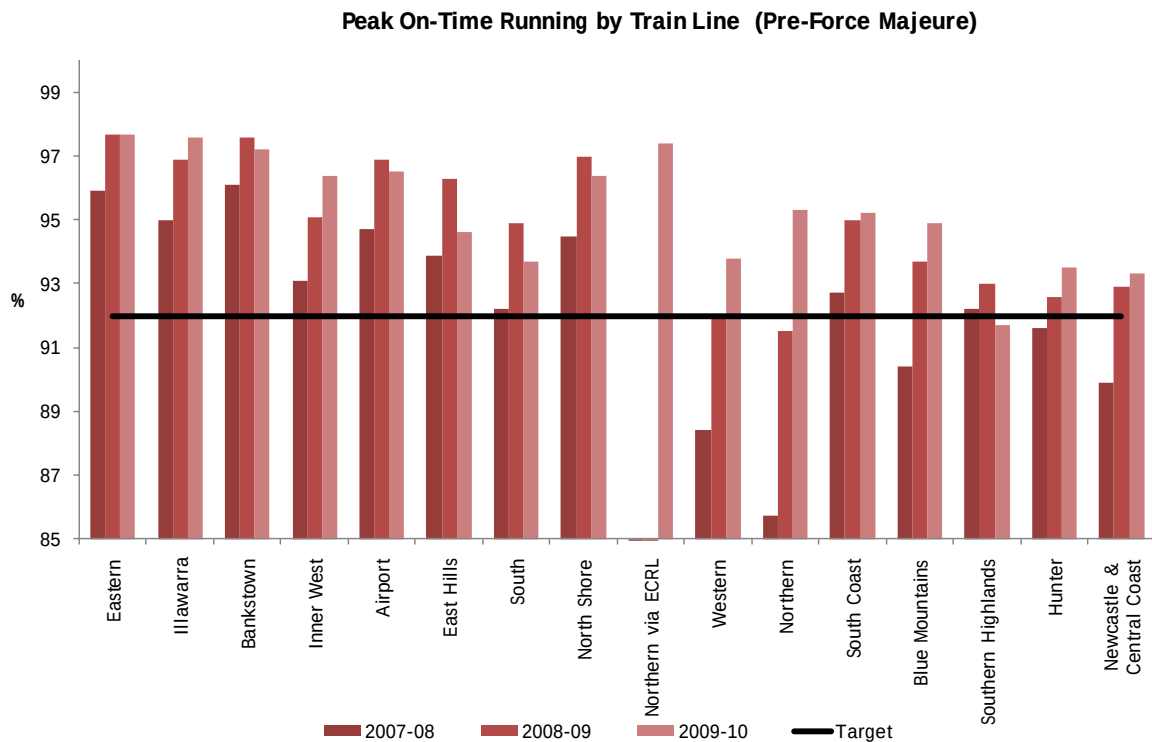
CityRail's on-time running performance during the year exceeded the target of 92.0 per cent, with a record 95.9 per cent of peak services arriving at their destination on-time.

While CountryLink on-time running performance has improved significantly since 2007-08, it did not meet the target of 78.0 per cent. The last time CountryLink met its on-time running performance target was during 2002-03, when 79.3 per cent of services ran on-time. External factors beyond its control and outside the RailCorp network include track possessions by the Australian Rail Track Corporation (ARTC), speed restrictions and natural disasters such as bush fires and floods.

Year Ended 30 June	Target	Actual*		
	2010	2010	2009	2008
Percentage On-time Running				
CityRail – suburban	92.0	96.1	95.6	93.0
CityRail – intercity	92.0	94.3	93.7	90.8
CityRail – total	92.0	95.9	95.4	92.7
CountryLink	78.0	74.7	76.6	70.5

* Before adjustment for force majeure.
Source: RailCorp (unaudited).

All lines on the CityRail network met or exceeded the target of 92.0 per cent, with the exception of the Southern Highlands line which achieved 91.7 per cent on time running. A majority of lines improved on-time running performance this year. The on-time running by line over the last three years is shown in the table below.



Source: RailCorp (unaudited).

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 related issues, passenger and freight incidents, crowding in the centre carriages, and station dwell times.

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.

Force majeure refers to incidents that are beyond the control of either CityRail or customers. They come into effect when a single external event impacts on ten or more peak services, including those services which do not reach their final destination, for example cancelled services.

Causes for cancellations of peak services are similar to those for on-time running. Trains may skip one or more scheduled stations to support on-time running. The target for cancellation of peak services and skipped stops has been reduced from one per cent to 0.5 per cent from 1 January 2010. Performance indicators in 2009-10 for both cancellation of peak services and skipped stops were 0.3 per cent, which compare favourably to the target.

Safety Performance

RailCorp's key safety performance indicator, the Safety Incident Index, has trended favourably for most of the last 12 months. Within this measure there were 49 (63) defined safety incidents in 2009-10. RailCorp has implemented a number of initiatives to reduce the number of incidents.

Year Ended 30 June	Target*	Actual		
	2010	2010	2009	2008
Safety Incident Index (total number of defined safety incidents per million passenger journeys) based on 12 month rolling average	0.181	0.162	0.207	0.159

* This is the progressive target based on the target of 0.175 for 2010-11.
Source: RailCorp (unaudited).

Capital Expenditure Program

Asset replacement and provision for growth through its capital expenditure program is a key focus for RailCorp in improving its safety and reliability performance. Total expenditure of \$1,043 million was 42.0 per cent higher than 2008-09, reflecting improved program and project management. Capital expenditure was 7.6 per cent below budget largely due to delays in some key projects and the timing of required expenditure. RailCorp's capital spend for the year is shown in the table below.

Year ended 30 June	2010		
	Actual \$m	Budget* \$m	Below/(Over) \$m
Rail Clearways project	388.1	350.0	(38.1)
Waratah rolling stock - enabling and ancillary works	84.2	117.3	33.1
Traction supply upgrade	60.4	71.0	10.6
Easy access	26.3	27.9	1.6
South Sydney Freight Line	10.1	15.0	4.9
Digital train radio	21.7	28.5	6.8
Business Finance Improvement	8.9	13.5	4.6
Critical and vital infrastructure	12.0	15.2	3.2
Operational critical data network	12.1	11.6	(0.5)
Stations commuter car parking	16.2	23.1	6.9
Heritage	10.4	10.6	0.2
Outer Suburban cars Stages 1 & 2	10.4	10.2	(0.2)
Outer Suburban cars Stage 3	125.2	125.0	(0.2)
All other capital projects	256.6	309.3	52.7
Total Capital Expenditure	1,042.6	1,128.2	85.6
Capitalised maintenance works	209.9	160.0	(49.9)
PPP lease - Auburn Maintenance facility	219.3	219.3	--
Total Capital Investment	1,471.8	1,507.5	35.7

* Revised budget.

Source: RailCorp (unaudited).

RailCorp advised additional works was the main reason for spending \$38.1 million more than budget on the Rail Clearways project. The additional works were carried out on the Kingsgrove-Revesby amplification, Quakers Hill-Schofields duplication and Homebush Turnback. The Transport Infrastructure Development Corporation, now known as the Transport Construction Authority, is responsible for delivering this project. Further information on the Rail Clearways Program can be found later in this comment.

The Waratah rolling stock - enabling and ancillary works were \$33.1 million below budget. The underspend in 2009-10 is attributable to milestone payment claims not being made during the year, a slower ramp up in project management cost, information technology costs and enabling works expenditure.

Deferred lead time in equipment expenditure, delays in awarding contracts and lack of resources (mainly design) in various substation projects was the main reason for the traction supply upgrade being \$10.6 million below budget for the year. The lower than budgeted spend on the Digital Train Radio was largely due to substantial changes in terms and conditions of scheduled payments.

The \$52.7 million underspend on 'All other capital projects' relates to a large range of projects. Major underspends include \$23.2 million on Business Communication and Technology Upgrades; \$14.2 million on Station Precinct upgrades; and \$13.5 million on non-operational assets.

Customer Feedback

The total number of complaints made in 2009-10 increased by 23.9 per cent or 5,084 to 26,318. The table below shows that complaints about cleanliness, security, internal matters and claims related complaints fell in 2009-10. All other complaints by KPI increased in 2009-10. Compliments increased by 12.7 per cent on the prior year.

Complaints by KPI	2010	2009 ¹	Favourable/ (Unfavourable)	Favourable/ (Unfavourable) (%)
Service	4,205	3,212	(993)	(30.9)
Staff	3,676	3,459	(217)	(6.3)
On-time running	2,959	2,501	(458)	(18.3)
Ticketing	2,847	2,211	(636)	(28.8)
Information	2,330	1,549	(781)	(50.4)
Timetable	2,153	551	(1,602)	(290.7)
Facilities	1,819	1,756	(63)	(3.6)
Environment	1,759	1,278	(481)	(37.6)
Cleanliness	1,440	1,580	140	8.9
Security	1,376	1,428	52	3.6
Safety	1,194	1,076	(118)	(11.0)
Internal matters	426	439	13	3.0
Claim	134	194	60	30.9
Total Complaints	26,318	21,234	(5,084)	(23.9)
Total Compliments	2,449	2,173	276	12.7

¹Data has been reclassified due to improvements in the categorisation of complaints by KPI.

Source: RailCorp (unaudited).

Complaints about service replaced complaints about staff as the major area of complaint, representing 16.0 per cent of all complaints during 2009-10. Service complaints relate to comfort and convenience of trains and stations, which include levels of crowding and lack of air conditioning. The increase in service complaints primarily related to temperature levels on train services. RailCorp advised the progressive replacement of non-air conditioned rolling stock will reduce this complaint.

Timetable complaints increased significantly, by 290.7 per cent to 2,153 (551) complaints. RailCorp advised the increase is largely due to feedback received from customers who were consulted on the proposed 2009 timetable, as well as complaints about the timetable, following its introduction. An increase in customer complaints was anticipated as the new timetable changed some customers' established travel patterns.

As part of the Customer Charter - 'quick and fair complaints handling', RailCorp has set itself a target of resolving phone and email customer complaints within five working days. For 2009-10, 91.8 per cent of all feedback lodged via web channels were resolved and closed within the target of five working days, while 96.6 per cent of feedback lodged by phone was resolved and closed within the specified period.

RailCorp has introduced a 'meet the manager' program across the network. The events provide customers with an opportunity to directly discuss their issues and feedback with management.

OTHER INFORMATION

Property Leases

At 30 June 2010, RailCorp was the landlord for over 1,000 property leases, of which, 685 (or 68.0 per cent) had expired. About 285 of the expired leases relate to sites being used for either retail, commercial or industrial sites and generate some \$9.4 million of revenue each year. The remaining expired leases relate to sites of low value or limited alternative use. These sites are generally leased to community and government organisations who occupy adjoining properties.

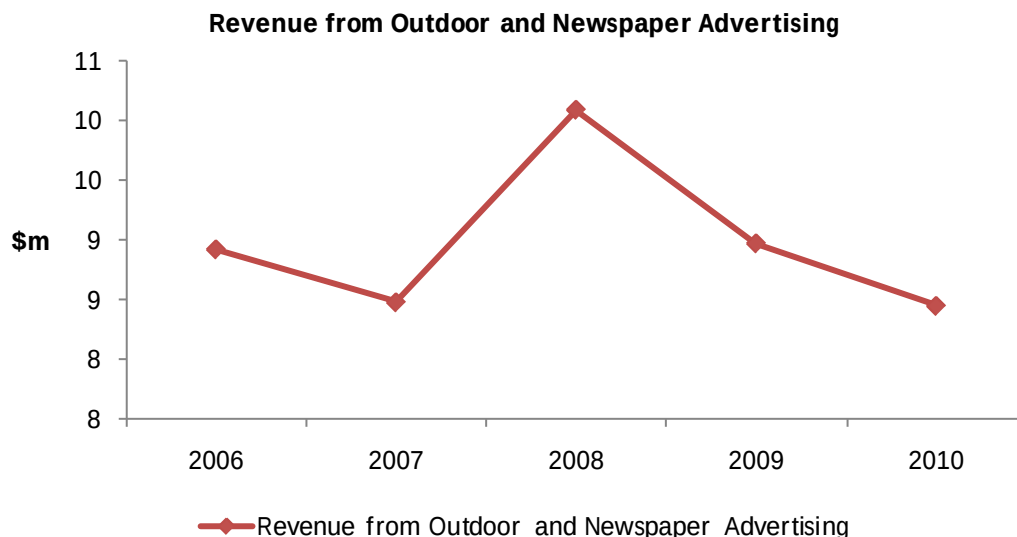
RailCorp engaged its property managing agent to undertake a comprehensive review of its expired leases. The 31 October 2010 review concluded that 102 (15.0 per cent) lease renewals of the total 691 leases (39.0 per cent of the total rental value) had minimal changes made to the existing rents. The review was performed on higher rent leases. The review has not identified instances of tenants being charged below market rates.

RailCorp advised that 378 expired leases of the 589 holdover leases do not require significant lease renewals. A further 85 Telecommunication lease renewals, the rentals for which are influenced by IPART guidelines, will be reviewed and completed by June 2011. The remaining 126 expired leases are being progressively reviewed.

RailCorp advised that whilst some of the leases expired as far back as the 1990's, the leases do contain annual holdover clauses. The holdover clauses include an annual adjustment (usually three per cent) to the rental charge.

Advertising Revenue

RailCorp's advertising revenue consists of the revenue earned from outdoor advertising in the Sydney Metropolitan area and licence for exclusivity in the distribution of the MX newspaper. RailCorp assets used for outdoor advertising include rail billboards, ad shells and painted sign portfolio.



Note: No revenue from Newspaper advertising in 2006 as the newspaper commenced in 2007.
Source: Advertising revenue provided by RailCorp (Unaudited)

Outdoor advertising revenue decreased by 6.0 per cent (11.0 per cent) compared to the prior year to \$8.5 million (\$9.0 million). RailCorp advised advertising revenue decreased mainly due to the removal of some assets from RailCorp corridors, as part of its safety and compliance initiative. RailCorp will coordinate with Transport NSW to improve its advertising strategy and renegotiate the contract to drive increased revenue.

Contractors (Repeat Issue)

I recommend RailCorp improve its contractor register and continue to periodically review the roles and responsibilities of all its contractors to ensure:

- its reliance on contractors is not excessive
- using contractors instead of permanent employees is appropriate
- contractors do not become de facto employees by virtue of being with RailCorp for an extended period of time
- using a contractor continues to represent good value for money.

RailCorp's use of contract staff has decreased from around 690 contractors at 31 October 2009 to around 590 at 30 June 2010. Over 45.0 per cent of the total contractors at 30 June 2010 have been engaged by RailCorp for more than twelve months and four staff have been contracted for more than six years. RailCorp advised it spent \$110 million on contractor staff during 2009-10.

Contractors are employed by RailCorp in a range of business units filling vacant positions, working on projects or completing short term work assignments. While RailCorp implemented a centralised contractor's register in the prior year, the information contained in the register is still not complete. To be effective the register needs to be updated in a timely and consistent manner and be modified to include other important information, such as contractor costs. Management advised the register is continually being updated.

RailCorp records show over 170 contractors cost RailCorp at least \$1,000 each per day. These contractors should be subject to continuing review to ensure they represent value for money.

While the use of contractors has benefits, particularly on projects, extensive reliance on this employment arrangement can result in higher employment costs and less ownership and commitment to organisational goals and objectives.

Station Staff Reform

RailCorp completed its station staff reform program during the year. As a result, the number of established positions on stations has reduced by 161 although actual staff numbers increased by around 140, more than the number employed before the reform. Since the prior year, station overtime hours have reduced by approximately 20.0 per cent. Management has advised there was no loss of employment as a result of staff reviews. At October 2010, 70 displaced employees had yet to be placed.

During 2009-10, the program resulted in savings of approximately \$14.0 million. RailCorp advised it is on target to achieve estimated savings of \$20.0 million per annum.

The station staff reform program was part of the 2008 RailCorp Union Collective Agreement. The program looked at identifying appropriate station staffing levels that would result in a balance between the requirements of safety, customer service and efficiency.

Electrical Infrastructure

The Traction Supply Upgrade (TSU) Waratah Program was initiated to deliver critical electrical infrastructure to support the 626 new, air conditioned, Waratah trains. The Waratah trains, which will replace 496 in service non-air conditioned 'R, S, L' sets, will have significantly better acceleration characteristics, but will require more power to operate effectively. Other reasons for the upgrade include the increasing number of trains with eight car sets, new infrastructure associated with the Clearways program and proposed new timetables to increase capacity.

RailCorp estimates it will need to spend \$870 million over eight years to upgrade its electrical infrastructure assets so it can operate future Waratah services without compromising reliability. Total expenditure to date is \$92.9 million (\$37.2 million).

While RailCorp has identified this upgrade program as high risk because of the short timeframes and resource constraints, it is confident the scheduled introduction of the new Waratah cars will not be affected. If critical upgrades are not completed before the scheduled introduction of the Waratah cars, RailCorp will use strategies to maintain service reliability, which could include revised operating procedures for the Waratah trains and electricity substations.

Commuter Car Parking Program (CCPP)

RailCorp is managing the construction of three commuter car parks under stage one of the CCPP. The CCPP is made up of 29 commuter car parks, most of which are being delivered by TIDC. The CCPP will deliver around 7,000 new car spaces for rail commuters.

Details of the three car parks RailCorp is managing are listed in the table below.

Location		Original completion date	Current forecast completion date	Original Budget (\$m)	Forecast (\$m)
1	Holsworthy	Dec-09	Dec-09	15.5	13.1
2	Morisset	Dec-09	Aug-10	4.5	4.9
3	Windsor	Jan-10	Mar-10	8.2	6.6
Total budget				28.2	24.6

Source: RailCorp (unaudited).

Holsworthy achieved practical completion within budget and delivery timeframes. Windsor car park experienced minor delays. Completion of Morisset car park was delayed as the original contractor was removed part way through the project, which also increased costs.

Information technology projects

RailCorp's capital works program at 30 June 2010 included several information technology projects. The details of the top ten projects, whose revised budget is at least \$5.0 million, are listed in the table below.

	Original Target Date	Forecast Completion Date	Months Late	Original Budget \$m	Forecast Final Cost \$m	Variation \$m
Ellipse Upgrade	May 2008	June 2010	25	4.9	5.4	0.5
Enterprise Content Management Technology Solution Implementation	April 2009	May 2009	1	4.9	5.7	0.8
Virtual Plan Room - Stage 2&3	April 2010	Dec 2012	20	5.8	7.9	2.1
Central Station Emergency Warning & Preliminary Intercommunications system	June 2011	June 2013	24	8.4	11.3	2.9
Station Passenger Information Rollout	June 2010	June 2012	24	8.7	18.4	9.7
Business Finance Improvement Build and Implementation	April 2011	June 2011	2	9.7	19.4	9.7
Timetable Distribution Management System Stage 2*	Dec 2009	June 2010	4	10.6	9.3	(1.3)
Procurement Transformation	July 2009	Jan 2010	7	20.4	35.1	14.7
Expansion & Support for the Automatic Ticketing Machine 08/09 - 10/11	June 2013	June 2013	--	21.4	27.4	6.0
Common Telemetry Infrastructure Program	Sept 2013	Sept 2013	--	22.7	19.0	(3.7)
Total Major ICT Projects				117.5	158.9	41.4

* This project was terminated in 2009-10.
Source: RailCorp (unaudited).

The cost of the Station Passenger Information Rollout Project increased \$9.7 million above its original budget. This is attributed to an extension in the scope of the project as further stations have been included in the Improvement Rollout process. This has also resulted in a 24 month delay in completing the project.

The Procurement Transformation project has a revised forecast final cost of \$14.7 million above its original budget. A reassessment of the project identified it was more complex and costly than initially budgeted.

An additional \$6.4 million is required for the Expansion and Support for the Automatic Ticketing Machine project. This was implemented pending introduction of the new Electronic Ticketing System and involves replacing 466 electric gate motors to ensure the long term performance and reliability of the ticketing gates.

The Ellipse project was completed in June 2010, 25 months behind schedule, because further work was required to implement the employee self service module within Ellipse and to ensure it met all RailCorp's business requirements.

The Central Station project has been delayed by 24 months. This is primarily due to the increased number of audio zones, which has also resulted in additional costs of \$2.9 million.

The 20 month delay in the virtual plan room is due to RailCorp being unable to negotiate a contract with the preferred tenderer for seven months. The remainder of the delay is attributable to a revised project scope.

Independent Pricing and Regulatory Tribunal (IPART) Review of CityRail's fares

In December 2008, IPART put in place a determination, setting fares for CityRail services for the period 4 January 2009 to 31 December 2012. In December 2009, IPART released a CityRail 'Prices and Services' report which set out fares from 3 January 2010 under the four year determination. An average increase of 4.7 per cent was determined, which was 2.8 per cent lower than last year's fare increase of 7.5 per cent.

In February 2010, the New South Wales Government announced a new fare structure for public transport in the greater Sydney area called MyZone. As a result, on 1 April 2010, the New South Wales Government amended the IPART (Passenger Train Services) Order 1998 to implement a limited range of MyZone fares that might otherwise be subject to an IPART pricing determination.

The amended Order has temporary effect and removes IPART's responsibility for setting maximum prices for these fares. Under this Order, IPART may not determine these fares before April 2011. Maximum prices for CityRail fares, not specified by the amendment, continue to be regulated by the current IPART determination.

Further information on the price determination can be found at www.ipart.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. This in turn will improve capacity and reliability on the CityRail network. The program involves 13 key projects (previously 15 key projects before the 2008 Mini Budget) to build additional platforms, turnbacks and train crossing loops. At 30 June 2010, eight Rail Clearways projects had been completed.

The revised Rail Clearways program is expected to be completed by 2015, some five years after the original completion date.

The Government has approved additional expenditure, which increases the previous budget of \$1.89 billion to \$2.02 billion.

For further information on the Rail Clearways Program, refer to the comments on TIDC in this volume.

Epping to Chatswood Rail Line (ECRL)

The ECRL was handed to RailCorp on 19 December 2008 and passenger services commenced on 23 February 2009. At 30 June 2010, the final forecast cost for the ECRL remained unchanged at \$2.3 billion (excluding interest costs on borrowings). It is anticipated that further minor rectifications works, currently underway, will be completed within the final forecast cost.

The ECRL project was fully integrated into the CityRail network following the introduction of the new timetable in October 2009. Its integration has increased the overall network capacity by allowing additional services on the Western line.

ECRL's integration into the network provides a new link to parts of Sydney which were previously not accessible by rail. Recent patronage counts in May 2010 indicate approximately 11,500 passengers use the ECRL stations each day.

For further information on the ECRL, refer to the comments on TIDC in this volume.

Enterprise Agreement 2010

The Rail Corporation New South Wales Union Collective Agreement 2008 expired on 31 March 2010. Negotiations with the Combined Rail Unions for the new RailCorp Enterprise Agreement 2010, which commenced on 11 February 2010, have been completed.

Under the new Agreement employees will receive an initial 4.0 per cent increase, back dated to 1 April 2010, and annual increases of 3.5 per cent each April for the years 2011-2013.

The Agreement will expire on 31 March 2014, but will have effect until the next agreement is finalised.

Workforce Ageing

I recommend RailCorp continue to develop and implement effective policies to manage its ageing workforce.

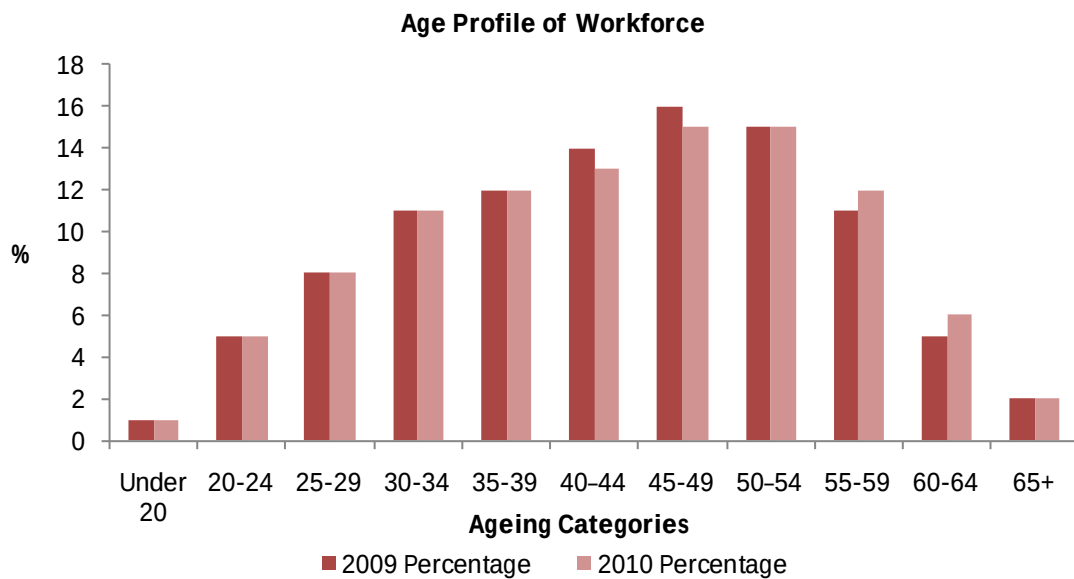
Twenty per cent of RailCorp's employees are over 55 years of age and 35.0 per cent are over 50. This represents a significant proportion of RailCorp employees, who are likely to retire in the next 5 to 15 years, potentially resulting in a significant loss of rail specific knowledge and skills.

The age profile of RailCorp employees is shown below:

At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
Up to 35	3,760	25	3,549	25
35 - 39	1,831	12	1,780	12
40 - 44	2,000	13	1,958	14
45 - 49	2,305	15	2,354	16
50 - 54	2,253	15	2,118	15
55 - 59	1,670	12	1,603	11
60 - 64	864	6	740	5
65+	305	2	278	2
Total	14,988	100	14,380	100

Source: RailCorp (Unaudited).

The graph below further demonstrates the age structure of RailCorp employees.



Source: Information provided by RailCorp (Unaudited).

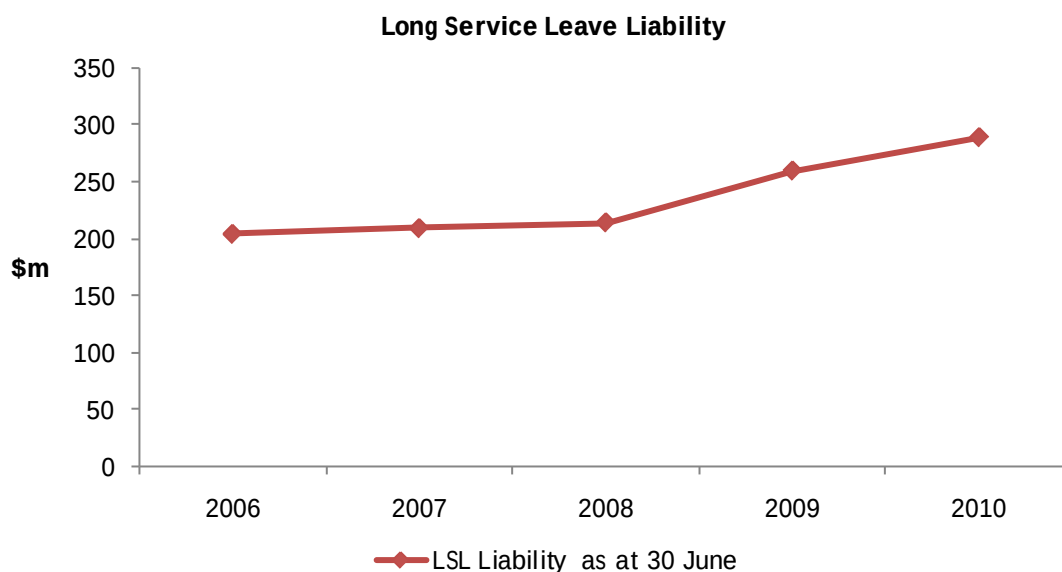
To ensure an adequate supply of staff, including drivers and guards, RailCorp should actively monitor its workforce age profile and have strategies in place to develop, attract and retain staff whose skills are aligned to the strategic direction of the entity.

In response to this risk, RailCorp advised it has implemented the 'Our Future Workforce Program' and the 'Build Knowledge and Skills Program' with the objective of attracting, developing and retaining suitable numbers of people at the right levels with the right operational, technical and soft skills to meet current and future requirements.

Long Service Leave Liability

RailCorp's liability for long service leave entitlements at 30 June 2010 was \$287 million (\$259 million). This liability has increased by 41.0 per cent over the last five years.

The growth in the long service leave entitlement is illustrated in the graph below.



Source: RailCorp Audited Financial Statements.

The increase in liability from 2009 to 2010 is attributed to growth in employee entitlements, the impact of a lower Government bond rate to discount the liability to present value, and an increase in the actuarial assessment of the 'cash-out' rate.

RailCorp advised that all employee entitlements arising since creation of the entity in 2003-04, are fully funded by The Treasury on a cash basis. RailCorp has been discussing the funding of the employee entitlements vested to it from the former State Rail Authority and Rail Infrastructure Corporation in 2003-04 with The Treasury.

RailCorp will need to monitor its future cash flows to ensure it has an adequate plan to fund these liabilities as they emerge. The funding requirements will be compounded as other liabilities arise from the pending retirement of a large proportion of its ageing workforce.

Annual Leave Balances (Repeat Issue)

I recommend RailCorp continue to review the effectiveness of its policies and procedures for managing excessive annual leave balances.

RailCorp continues to experience difficulties reducing excessive annual leave balances. The number of employees with accrued annual leave balances in excess of 40 days (non shift workers) or 50 days (shift workers) has increased from over 930 at 30 June 2009 to over 1,050 at 30 June 2010. This represents 7.0 per cent (6.5 per cent) of all employees. At 30 June 2010, the number of employees with accrued annual leave balances in excess of 100 days has also increased to 16 employees (13 employees).

The results indicate actions taken have not been effective in reducing excessive annual leave balances.

RailCorp advised it introduced new initiatives to help manage excessive annual leave more effectively. A new leave procedure became effective on 1 September 2010 and changes have been proposed to the new Enterprise Agreement requiring employees to reduce excessive annual leave within twelve months. The Human Resources Group is continuing to adopt a more proactive approach to ensure business groups are complying with RailCorp policies and the conditions of the employment award.

Excess leave entitlements can adversely affect an organisation. Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

FINANCIAL INFORMATION

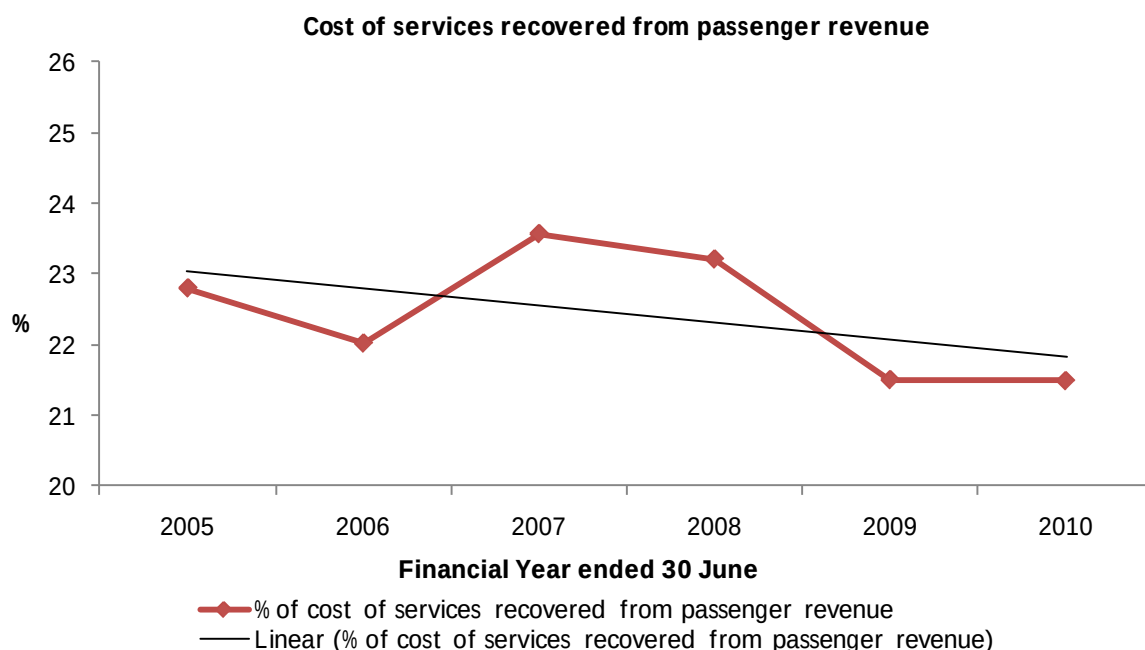
Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Government reimbursement for services and concessions	1,605,406	1,465,905
Capital and other Government contributions	711,170	932,880
Passenger revenue	693,278	660,814
Other revenue	270,747	277,232
TOTAL REVENUE	3,280,601	3,336,831
Employee related	1,377,073	1,308,774
Depreciation	761,386	703,262
Other expenses	1,087,436	1,060,637
TOTAL EXPENSES	3,225,895	3,072,673
SURPLUS	54,706	264,158
OTHER COMPREHENSIVE INCOME:		
Net loss in forward foreign exchange	(1,719)	(10,082)
Net gain/(loss) in commodity swaps	3,265	(11,966)
Revaluation increase/(decrease) of Property Plant and Equipment	(86)	165,627
Superannuation actuarial losses on defined benefit schemes	(89,252)	(278,411)
TOTAL OTHER COMPREHENSIVE EXPENSE	(87,792)	(134,832)
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	(33,086)	129,326

The increase in passenger revenue was due to increased CityRail fares, partly offset by a drop in patronage over the year and the implementation of the MyZone fare structure in April 2010. The average increase in fares effective from 3 January 2010 was 4.7 per cent, whilst the number of passenger journeys on CityRail services decreased by 0.8 per cent from the prior year.

The increase in employee related expenses was mainly due to increases in rates of pay and staff numbers. The increase in depreciation expense was primarily due to RailCorp revaluing its assets as at 30 June 2009 and the first full year of depreciation on the Epping Chatswood Railway Link (ECRL).

In 2009-10, passenger revenue covered approximately 21.0 per cent of the cost of services provided. The cost of services recovered from passenger revenue has declined over the last three years, as shown in the graph below.



Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	187,741	380,234
Non-current assets	19,645,503	18,949,956
TOTAL ASSETS	19,833,244	19,330,190
Current liabilities	1,099,790	889,691
Non-current liabilities	707,100	374,451
TOTAL LIABILITIES	1,806,890	1,264,142
NET ASSETS	18,026,354	18,066,048

The reduction in current assets was largely due to RailCorp using its cash reserves to fund debt based capital programs, thereby deferring borrowings. The increase in non-current assets is largely attributed to asset additions including the Auburn Maintenance Facility.

The increase in non-current liabilities was mainly due to increased provisions, derivative financial instruments and the recognition of a finance lease in relation to Auburn Maintenance facility of \$213 million.

CORPORATION ACTIVITIES

RailCorp became a statutory authority on 1 January 2009 by amendments made to the *Transport Administration Act 1988*. Prior to this, RailCorp was constituted as a State owned corporation under the *State Owned Corporations Act 1989* and the *Transport Administration Act 1988*.

RailCorp provides passenger rail transport to greater Sydney through CityRail and rural passenger services in New South Wales through Countrylink. It 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.

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

Rail Infrastructure Corporation

AUDIT OPINION

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

KEY ISSUES

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

Transport Restructure

Following amendments to the *Transport Administration Act 1988*, with effect from 1 July 2010, the Corporation was renamed the Country Rail Infrastructure Authority, and changed from a State owned corporation to a statutory body, although its objectives essentially remained the same. The Act also abolished the Corporation's governance board and resulted in it becoming a controlled entity of Transport NSW for consolidation purposes.

I have referred to the former Corporation by its new name, the Country Rail Infrastructure Authority (the Authority), throughout the rest of this report.

Country Regional Network

At present the Australian Rail Track Corporation (ARTC) continues to manage and maintain the country regional network under a 60 year management agreement. This agreement commenced in September 2004.

On 2 October 2009, the Authority sought Expressions of Interest for the management and maintenance of the country regional network. Three proponents were chosen to proceed with a request for proposal on 30 April 2010.

The Authority advised that if it chose to terminate the 60 year management agreement it would not be liable for any penalties. However, it would be liable for disengagement costs. Actual disengagement costs will not be known until ARTC develops a disengagement plan. To date, notice of contract termination has not been provided by the Authority to ARTC, and as such the Authority is currently not liable for any disengagement costs.

The decision to enter into a new arrangement was made by the Government in the 2008-09 Mini Budget to achieve greater efficiencies and increased innovation. The Authority expects to award a contract during 2010-11. The exact date is not yet known and is subject to Government approval to proceed to contract negotiations.

The Authority paid \$177 million to ARTC in 2009-10 to manage and maintain the country regional network (\$185 million in 2008-09).

Gap to Narrabri improvements

During June 2010, the Authority completed the Gap to Narrabri capacity improvements project. The project has resulted in increased track capacity for freight services in the north west of the State.

The Authority and two mining companies executed a project deed in February 2009, which contractually requires the companies to pay for the improvements. The mining companies have also provided bank guarantees to the Authority to minimise the risk of any costs being borne by the Government.

Under the project deed, the mining companies will repay costs incurred over a 15 year period. In return the Authority will provide specified access capacity to the mining companies to enable the transport of coal to the Newcastle port. The payments by the mining companies for access paths will cover the Authority's repayments to New South Wales Treasury Corporation for loans it has taken out to finance the project.

On completion of the project, the Authority had spent \$55.8 million.

OTHER INFORMATION

Major Capital Projects

The Authority spent \$88 million on capital works in 2009-10 (\$125 million). The original and current direct cost estimates and service delivery dates for major capital projects are listed in the table below.

Project	Original Completion Date	Forecast Completion Date	Months late	Original Budget	Forecast Final Cost	Total Costs to 30 June 2010
				\$m	\$m	\$m
Steel resleepering program	June 2010	June 2010	Nil	45.9 ¹	49.1	49.1
Gap to Narrabri improvements	June 2009	June 2010	12	59.4	55.8	55.8
Signalling & train control systems	June 2009	June 2011	24	32.0	30.8	26.7

Source: Country Rail Infrastructure Authority (unaudited).

1 Additional scope was added to the program as funds became available during 2009-10.

During the year the Authority installed 297,662 sleepers under the annual resleepering program at a cost of \$49.1 million.

The delay in the Gap to Narrabri improvements project is mainly due to a local council requesting a change to the design of a road bridge. As a result the Corporation had to alter the bridge design and tender for its construction. Despite this delay, the rail capacity improvement component of the project was completed and commissioned prior to 30 June 2009.

Whilst final completion of the signalling and train control systems project has been delayed by 24 months, the Authority expects to complete the project within the original budget of \$32.0 million. The bulk of the physical work has been completed and the Authority advises the delay is due to ARTC's contractor requiring more time to develop the required computer software.

Maintenance activities

The table below shows the Authority decreased its maintenance spend to \$129 million in 2009-10 (\$135 million) excluding major capital projects. The Authority still has a significant amount of backlog maintenance. At 30 June 2010, backlog maintenance totalled \$731 million (\$698 million). The 4.7 per cent increase was attributed to better information being available to estimate the cost of bridge replacements.

Year ended 30 June	2010 \$m	2009 \$m
Actual maintenance expenditure*	129.1	134.8
Backlog maintenance:		
- Timber sleepers	504.4	555.0
- Timber under bridges	85.4	86.0
- Timber over bridges	141.0	57.0

Source: Country Rail Infrastructure Authority (unaudited).

* Excludes major capital projects.

The Authority's maintenance spend in 2009-10 was \$5.7 million (or 4.2 per cent) lower than the previous year. The reduction occurred because \$8.4 million of works was carried forward for completion during 2010-11.

Despite the existence of backlog maintenance, the Authority advises the safety of the network is never compromised. It also advises that based on its asset management plan, current funding allocations and appropriate indexation of funding allocations, it should clear the backlog over the next 10-12 years.

As a result of the Authority's maintenance activities and investment in capital works, the condition of the country regional network has marginally improved based on the Authority's track quality measure.

Australian Rail Track Corporation Lease

ARTC has provided the Authority with the 2009-10 Annual Asset Condition Report for the Leased Network. The Authority has reviewed the report and advised that ARTC met all key performance indicators under the lease agreement.

The Leased Network is made up of the Hunter Valley and Interstate network. It was leased to ARTC for a period of 60 years from September 2004.

Career Transition Centre

The Authority continued to maintain responsibility for the management of displaced staff during the year. The staff became displaced following the transition of functions to RailCorp and ARTC. The staff were managed through the Career Transition Centre (CTC).

Since inception of the CTC in September 2004, 640 staff members were permanently redeployed, 2,253 accepted voluntary redundancy and 11 exited for other reasons. Redeployed staff comprise 289 redeployments to other government agencies and 351 transfers to ARTC.

The Authority advised that at 13 November 2009 all displaced staff had been either redeployed or exited the Authority's employment and the CTC was closed.

Workforce Ageing

I recommend the Authority continues to develop and implement effective policies to manage its ageing workforce.

The age profile of staff for the Authority is shown below:

At 30 June Age Group	2010		2009	
	No. of Employees*	%	No. of Employees*	%
Up to 35	1	5	4	9
35 – 39	1	5	4	9
40 – 44	2	10	6	15
45 – 49	5	24	13	30
50 – 54	9	46	13	30
55 – 59	1	5	1	2
60 – 64	1	5	2	5
65+	--	--	--	--
Total	20	100	43	100

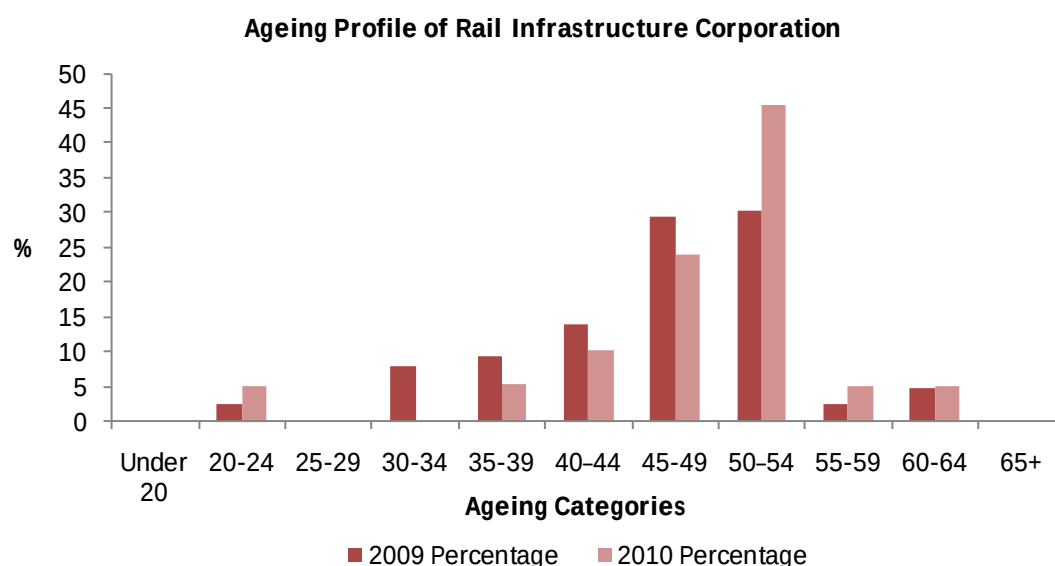
Source: Information provided by the Country Rail Infrastructure Corporation (Unaudited).

* The Authority provided this information based on Full-Time-Equivalent staff at 30 June.

Ten per cent of the Authority's employees at 30 June 2010 (7 per cent at 30 June 2009) were aged 55 years or older and 56 per cent (37 per cent) were over 50. A large number of these employees are likely to retire in the next 5 to 15 years, increasing the risk of a significant loss of knowledge and skills from the Authority.

Management has advised the Authority does not have a strategy to deal with its ageing workforce at this time. Clarity of the Authority's future status from the recent Transport reforms will allow longer term planning to be put in place.

The graph below further demonstrates the age structure of staff.



Source: Information provided by the Authority (Unaudited).

To ensure an adequate supply of frontline staff, the Authority should continue to actively monitor its workforce age profile and have appropriate strategies in place to develop, attract and retain staff whose skills will be required to maintain service delivery standards.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Government contributions	174,987	263,889
Access fees	17,968	16,182
Other revenue	14,746	15,912
OPERATING REVENUE	207,691	295,983
Employee costs	2,808	5,483
Superannuation	12	6,446
Depreciation	133,244	128,324
Maintenance and contractors	97,110	99,071
Tripartite agreement payment	11,487	23,239
Finance costs	3,190	1,882
Other expenses	3,037	22,963
OPERATING EXPENSES	250,888	287,408
SURPLUS/(DEFICIT)	(43,197)	8,575
OTHER COMPREHENSIVE INCOME		
Superannuation actuarial losses	--	(14,557)
Asset revaluation reserve increase	112,189	--
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	112,189	(14,557)
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	68,992	(5,982)

The decrease in government contributions was largely due to the finalisation and demobilisation of the Authority's Career Transition Services Group during 2009.

The reduction in employee costs was due to a reduction in staff. At 30 June 2010, the Authority had 21 employees, a reduction from 44 employees since June 2009. Superannuation has declined due to the Authority's unfunded superannuation liability being assumed by the Crown from 1 July 2009. The decrease in other expenses was largely due to a one-off non-cash adjustment associated with the transfer of the Authority's workers' compensation liabilities in prior year.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	66,554	68,394
Non-current assets	2,200,489	2,133,922
TOTAL ASSETS	2,267,043	2,202,316
Current liabilities	46,798	55,601
Non-current liabilities	57,145	163,666
TOTAL LIABILITIES	103,943	219,267
NET ASSETS	2,163,100	1,983,049

Non-current assets include \$1.9 billion of trackwork and infrastructure assets (mainly the residual country regional network). The increase in non-current assets was primarily due to the Authority revaluing its land at 30 June 2010, which resulted in a \$112 million increase in the value of land.

The decrease in current liabilities was largely due to the Authority settling a number of its legal claims liabilities during 2009-10. The decrease in non-current liabilities was mainly due to the transfer of the Authority's \$111 million defined benefit superannuation liability to the Crown.

AUTHORITY ACTIVITIES

For further information on the Authority, refer to www.countryrail.nsw.gov.au.

State Transit Authority of New South Wales

AUDIT OPINION

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

KEY ISSUES

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

Recent Transport Restructure

On 1 July 2010, the *Transport Administration Amendment Act 2010* established Transport NSW and resulted in the State Transit governance board being abolished.

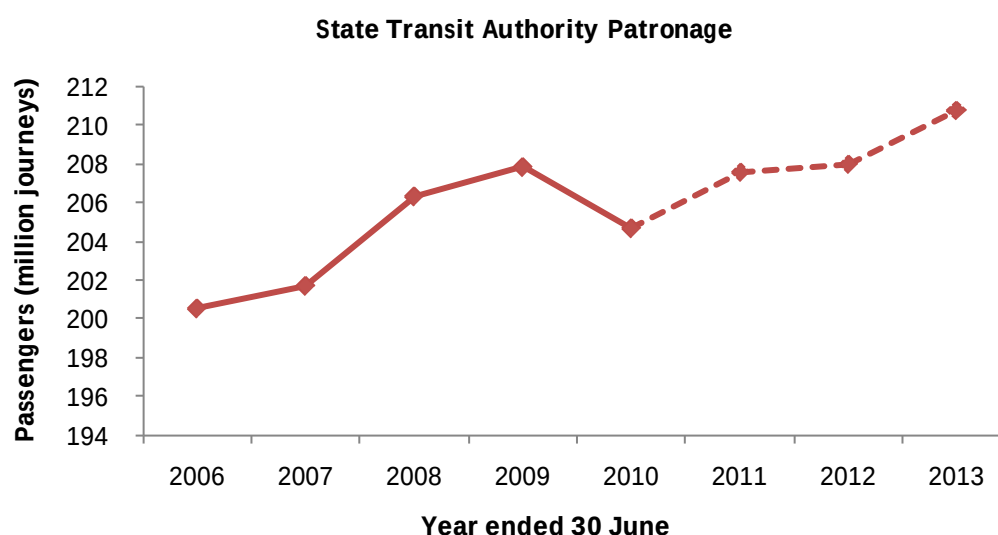
Under this Act, the Chief Executive Officer of State Transit has the authority to manage and control the affairs of State Transit subject to any directions of the Director General of Transport NSW. For the year end 30 June 2011 State Transit became a controlled entity of Transport NSW for consolidation purposes.

For further information on the Transport restructure refer to the 'Transport Services Overview' in this volume.

PERFORMANCE INFORMATION

The Authority provided the following information regarding its performance.

Growth in Patronage and Bus Services

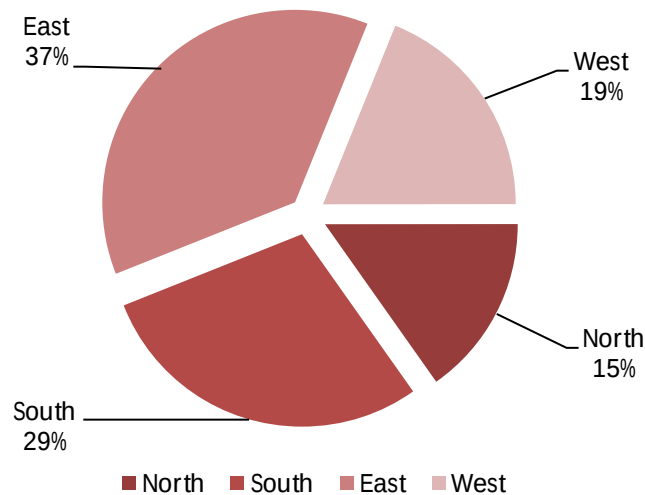


Source: Actual passengers from 2009/10 unaudited State Transit Annual Report. Projections provided by State Transit (unaudited).

State Transit's patronage decreased by 1.5 per cent over the prior year (0.7 per cent increase in 2008-09) to 205 million passenger journeys (208 million). A modal shift to rail resulting from the opening of the Epping-Chatswood rail link in February 2009 and subsequent reduction to bus services in the area accounted for 0.8 per cent of the decrease.

Sydney Buses carried 190 million passengers (193 million), a decrease of 2.9 million passengers over the prior year. Newcastle Buses and Ferry Service patronage remained relatively stable at 12.2 million passengers (12.4 million) and patronage on the Liverpool to Parramatta Transitway was 2.6 million (2.6 million).

Sydney Buses Total Passenger Journeys in 2009-10 by Region



Source: Passenger journey information provided by State Transit (unaudited).

Sydney Buses operates 288 routes in the Sydney Metropolitan area.

In 2009-10, State Transit operated an additional 21,979 services, which is an additional 422 services per week. In October 2009, Sydney Buses rolled out two new Metrobus routes to meet expected demand. The new routes have provided an additional 160,000 passenger spaces per week to Sydney Bus services.

The Authority advised the factors impacting the level of patronage in 2009-10 included the opening of the Epping to Chatswood rail line, a drop in the price of fuel and less tourists visiting Sydney due to the continuing effects of global financial crisis.

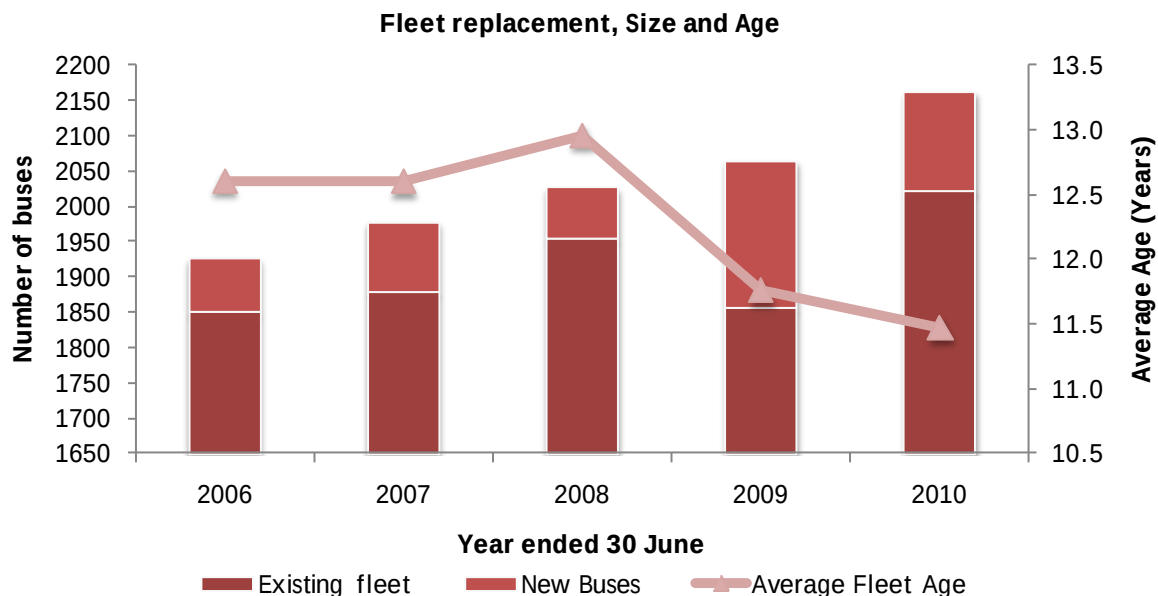
Patronage is expected to increase by an average of two per cent over the next three years. State Transit plans to accommodate this growth by adding additional Metrobus services and expanding its bus fleet.

Kilometres travelled is a measure of the extent of services delivered. During 2009-10, State Transit buses travelled 92 million kilometres. Sydney Buses accounted for a majority of this with all four Sydney metropolitan regions travelling a combined total of 82 million kilometres.

An additional 0.9 million service kilometres provided across the four Sydney Buses regions contributed to approximately \$3.2 million in additional revenue. To resource the increased service levels, 165 new bus drivers were employed to meet the expanded or new services.

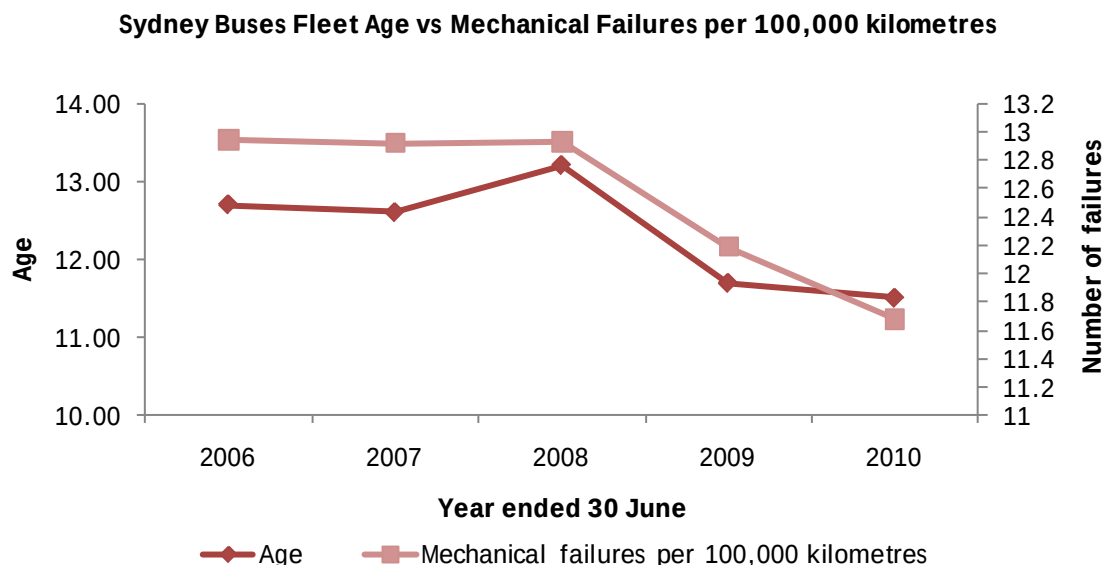
Bus Fleet

At 30 June 2010, the Authority's bus fleet totalled 2,163 buses (2,065). The Authority acquired 142 new buses (210) during the year and 235 new buses are planned for 2010-11. Under the Metropolitan Bus System Contracts, the average age of the fleet is to remain below 12 years. The acquisition of new buses and retirement of older buses during the year resulted in a decline in the average age of the fleet from 11.7 to 11.5 years.



Source: Fleet replacement, size and age data from 2009/10 State Transit Annual Report (unaudited).

As older buses are retired and replaced the incidence of mechanical fleet failures is decreasing.



Source: Fleet age and mechanical failure data from 2009-10 State Transit Annual Report (unaudited).

MyZone Fares

State Transit implemented the new MyZone ticketing system in April 2010.

To support the launch of the MyZone fares, State Transit established an additional 601 ticket resellers during 2009-10, increasing the number of resellers to 1,568. This expansion of the ticket reseller network included private bus operator service areas.

Overtime

Overtime payments in 2009-10 were \$40.4 million (\$42.9 million), 13.6 per cent (15.2 per cent) of base salaries and wages expense. For those employees paid overtime, on average, they received \$8,089 (\$8,656) in overtime payments. Almost 90.0 per cent (90.1 per cent) of employees received a payment for working overtime during the year.

The table below shows the number of employees who were paid overtime, split by overtime paid as a percentage of annual salary.

Year ended 30 June	2010		2009	
Overtime paid as a percentage of annual salary and wages	Number of employees	Overtime paid \$'000	Number of employees	Overtime paid \$'000
90 - 100	--	--	1	42
80 - 89	--	--	--	--
70 - 79	3	105	2	64
60 - 69	10	301	8	216
50 - 59	53	1,266	70	1,693
40 - 49	218	4,213	257	5,014
30 - 39	615	9,125	744	11,110
20 - 29	1,329	14,195	1,403	14,832
10 - 19	1,372	8,965	1,218	7,908
>0 - 9	1,388	2,175	1,255	2,038
Nil overtime	568	--	542	--
Total	5,556	40,346	5,500	42,916

The highest amount of overtime paid to a single employee in 2009-10 was \$41,400 (\$41,659). For thirteen employees, overtime paid was more than 60.0 per cent of their annual salary and wages.

State Transit advises that under its award conditions all work on Sunday is paid as overtime and bus operators work a six day roster. Most of the overtime expenditure reported above relates to payments made for this reason rather than to staff working excess hours. State Transit monitors bus driver hours worked to ensure all bus operators are working within the occupational health and safety guidelines.

Status of Key Transport Projects

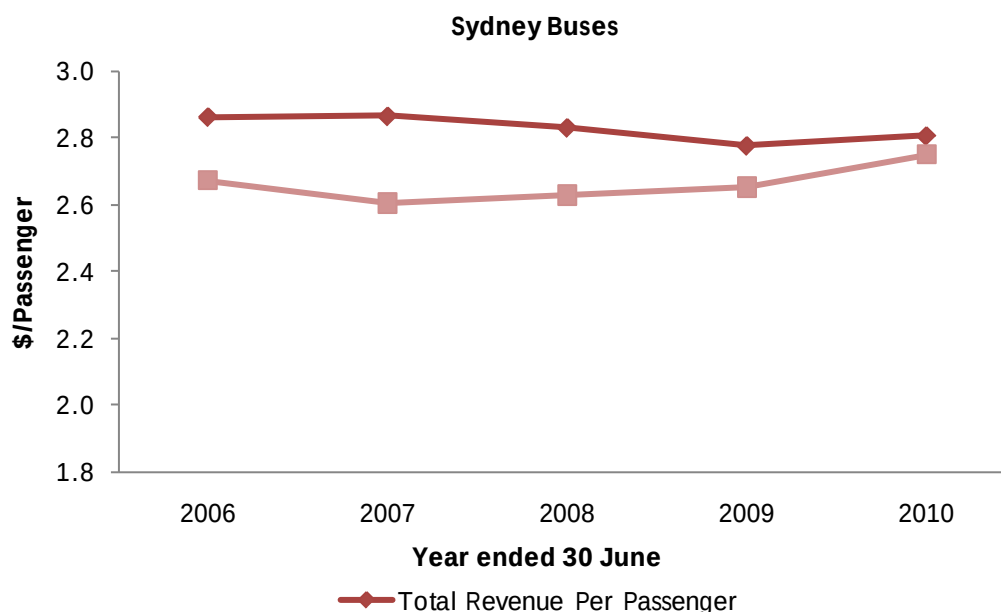
At 30 June 2010, the following represent State Transits key transport capital projects:

Project Name	Original Target Date	Forecasted Completion Date	Months Delayed	Original Budget \$'000	Revised Budget \$'000
90 replacement buses	30-Jun-10	30-Jun-10	--	49,809	47,006
150 articulated buses	30-Jun-11	30-Jun-11	--	113,750	111,309
Ryde depot redevelopment	30-Jun-10	30-Jun-11	12	10,148	12,122
Recommissioning of Tempe	30-Jun-10	30-Jun-11	--	10,210	10,210
New depot in Western Sydney	30-Jun-11	30-Jun-12	12	20,420	26,410

In 2009-10, 124 rigid (including 40 additional growth buses) and 18 articulated growth buses were delivered to State Transit, with the remaining 150 articulated buses expected to be delivered in 2010-11.

The establishment of a new depot in Western Sydney has been delayed by a year to allow State Transit to pursue various options to secure adequate capacity in the Western Region. Ryde depot will be completed in 2010-11 with significant hardstand improvements underway. The works on Tempe depot are proceeding to schedule.

Revenue versus Cost (per passenger) in 2009-10



Source: Revenue and patronage data from 2009/10 unaudited State Transit Annual Report. Total costs sourced from management accounts (unaudited).

Note:

- Revenue includes payments received under the provisions of the Metropolitan and Outer Metropolitan Bus System Contracts.
- Due to volatility, the actuarial gains/(losses) relating to defined benefit superannuation schemes, have been excluded from the total cost per passenger.

Total revenue per passenger has marginally increased to \$2.80 (\$2.71). This is primarily due to the decrease in patronage growth rates. Under the Metropolitan Bus Contracts, the Authority receives revenue to operate the services. Part of the revenue represents a recovery of fixed costs, which remain constant in real terms over the term of the contract. Therefore as patronage decreases, revenue per passenger increases.

Total cost per passenger has increased to \$2.75 (\$2.65). This is primarily due to increase in employee benefits and finance costs. The increase in finance costs resulted from increase in interest rates and increased level of borrowing, required to fund the acquisition of buses and depot redevelopments.

On-time running

On-time running performance is measured as the percentage of monitored buses departing from the terminus within five minutes of the scheduled timetable. A minimum of one per cent of total bus trips are monitored. On-time running performance for Sydney Buses has remained relatively stable over the last five years.

The Authority has fitted all State Transit buses with the Public Transport Information and Priority System (PTIPS) as at September 2009. PTIPS uses GPS Technology to provide real time tracking of buses and priority through traffic lights to help keep bus services to timetable. This tracking allows the Authority to measure on-time running performance, produce accurate running times and more suitable timetables.

The Authority has various strategies to maintain and improve on-time running, including the expansion of prepay services to minimise boarding times. The Authority, in consultation with the Roads and Traffic Authority, Transport NSW and local councils, has also introduced clearways on busy corridors and extended bus lanes and the hours of operation.

OTHER INFORMATION

Human Resources

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

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies
- extent of contract staff.

A summary of the results of my review are as follows.

Workforce Ageing

I recommend State Transit continues to develop and implement effective policies to manage its ageing workforce.

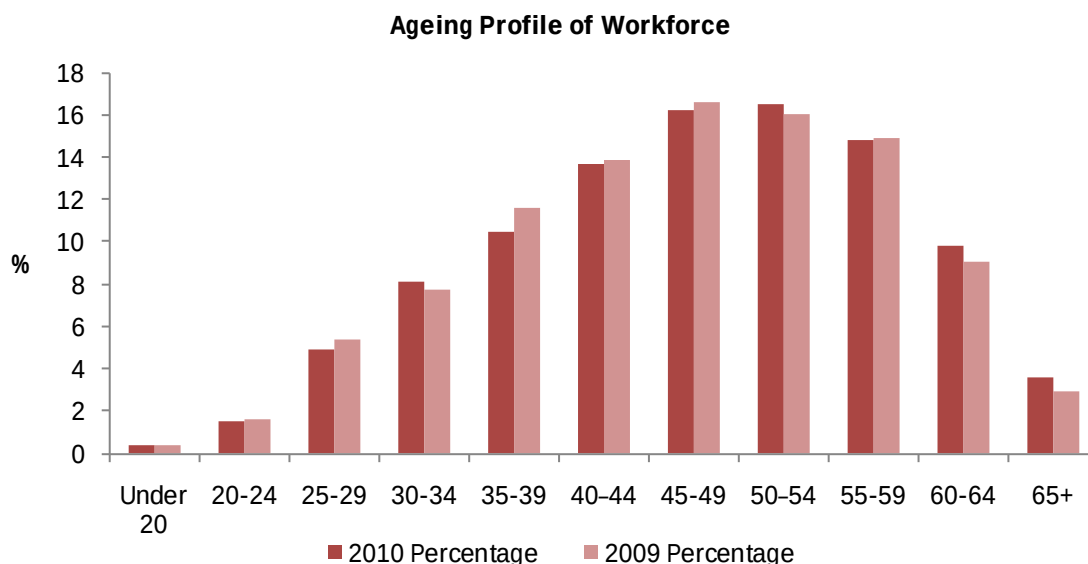
Twenty nine per cent of State Transit's employees are over 55 years of age (27.0 per cent in 2009) and 46.0 per cent are over 50 (43.0 per cent). This increases the risk of a large number of employees retiring in the next five to ten years with the potential loss of knowledge and skills.

The age profile of State Transit employees is shown below:

At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
Up to 35	745	15	737	15
35-39	520	10	564	12
40-44	680	14	676	14
45-49	808	16	810	17
50-54	821	17	783	16
55-59	736	15	729	15
60-64	486	10	441	9
65+	177	4	142	3
Total	4,973	100	4,881	100

Source: State Transit (Unaudited).

The graph below further demonstrates the age structure of State Transit employees.

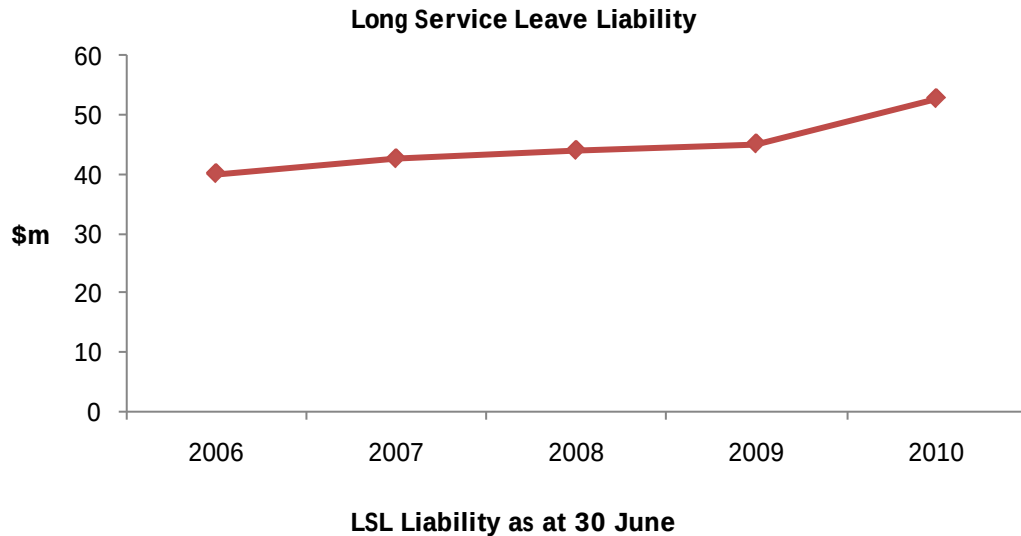


To ensure an adequate supply of staff, including drivers, State Transit should actively monitor its workforce age profile and have strategies in place to develop, attract and retain staff whose skills are aligned to the strategic direction of the entity.

In response to this risk, the Authority advised that it is conducting succession planning through apprenticeships, cadetships and graduate programs.

Long Service Leave Liability

State Transit's liability for long service leave entitlements at 30 June 2010 amounted to \$52.7 million (\$45.1 million). This liability has increased by 31.0 per cent over the last five years.



The increase in liability from 2009 to 2010 is attributed to growth in employee entitlements, a lower Government bond rate used to discount the liability to its present value and an increase in the actuarial assessment of the 'cash-out' rate.

State Transit advises that operational cash flows generated from the Metropolitan Bus System Contracts are sufficient to fund State Transit's rising long service leave liability obligations.

Although State Transit has strong cash flows, it will need to ensure it has adequately planned to fund these liabilities, which generally increase over time with increases in employee remuneration levels. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

Annual Leave Balances

State Transit has actively managed employees with excessive annual leave balances in recent years. The number of employees with annual leave balances in excess of 40 days has declined from 420 at 30 June 2009 to 362 at 30 June 2010. Employees in this category represented 7.0 per cent (9 per cent) of total employees at 30 June 2010.

Excess leave entitlements can adversely affect an organisation. Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

The Authority advised initiatives are in place to effectively manage excessive annual leave. Quarterly reminder letters are issued to employees with balances in excess of 40 days. The Human Resources Group is continuing to monitor accumulating leave balances.

Use of Contract Staff

I recommend State Transit continue to periodically review the roles and responsibilities of all its contractors to ensure:

- its reliance on contractors is not excessive
- using contractors instead of permanent employees is appropriate
- contractors do not become de facto employees by virtue of being with State Transit for an extended period of time
- using a contractor continues to represent good value for money.

In 2009-10, State Transit paid \$1.3 million to a total of 32 contractors and at 30 June 2010, 25.0 per cent of whom had been engaged for a period of more than 12 months. Two contractors had been engaged for more than ten years. The retention of contractors for extended periods may result in additional costs to the Authority.

State Transit advised that contractors have predominantly been hired in the Corporate division. A formal review to determine if the use of contractors represents value for money is performed, prior to the extension of each contract.

While the use of contractors has benefits, particularly on projects, extensive reliance on this employment arrangement generally results in higher employment costs to an organisation and less ownership and commitment to organisational goals and objectives.

Deferred Information Technology (IT) Projects

In 2009-10, State Transit deferred works on its 'Enterprise Resource Planning' project. To date the Authority has spent \$1.3 million on this project. The total estimated cost of this project is \$8.0 million. The reason for the delays is primarily due to the formation of Transport NSW and the fact that agencies are waiting for further direction on the structure and functions of corporate services (including information technology) within Transport agencies.

PrePay Services

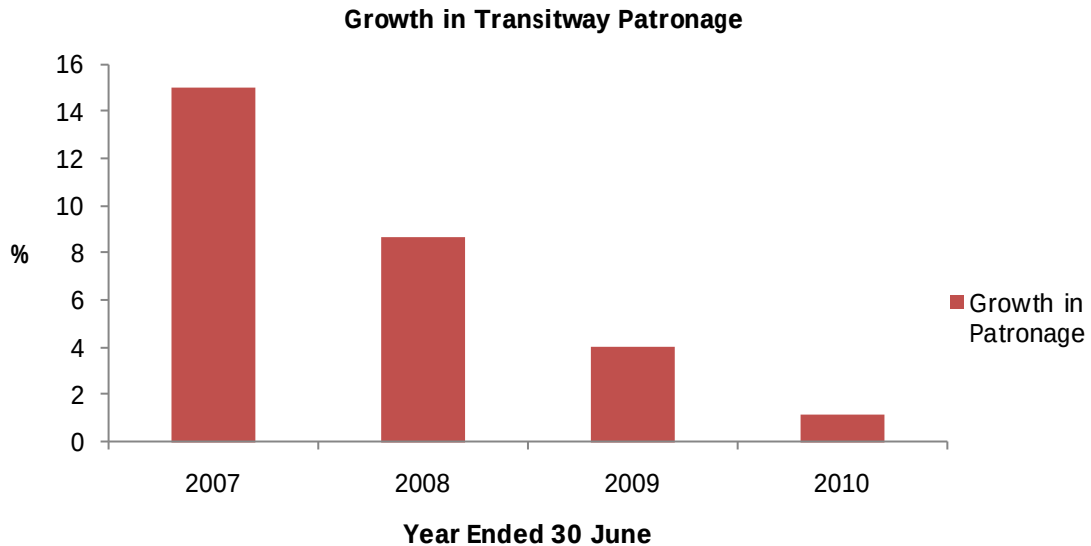
Following last year's successful conversion of Sydney CBD to PrePay only between 7am and 7pm weekdays, State Transit expanded its PrePay network. Major interchanges, including, the Bondi Junction Interchange and Randwick Junction, became cashless between 7am and 7pm on weekdays. This strategy is aimed at reducing boarding times and improving the reliability of bus services in the Eastern Suburbs. Approximately 16.0 per cent (14 routes) of Sydney Bus services have been converted to PrePay only.

PrePay services have contributed to the increase in ticket resellers. At 30 June 2010, there were 1,568 authorised State Transit Ticket Resellers across metropolitan Sydney. This has increased by 60.0 per cent since the previous year. Total revenue from ticket sales to resellers in 2009-10 exceeded \$199 million, an increase of 18.0 per cent on the previous year (\$169 million). State Transit will continue to expand its reseller network in 2010-11 to meet the increase in demand from the planned expansion of PrePay bus services.

The Authority advised the increase in PrePay services has resulted in an annual reduction of 20 million on-board cash transactions, faster boarding times, less delays and discount travel for bus passengers. A follow up initiative is being developed to extend the PrePay program to other interchanges, bus stops and corridors over the next 12 months.

Western Sydney Buses

The Liverpool to Parramatta Transitway is public infrastructure, built and owned by the New South Wales Government. The Authority has operated on the Transitway since February 2003 and 15.3 million passengers have used this service since it opened. Transitway patronage increased by less than one per cent over the previous year to 2.6 million journeys (2.6 million). A new timetable was introduced in 2009 and eight new bus services were added to meet growing demand for this service.



Source: State Transit (unaudited).

Since opening, the Transitway has recorded losses for each financial year, with another loss of \$1.2 million in 2009-10 (\$1.4 million). The Authority's contract to operate this route extends to August 2011. The Transitway contract lies outside the Metropolitan Bus System Contracts.

Metrobus Network

The Metrobus is a high-frequency, cashless service aimed at increasing capacity along busy corridors. In 2009-10, State Transit established two new Metrobus routes, the M20 operating between Gore Hill and Mascot and the M30 operating between Mosman and Sydenham. The Authority advised that patronage on the service has more than tripled since introduction and over 4.5 million passengers have used the Metrobus service to date.

Following the success of the Metrobus network, the New South Wales Government announced in July 2010 an expansion of the Metrobus network to 13 routes across Sydney. State Transit will operate 8 of the routes and the remainder by a number of private bus companies.

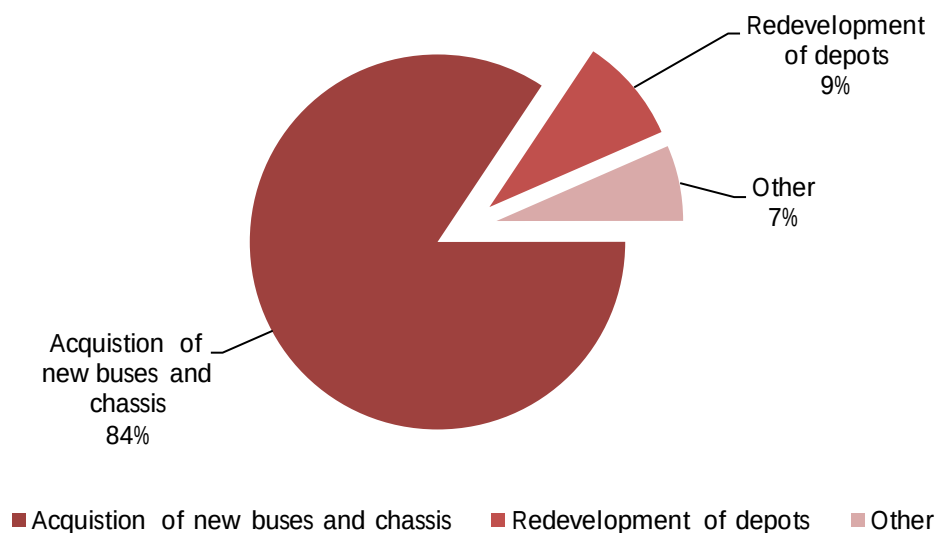
Free CBD Shuttle Bus

Since its launch in December 2008, more than three million passengers travelled on the service. The shuttle service carries between 40,000 and 50,000 passengers each week and operates across 32 bus stops located around the CBD.

Capital Expenditure Program

State Transit Authority's capital expenditure program decreased by 20.0 per cent from \$143 million to \$114 million in 2009-10. The majority of expenditure focussed on acquisition of new buses to support fleet growth, the fleet replacement program and the redevelopment of depots to accommodate the expansion of the fleet in the future.

Capital Expenditure Program 2009-10



Source: Capital expenditure data from 2009/10 State Transit Annual Report (unaudited).

In 2009-10, State Transit continued works on a number of projects to increase future depot capacity primarily due to patronage growth, the replacement of existing fleet vehicles with longer buses and future growth in the size of the fleet.

Integrated Network Reviews and Improved Networks

The Transport NSW and Infrastructure program of bus reform and the Metropolitan and Outer Metropolitan Bus System Contracts require State Transit to conduct reviews of networks to ensure they reflect the current needs of the public. The reviews involve extensive community consultation and aim to put into operation new and improved networks.

The new networks primarily aim to improve services through better co-ordination and linking of services with major hubs, additional services and simplification of stopping patterns.

In 2009-10, State Transit implemented new and improved bus networks for the Northern Beaches and Lower North Shore, the North Western Suburbs and the Inner West and Southern Suburbs.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	Consolidated		Authority	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Operational revenue*	557,864	546,069	557,864	546,069
Other income	36,842	41,109	36,842	41,109
OPERATING REVENUE	594,706	587,178	594,706	587,178
Employee benefits	365,631	341,942	--	--
Personnel services	--	--	409,636	415,235
Fleet running expenses	88,310	93,793	88,310	93,793
Depreciation and amortisation	31,379	33,121	31,379	33,121
Finance costs	14,178	8,551	14,178	8,551
General operating expenses	102,829	97,566	72,997	69,455
OPREATING EXPENSES	602,327	574,973	616,500	620,155
NET PROFIT/(LOSS) before tax	(7,621)	12,205	(21,794)	(32,977)
Income Tax Benefit	(2,183)	-	(6,435)	-
NET PROFIT/(LOSS) after tax	(5,438)	12,205	(15,359)	(32,977)
OTHER COMPREHENSIVE INCOME				
Revaluation of property, plant and equipment	--	183	--	183
Superannuation actuarial losses	(9,921)	(31,627)	--	--
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	(9,921)	(31,444)	--	183
TOTAL COMPREHENSIVE EXPENSE	(15,359)	(19,239)	(15,359)	(32,794)

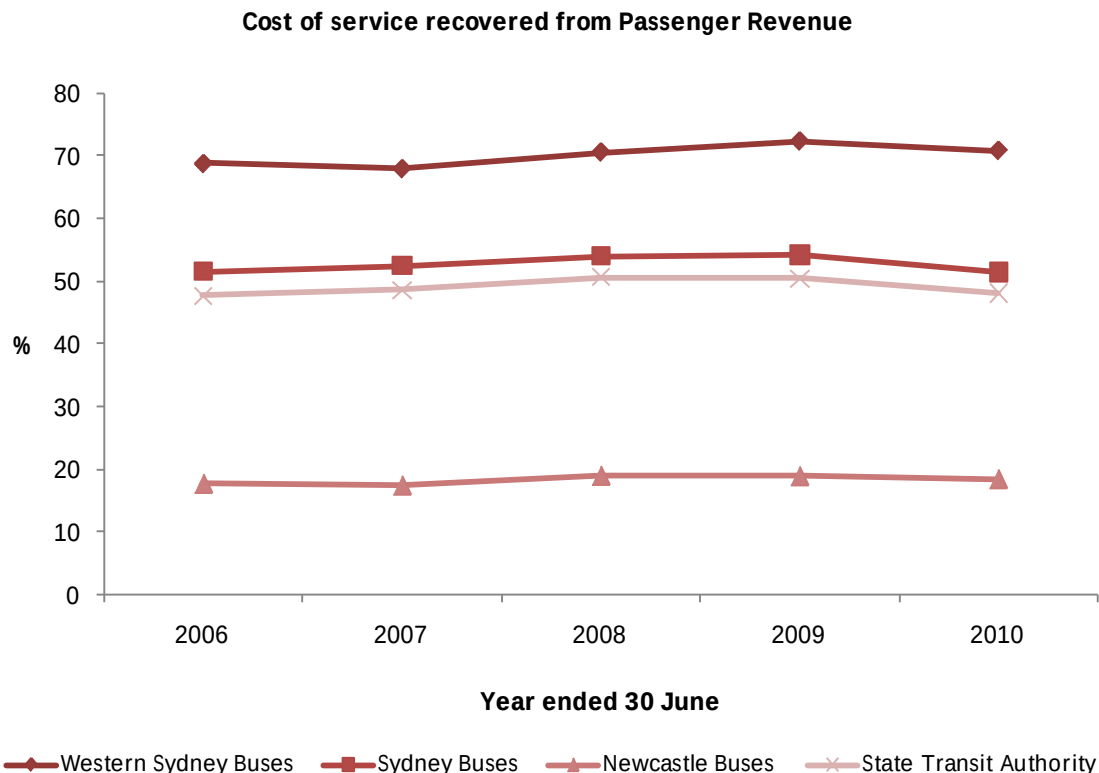
* Operational revenue includes farebox receipts and contract revenue from the Metropolitan and Outer Metropolitan Bus System Contracts.

Operational revenue increased primarily due to the increase in Metropolitan and Outer Metropolitan Bus system contracts income. Other income in the previous year included the recovery of costs from the World Youth Day event.

Total expenses increased mainly due to the increase in employee benefits, finance costs and general operating expenses. Higher labour costs were primarily due to an increase in pay rates for bus operators and the hiring of more bus operators to provide additional services. The increase in finance costs resulted from higher interest rates and increased level of borrowing, required to fund acquisition of new buses and depot redevelopments. Increases in Compulsory Third Party and general insurance premiums were the main reasons for the increase in general operating expenses.

Cost Recovery

In 2009-10, the Authority's passenger farebox revenue covered approximately 48.1 per cent of the cost of services provided. This has decreased by 2.3 per cent from the previous year primarily due to the decrease in patronage.



Source: Information derived from State Transit management accounts as at 30 June 2010 (Unaudited)

Note: Cost of operations includes interest and excludes superannuation losses

The lower recovery rate of 18.5 per cent in 2010 for Newcastle buses is due to lower patronage levels in comparison to Sydney services. Western Sydney Buses have the highest recovery rate of 70.8 per cent, partly due to growth in patronage and lower operating costs due to the less complex nature of providing a bus service that runs on a dedicated transitway.

State Transit and the New South Wales Government have undertaken initiatives to increase patronage and improve cost recovery. These initiatives include the introduction of MyZone fare structure, establishment of Metrobus network using high capacity articulated buses and the expansion of Prepay only services.

Abridged Statement of Financial Position

At 30 June	Consolidated		Authority	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	43,325	45,452	43,325	45,452
Non-current assets	795,723	726,324	795,723	726,324
TOTAL ASSETS	843,929	771,780	843,929	771,780
Current liabilities	193,896	154,011	193,896	154,011
Non-current liabilities	407,080	364,169	407,080	364,169
TOTAL LIABILITIES	602,671	518,184	602,671	518,184
NET ASSETS	238,072	253,596	238,072	253,596

The increase in non-current assets was primarily attributable to the increase in capital works expenditure, including the acquisition of buses and bus related equipment, and the redevelopment of Brookvale, Leichardt, Ryde and Tempe depots.

The increase in non-current liabilities was primarily due to additional borrowings required to fund the acquisition of new buses and depot redevelopment work.

AUTHORITY ACTIVITIES

The Authority, a statutory body incorporated under the *Transport Administration Act 1988*, operates bus services in Sydney and bus and ferry services in Newcastle. For further information on the Authority, refer to www.sta.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. These divisions were enacted as a requirement of the *Public Sector Employment and Management Act 2002*.

Entity Name	Website
State Transit Authority Division	*
Western Sydney Buses Division	*

* This entity does not have a website.

Sydney Ferries

AUDIT OPINION

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

KEY ISSUES

Recent Transport Restructure

On 1 July 2010, the *Transport Administration Amendment Act 2010* established Transport NSW and resulted in the removal of the Sydney Ferries' governance board.

Under this Act, the Chief Executive of Sydney Ferries has the authority to manage and control the affairs of Sydney Ferries subject to any directions of the Director General of Transport NSW. For the year end 30 June 2011, Sydney Ferries became a controlled entity of Transport NSW.

For further information on the Transport restructure, refer to the 'Transport Services Overview' in this volume.

New Service Contract

Sydney Ferries entered into a seven year service contract with Transport NSW in April 2010. After the market review of ferry services in late 2009, the Government decided Sydney Ferries, and not the private sector, should provide ferry services to the Government.

The new service contract provides clear performance benchmarks for Sydney Ferries. Under the contract Sydney Ferries must continue its reform program, which includes cost reductions through restructuring, productivity gains through better work practices and improvements to safety and customer service.

The negotiated net cost to Government over the seven year contract is \$619 million. This includes \$30.0 million to replace ageing vessels.

Ferry Operations and Customer Information System

Sydney Ferries advised its Ferry Operations and Customer Information System (FOCIS) project has been delayed because of design issues. Sydney Ferries has commenced mediation with the contractor to resolve the design issues. The budget and completion date are shown in the table below.

Year ended 30 June 2010	Budget			Completion Date	
	Original \$m	Revised \$m	Variance \$m	Original	Revised
Ferry Operations and Customer Information System	7.2	13.2	(6.0)	Sep 2010	Sep 2011

Source: Sydney Ferries (unaudited).

Sydney Ferries advised the \$6.0 million increase in budget was largely due to scope changes. The original budget from 2008 only included the customer information system component of the FOCIS project.

PERFORMANCE INFORMATION

Sydney Ferries provided the following information (unaudited) regarding its performance.

Year ended 30 June	Target		Actual		
	2010	2010	2009	2008	2007
Operational performance					
Services that run on time (%) (i)	99.5	98.1	98.1	98.3	98.0
Patronage growth (%) (ii)	1.0	0.2	2.5	(1.2)	0.8
Number of customer complaints	824	604	889	1,220	1,808
Number of significant incidents (iii)	--	--	1	--	2
Number of passenger injuries (iv)	15	15	12	15	35
Number of sick days taken per employee	7	10.9	10.4	9.2	8.4
Fleet availability (%) (v)	80	86	81	79	77
Vessel reliability (%) (vi)	95	96.4	95.0	94.4	93.3
Financial performance					
Earnings before interest, taxes, depreciation and amortisation (\$m)	19.8	19.8	12.0	18.3	16.8
Operating deficit (\$m)	10.5	7.1	14.5	0.4	2.9
Return on average assets (%) (vii)	--	(5.8)	(6.1)	1.9	2.1
Return on average equity (%) (viii)	--	(16.4)	(68.9)	(10.6)	(7.7)

- (i) Proportion of operated services departing from the first wharf on the service within five minutes of its scheduled departure time. Delays due to force majeure events are not included.
- (ii) Includes patronage on the Manly JetCat service which ceased on 31 December 2008.
- (iii) Incidents resulting in loss of life, life-threatening injury or injury to multiple persons, and/or damage over \$100,000.
- (iv) Passenger injury that occurs as a result of ferry operations and requires medical attention.
- (v) Percentage of fleet available for scheduled services (days available as a percentage of total working days).
- (vi) Percentage of available vessels that remain in service without withdrawal as a consequence of mechanical failure.
- (vii) Operating result before interest and tax as percentage of annual average assets.
- (viii) Operating result after interest and tax as percentage of annual average total equity.

Just over 98 per cent (98.1 per cent) of Sydney Ferries' services were on time, 1.5 per cent below its target of 99.5 per cent. Manly Ferry Services achieved the highest on time running of 99.4 per cent whilst Darling Harbour reported the lowest performance of 96.4 per cent.

Management advised the results are primarily due to high passenger loadings, scheduling issues and berthing congestion. Where possible, these have been addressed through timetable changes introduced on 10 October 2010, particularly in relation to Darling Harbour and Taronga Zoo services.

Sydney Ferries attribute the drop in customer complaints to significant improvements in customer service as part of the Ferries 2010 self-reform program, launched in April 2008.

Patronage

Ferries passenger journeys have remained relatively stable. Sydney Ferries recorded patronage growth of 0.2 per cent (2.5 per cent) in 2009-10.

Year ended 30 June	Passenger Journeys and Growth				
	2010	2009	2008	2007	2006
Number of Passenger Journeys (million)	14.3	14.3	14.0	14.1	14.0
Patronage growth (%)	0.2	2.5	(1.2)	0.8	(0.2)

Source: Sydney Ferries (unaudited).

Year ended 30 June	Passenger Journeys by Area				
	2010	2009	2008	2007	2006
Inner Harbour (million)	6.8	6.4	6.0	6.3	6.6
Parramatta River (million)	1.5	1.5	1.4	1.5	1.4
Manly Ferry (million)	6.0	6.0	5.7	5.4	5.1

Source: Sydney Ferries (unaudited).

Fleet Failures

Fleet failures decreased from 405 failures in 2008-09 to 316 failures in 2009-10. All vessels except the Supercat recorded a drop in fleet failures. Sydney Ferries advised the reduction is attributable to its asset management planning, including improved repairs management and re-engine program. The table below provides an analysis for each vessel type. A fleet failure is defined as withdrawal of vessel from service as a consequence of mechanical failure.

Year ended 30 June	Ferry Failures Per annum*				
	2010	2009	2008	2007	2006
Freshwater	28	40	33	64	61
First Fleet	74	79	117	161	173
Rivercat	109	152	184	153	246
Habourcat	24	47	42	58	49
Supercat	64	55	57	61	76
Lady Class	17	32	33	40	34
Total	316	405	466	537	639
Total trips during the year	172,627	177,861	184,240	179,869	175,098

Source: Sydney Ferries (unaudited).

*Manly JetCat breakdowns excluded from figures. This vessel class was discontinued after December 2008.

OTHER INFORMATION

Fleet replacement strategy

The average remaining economic life of the 28 vessels owned by Sydney Ferries is 4.8 years. This includes two Lady Class vessels, which have reached the end of their economic lives. The average remaining lives are highlighted in the table below. The replacement cost of Sydney Ferries entire fleet is estimated at \$173 million.

Vessel Class	Number of Vessels in Class	Average Age of Vessels (Years)	Average Remaining Economic Life (Years)
Freshwater	4	25.8	9.0
First Fleet	9	25.0	4.9
Rivercat	7	17.3	4.5
Habourcat	2	12.0	3.7
Supercat	4	9.5	3.7
Lady Class	2	33.0	--
Total	28	20.6	4.8

Sydney Ferries advised it has established a steering committee to conduct a procurement and network review. The committee is made up of officers from Sydney Ferries, Transport NSW and NSW Maritime. The committee's next major milestone is Government approval of the procurement and network strategy in April 2011.

Capital projects

I recommend Sydney Ferries conduct a comprehensive review of its policies and procedures relating to the recording and monitoring of costs in its work in progress project ledger.

In the past two years, Sydney Ferries has written off \$2.6 million of work in progress costs, because either the project has been assessed as not providing future economic benefits, or the costs could not be attributed to a specific asset. The continuing write off of costs suggests the management's controls over the recording and monitoring of project costs needs to be strengthened. The total value of work in progress at 30 June 2010 was \$21.4 million.

Human Resources

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

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies
- management of excessive flex leave balances
- extent of overtime
- extent of contract staff.

Issues identified from my review will be reported in a management letter to Sydney Ferries. A summary of the results follows.

Workforce Ageing

I recommend Sydney Ferries develop strategies to manage its ageing workforce.

Sydney Ferries face challenges from the potential loss of a large number of retiring staff. At 30 June 2010, 31.6 per cent (31.4 per cent) of its employees were 50 years of age or older and 19.8 per cent (19.8 per cent) were 55 years of age or older. This represents a large number of employees who are likely to retire over the next five to ten years. This potential loss of knowledge and skills is a risk for Sydney Ferries.

The age profile of Ferries' employees is shown below:



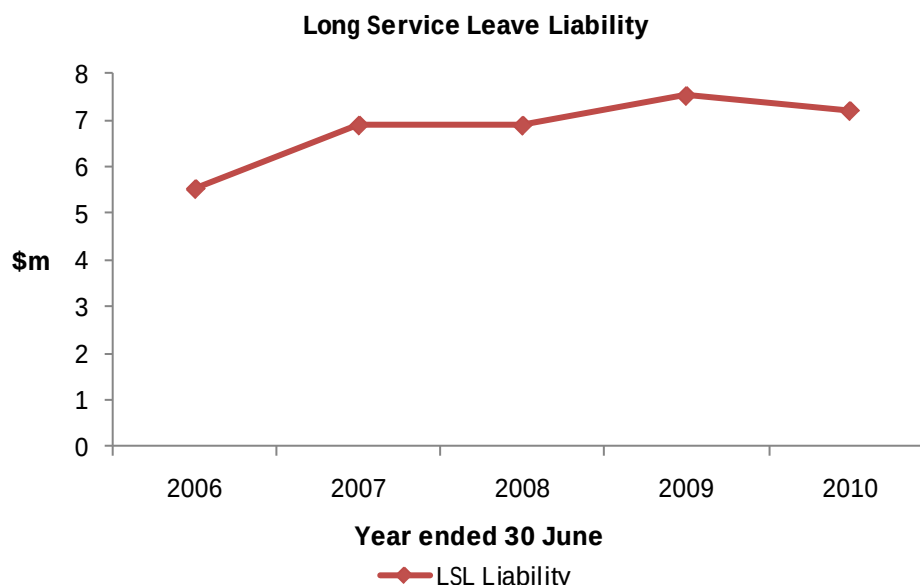
At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
Up to 35	136	22.8	150	22.5
35-39	87	14.6	97	14.5
40-44	97	16.2	116	17.4
45-49	88	14.8	95	14.2
50-54	70	11.8	77	11.6
55-59	62	10.3	65	9.7
60-64	39	6.5	44	6.6
65+	18	3.0	23	3.5
Total	597	100	667	100

Source: Sydney Ferries (unaudited)

Sydney Ferries advised it has no formal strategies to manage its ageing workforce. To ensure it has the appropriate number of skilled staff in the future, it should actively monitor its workforce age profile and ensure strategies are in place to develop, attract and retain staff whose skills are aligned with the strategic direction of Sydney Ferries.

Long Service Leave Liability

Sydney Ferries' liability for long service leave entitlements at 30 June 2010 amounted to \$7.2 million (\$7.5 million). This liability has increased by 30 per cent over the last five years.



Although Sydney Ferries has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities, which generally increase over time with rises in employee remuneration levels. This will be compounded as other liabilities emerge with the retirement of a significant portion of Sydney Ferries' workforce.

Use of Contract Staff

In 2009-10, Sydney Ferries paid \$4.8 million (\$7.6 million) to 31 contractors (44 contractors). Seven contractors at 30 June 2010 have been engaged by Sydney Ferries for more than two years. The highest contractor payment during the year was \$274,560.

Sydney Ferries advised it maintains a contractor spreadsheet to monitor the use of contractors. Extending a contractor's term requires the preparation of a business case and approval by the Chief Executive Officer.

Overtime

Overtime payments in 2009-10 amounted to \$2.3 million (\$3.5 million), 4.5 per cent (6.4 per cent) of Sydney Ferries' base salary expense for the year. On average, Sydney Ferries' employees, who were paid overtime, received \$5,082 (\$7,058) in overtime payments. The highest amount paid to an employee in 2009-10 was \$36,770 (\$44,013).

Sydney Ferries attribute the decrease in overtime to improved labour utilisation following the introduction of new rosters plus labour reforms supported by improved human resources and attendance management systems. This is demonstrated by the following table which provides details of overtime paid to operational staff over the past three years.

Year end 30 June	Staff Numbers		
	2010	2009	2008
Overtime			
\$30,001 to \$50,000	7	6	12
\$20,001 to \$30,000	11	33	29
\$10,001 to \$20,000	53	86	95
\$5,001 to \$10,000	77	99	101
\$0 to \$5,000	303	258	289
Total	451	482	526
Total \$'000	2,292	3,469	3,745

Leave Entitlements

I recommend Sydney Ferries continues its efforts in reducing excessive annual leave and accrued public holiday balances.

Sydney Ferries has actively managed employees with excessive annual leave balances in recent years. The number of employees with annual leave balances in excess of 40 days has declined from 108 employees at 30 June 2007 to 78 employees at 30 June 2010. Although Sydney Ferries' strategies have reduced the number of employees with excess annual leave balances, employees in this category represents 13.1 per cent (16.0 per cent) of total employees at 30 June 2010.

Entitlement (days)	2010			2009		
	No of Personnel	Total Days	Average Days	No of Personnel	Total Days	Average Days
Annual Leave						
> 100	3	349	116	11	1,386	126
81 - 100	2	179	90	--	--	--
41 - 80	73	3,784	52	96	5,011	52
Total	78	4,312	55	107	6,397	60
Public Holidays						
> 60	7	618	88	7	609	87
41 - 60	3	158	53	7	342	49
21 - 40	12	351	29	14	407	29
10 - 20	14	231	16	18	269	15
Total	36	1,358	38	46	1,627	35
TOTAL EMPLOYEES	597			667		

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Farebox revenue	45,752	48,647
Government contributions	82,775	80,454
Other	2,314	1,399
OPERATING REVENUE	130,841	130,500
Employee related expenses	67,108	68,194
Operations and maintenance expenses	38,605	47,611
Depreciation, amortisation and impairment	20,585	19,849
Borrowing costs	6,320	6,694
Decrease in revaluation of fleet vessels	3,386	--
Other losses	1,901	2,692
OPERATING EXPENSES	137,905	145,040
DEFICIT	7,064	14,540
OTHER COMPREHENSIVE EXPENSE		
Decrease in revaluation of property, plant and equipment	--	4,562
Superannuation actuarial losses	10,972	7,101
TOTAL OTHER COMPREHENSIVE EXPENSE	10,972	11,663
TOTAL COMPREHENSIVE EXPENSE	(18,036)	(26,203)

The decrease in farebox revenue is largely due to the cessation of Manly JetCat services in December 2009. The decrease in expenditure is largely attributable to the following significant events:

- the sale of three JetCats during 2008-09, resulting in overall reductions in fuel, maintenance and insurance costs
- an organisational restructure in 2009-10, resulting in temporary staff costs decreasing
- a Single Maritime Agreement, covering afloat employees effective from 7 May 2009, reducing the number of full-time equivalent staff.

The decrease in expenditure was partly offset by the \$3.4 million decrement in the value of fleet vessels.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	16,253	12,939
Non-current assets	103,394	111,702
TOTAL ASSETS	119,647	124,641
Current liabilities	36,913	38,253
Non-current liabilities	1,242	81,742
TOTAL LIABILITIES	38,155	119,995
NET ASSETS	81,492	4,646

The significant decrease in liabilities was attributable to Sydney Ferries' debt of \$94.9 million being transferred to the Crown Finance Entity for nil consideration on 31 March 2010.

SYDNEY FERRIES' ACTIVITIES

Sydney Ferries became a statutory authority on 1 January 2009 by amendments made to the *Transport Administration Act 1988*. Previously, Sydney Ferries was constituted as a State owned corporation under the *State Owned Corporations Act 1989* and the *Transport Administration Act 1988*.

Sydney Ferries operates ferry passenger services on Sydney Harbour and the Parramatta River. Its principal objective is the delivery of safe and reliable ferry services in an efficient, effective and financially responsible manner.

For further information on Sydney Ferries, refer to www.sydneyferries.nsw.gov.au.

Sydney Metro

AUDIT OPINIONS

The audits of the Sydney Metro and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

KEY ISSUES

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

New South Wales Government's Decision to Stop Sydney Metro Projects

On 21 February 2010, the New South Wales Government released its Metropolitan Transport Plan and announced its intention to not proceed with a metro network for Sydney.

The New South Wales Government decided to:

- reimburse reasonable costs incurred by the tenderers for the major construction contracts affected by the decision to stop the Metro Network Stage 1 project
- reimburse reasonable costs of property owners and tenants who had incurred legal, valuation and other costs relating to property acquisition.

Following the New South Wales Government's decision, Sydney Metro established a Demobilisation Steering Group to identify the tasks necessary to complete or close down all its activities, obligations and responsibilities with a focus on:

- close-out of tasks and demobilisation of resources associated with the cancelled projects
- the establishment of a process for reimbursement of costs incurred by major contract tenderers and property owners and tenants.

Sydney Metro substantially completed demobilisation by the end of March 2010. However, some tasks such as the settlement of the tender and property claims process and financial reporting obligations have taken to the end of the financial year to resolve or will extend into 2010-11.

Up until 30 June 2010, \$412 million has been spent on metro projects with more costs expected in 2010-11. Outgoings included \$176 million in project expenditure written off as a result of the Government's decision to stop work on metro projects, \$94.9 million in cost reimbursement claims, and \$103 million in property acquisitions.

Cost Reimbursement Claims by Tenderers for Major Construction Contracts

The New South Wales Government recognised that resources and effort had been put into the process by all five tenderers for the major construction contracts and undertook to deal with their claims for reimbursement fairly and properly.

A process for managing and determining the claims was established, which included a governance structure of a cross-agency assessment team, independent reviewers and a Chief Executive level Steering Committee.

A large accounting firm was engaged to independently assess these claims and determine the final amounts. The New South Wales Government accepted those determinations and Sydney Metro paid \$93.5 million to settle these claims before 30 June 2010.

Cost Reimbursement for Property Acquisition Related Claims

At the time of the projects' cancellation, Sydney Metro was in the process of acquiring properties for construction of the Metro Network Stage 1 project. The New South Wales Government's decision to cancel the projects included an acknowledgement of the likely impact on owners and tenants whose properties were being acquired for the construction of the project.

A governance structure was established involving independent reviewers and a Chief Executive level Steering Committee. Another large accounting firm was appointed to independently assess cost reimbursement claims from the affected property and leasehold owners. This process was to apply assessment principles consistent with the *Land Acquisition (Just Terms) Compensation Act*.

At 30 June 2010, 17 claims totalling \$355,000 had been finalised. Sydney Metro raised a provision of \$1.0 million to cover a further 11 claims that have certainty about the settlement amount. In addition to these items, Sydney Metro has received a further 47 claims and these claims are expected to be resolved during 2010-11.

Whilst a significant number of affected parties have already lodged claims, property and leasehold owners have up to 3 years to lodge a claim under current legislation.

The New South Wales Government has also established an additional review mechanism for small business owners if they are dissatisfied with the independent assessment of their claim. A former judge of the Land and Environment Court has been appointed to conduct a review of determinations if requested.

Acquisition of Properties for Metro Network Stage 1 Project

As part of the activities for the Metro Network Stage 1 project, 33 privately owned properties were identified for acquisition. Sydney Metro had also identified 108 tenancies to be acquired in order to vacate the buildings for demolition. These properties were to be used during the project's construction phase or were to be used as part of the entrances to metro stations. At the time of the New South Wales Government's February decision, Sydney Metro had spent \$103 million to acquire seven properties. Also, Sydney Metro had spent \$32.5 million to acquire 22 tenancies and make relocation payments to owners.

These seven properties will be retained as being suitable for both construction sites and to protect future corridors for transport infrastructure projects. As a result of the changed use of these properties Sydney Metro arranged for professionally qualified valuers to provide an updated market valuation. To reflect the lower current occupancy of the buildings and the future use of the site for construction purposes, these properties were revalued at \$55.0 million at 30 June 2010, resulting in a reduction of property values of \$47.6 million. These properties will be transferred to Transport NSW in 2010-11.

Capitalised Work In Progress

Prior to the New South Wales Government's February decision to stop work on Sydney Metro's projects, most of Sydney Metro's expenditure totalling \$112 million was capitalised as work in progress. Only costs such as overheads and long range planning work not directly attributable to the Sydney Metro projects as well as the costs incurred after 21 February 2010 were expensed in Sydney Metro's Statement of Comprehensive Income.

Subsequently, Sydney Metro assessed the above project related expenditure and confirmed that (except for the costs relating to acquisition of project properties) it would not result in the creation of an asset that could be utilised in the near future. Work in progress totalling \$176 million (including the current year capitalised costs of \$112 million and the previous year capitalised costs of \$64.5 million) was written off as an expense. Of the \$176 million written off capitalised work in progress, \$133 million related to Metro Network Stage 1 (CBD) project and \$43.2 million related to Metro Network Stage 2 (West) project.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Sydney Metro	
	2010 \$'000	2009* \$'000	2010 \$'000	2009* \$'000
Operating costs (including Personnel Services)	35,907	3,791	36,692	3,791
Decrement in value of properties	47,669	--	47,669	--
Write off of capitalised work in progress	176,128	--	176,128	--
Cost reimbursement claims	94,872	--	94,872	--
Depreciation and amortisation	324	104	324	104
OPERATING EXPENSES	354,900	3,895	355,685	3,895
Government grants	384,214	171,812	384,214	171,812
Other revenue (including Interest income)	15,329	541	15,329	541
OPERATING REVENUE	399,543	172,353	399,543	172,353
SURPLUS	44,643	168,458	43,858	168,458
OTHER COMPREHENSIVE INCOME				
Superannuation actuarial losses	(785)	--	--	--
TOTAL COMPREHENSIVE INCOME	43,858	168,458	43,858	168,458

* Comparative figures for 2009 cover the period from 27 January 2009 to 30 June 2009.

Abridged Statements of Financial Position

At 30 June	Consolidated		Sydney Metro	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	215,591	176,409	215,591	176,409
Non-current assets	55,840	65,053	55,840	65,053
TOTAL ASSETS	271,431	241,462	271,431	241,462
Current liabilities	7,506	21,255	7,506	21,255
Non-current liabilities	--	140	--	140
TOTAL LIABILITIES	7,506	21,395	7,506	21,395
NET ASSETS	263,925	220,067	263,925	220,067

Sydney Metro's cash balance at 30 June 2010 was \$213 million. This included the \$82.6 million unspent funding from the Australian Government. The Treasury has separately returned \$80.1 million of this balance to the Australian Government. Cash held by Sydney Metro after settling the remaining property cost reimbursement claims will be returned to The Treasury when Sydney Metro is dissolved or when advised by the Treasurer.

Included in non-current assets are seven properties valued at \$55.0 million.

AGENCY ACTIVITIES

Sydney Metro was established as a statutory body under the *Transport Administration Act 1988* on 27 January 2009. Its principal activities were to develop safe and reliable metro railway systems as well as hold, manage and maintain metro rail infrastructure facilities.

Amendments to the *Transport Administration Act 1988* commenced on 1 July 2010 which established Transport NSW and abolished the Sydney Metro Board. The affairs of Sydney Metro and Sydney Metro Division, from the 1 July 2010, are to be managed and controlled by the Director-General of Transport NSW.

From 1 July 2010, and until it is dissolved, Sydney Metro will be a controlled entity of Transport NSW. All Sydney Metro Division staff are working on other activities for Transport NSW. Sydney Metro Division expects to finalise formal transfer of its staff to Transport NSW during the 2010-11 financial year.

For further information on Sydney Metro, refer to www.transport.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 operation to the consolidated entity. This division was enacted as a requirement of the *Public Sector Employment and Management Act 2002*. For further information on Sydney Metro Division, refer to Sydney Metro's agency activities.

Entity Name	Website
Sydney Metro Division	*

* This entity does not have a website.

Transport Infrastructure Development Corporation

AUDIT OPINION

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

KEY ISSUES

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

Transport Restructure

On 1 July 2010, the *Transport Administration Amendment Act 2010* established Transport NSW and resulted in the Corporation becoming a controlled entity of Transport NSW. The Act also changed the entity from a State owned corporation to a Statutory Authority, abolished its governance board, and changed its name. I have referred to the former Corporation by its new name, the Transport Construction Authority (the Authority), throughout the remainder of this report.

Under this Act, the Chief Executive has the authority to manage and control the affairs of the Authority in accordance with any directions of the Director-General of Transport NSW for the purposes of exercising the functions of the Director-General.

For further information on the transport restructure refer to the 'Transport Services Overview' in this volume.

Delayed Commissioning of Constructed Assets

The Lidcombe Turnback was forecast to be commissioned in Nov 2010, whilst the Homebush Turnback is forecast to be commissioned in March 2011. These turnbacks were constructed in April 2008 with an original planned commissioning date in June 2008. The delays are due to a shortage of signal engineers in the rail industry who are qualified to test and commission new infrastructure assets. The estimated final construction cost of this clearways project is \$102 million.

While the commissioning of these turnbacks has been delayed, the Authority did commission the Cronulla Rail Line upgrading and Duplication (Rail clearways program) and car parks at Helensburgh, Seddon Park, Werrington, and Woonona (Commuter car parks program).

For more information on how the Authority and RailCorp are managing the shortage of signal engineers, refer to the comments on RailCorp in this Volume.

Rail Clearways Program

The Rail Clearways program was announced in the 2004 Mini Budget speech as a 15 project program to be completed over six years (ending in 2010) at an estimated cost of \$1.0 billion. The original approved budget for the Program was \$1.3 billion, excluding the cost of interest and escalation.

As part of the 2008 Mini Budget, the Government reviewed the priorities of the rail capital program to ensure it met the needs of growing demand on the CityRail network. It also reviewed the program in light of signalling skill shortages in the rail industry. As a result, two projects within the Rail Clearways Program were cancelled (Carlingford Loop and the Sydenham to Erskineville project), with the delivery of two further projects to be staged (Richmond Line Duplication and Macarthur Station and Interchange). The Authority advises that the revised Rail Clearways program is expected to be completed by 2015, some five years after the original completion date at a cost of \$2.03 billion including interest and escalation as well as \$63.0 million in additional work funded by other sources.

The key projects of the Rail Clearways Program, their original and revised Budgets and planned construction completion dates (unaudited and as advised by the Authority) are as follows:

Key Projects	Original Budget (\$m)	Revised Budget (\$m) ⁸	Original Completion Date	Revised Completion Date (at July 2010)
Eastern Suburbs & Illawarra				
Bondi Junction Turnback	68	65	2006	2006
Cronulla branch line duplication	212	346	2008	2010
Bankstown				
Lidcombe Turnback and platform	87	102	2008	2008 ¹
	See below ⁶	See below ⁶		
Liverpool Turnback and platform	84	160	2010	2014 ²
Sydenham to Erskineville extra tracks	Nil ⁷	Nil ⁷	Nil ⁷	Cancelled
Campbelltown express				
Kingsgrove to Revesby quadruplication	410	790	2010	2012 ²
Macarthur fourth platform	29	55	2010	Stage 1-2010 ³ Stage 2-2015 ³
Airport & South				
Macdonaldtown Turnback	17	13	2005	2005
Homebush Turnback	See below ⁶	See below ⁶	2008	2008 ¹
Revesby Turnback	92	78	2008	2008
Macdonaldtown stabling	40	46	2007	2007
North West				
Berowra Platform	9	11	2006	2006
Hornsby Platform	98	119	2008	2008
Quakers Hill to Vineyard Duplication	108	246 ⁹	2012 (was 2010) ⁴	Stage 1-2011 ⁵
Carlingford line passing loop	36	Nil	2010	Cancelled
Total Program Cost	1,290	2,031		

- 1 Project yet to be commissioned due to outstanding signalling works to be undertaken by RailCorp (Lidcombe forecast November 2010, Homebush March 2011).
- 2 After reprioritisation and scope review in November 2008
- 3 After reprioritisation in November 2008. Stage 1 relates to the bus interchange and easy access works. Stage 2 relates to platform and rail works.
- 4 Date changed following the extension of the Quakers Hill to Schofield's project to Vineyard.
- 5 Stage 1 Quakers Hill to Schofields to be completed by 2011. No date set for Stage 2 Schofields to Vineyard.
- 6 The Homebush/Lidcombe Turnbacks are costed together. The original budget is \$87.0 million and the revised budget is \$102 million.
- 7 The Sydenham to Erskineville project was not scheduled or funded prior to being cancelled.
- 8 Excludes RailCorp Management costs and borrowing costs and includes \$63.0 million works funded from other parties.
9. Original budget and revised budget are for stage 1 only. .

Expenditure on the program to 30 June 2010 totalled \$1.25 billion (\$883 million at 30 June 2009).

The objective of the Rail Clearways Program is to improve capacity and reliability on CityRail's Sydney suburban network. It comprises 13 key projects being delivered by the Authority on behalf of RailCorp. The program involves separating the network's 14 metropolitan rail routes into five independent rail clearways.

OTHER INFORMATION

Commuter Car Park and Interchange Program (CCPIP)

In December 2008, the New South Wales Government directed the Authority to deliver 22 of the 29 car parks under the Stage One of CCPIP. RailCorp and various local councils are managing the construction of the remaining seven car parks. Stage 1 of the CCPIP will deliver around 7,000 new car spaces for rail commuters at 29 facilities at railway stations across Sydney, the Central Coast, the Illawarra and the Blue Mountains.

In February 2010, the Minister for Transport announced Stage 2 of the CCPIP as part of the Metropolitan Transport Plan. Stage 2 includes 21 projects comprising 18 car parks and interchanges to be delivered by the Authority and three station upgrades by RailCorp. As a result, the Authority is delivering a total of 31 car parks and nine interchanges. The delivery program for Stage 2 projects is currently being developed with a budget of \$127 million.

The next table shows the original and latest forecast completion dates, together with the original and revised budgets for Stage 1 projects. The overall revised budget for the Stage 1 has increased by \$22.4 million above the original budget due to revised program contingency costs and scope and contract variations. At 30 June 2010, the Authority had incurred \$103 million on the Stage 1 project.

At the end of October 2010, the Authority had completed 9 car parks. The Authority believes it can complete the other Stage 1 car parks before the end of October 2011.

Location		Original completion date	Current forecast or actual completion date	Original Budget (\$m)	Revised Budget (\$m)
1	Berowra	Sep-10	Dec-10	2.1	5.7
2	Blacktown	Feb-11	Jul-11	35.9	45.5
3	Emu Plains	Sep-10	Oct-10/Nov-10	5.7	6.2
4	Glenfield M/Deck	Sep-10	Sep-10	15.5	16.5
5	Helensburgh	Sep-09	Sep-09	1.7	2.3
6	Katoomba	Apr-10	Jul-10	1.3	2.8
7	Macarthur (1)	Dec-10	Dec-10	8.0	1.0
8	Macarthur (2)	Oct-10	Dec-10/Feb-11	9.3	16.3
9	Padstow	Consolidated ³	Consolidated ³	11.8	0.0
10	Quakers Hill	Oct-10	Sep-10	5.9	6.6
11	Ourimbah	Jul-10	Jul-10	1.2	2.3
12	Revesby	Dec-10	Apr-11	30.4	40.5
13	Schofields	Sep-11	Oct-11	2.4	2.7
14	Seddon Park	Oct-09	Oct-09	0.8	0.8
15	Seven Hills	Nov-10	Nov-10/Feb-11	22.7	24.8
16	St Marys	Nov-10	Dec-10	24.8	21.4
17	Warwick Farm	Mar-11	Mar-11	30.9	25.6
18	Waterfall	Sep-10	Aug-10/Nov-10	2.4	6.3
19	Werrington	Mar-10	Jun-10	2.1	1.9
20	Wollongong	Dec-10	Oct-10	14.6	15.7
21	Woonona	Jun-10	Jun-10	1.5	2.2
22	Woy Woy	Dec-10	Apr-11	26.9	33.8
23	Wyong	Oct-10	Dec-10	7.3	6.7
Total Program including other funding ¹				265.2	287.6
Total Program (CCPIP) ²					266.6

¹ Including additional funding from other programs (\$288 m)

² Total CCPIP-1 budget (\$267 m)

³ Car spaces consolidated into Revesby Project

Epping to Chatswood Rail Line (ECRL) Project

The final forecast cost for the ECRL is \$2.3 billion (excluding interest costs on borrowings). This is some \$300 million more than the original approved budget. As previously reported, the estimated project cost of \$1.6 billion (in 2000 prices and per 2003-04 budget papers) did not include post 2000 escalation costs for the project of \$447 million or the interest costs on borrowings.

At 30 June 2010, the Authority had incurred \$2.3 billion or 98.0 per cent of the final forecast cost. The Authority expects to spend a further \$45.7 million over the next two years, finalising property costs, minor works and costs associated with administering the defect liability period (until 2013).

Defect rectification works, which included noise mitigation works, were completed in November 2009. The costs were paid by the tunnel contractors at no cost to the New South Wales government.

Chatswood Transport Interchange

As reported in Volume Four of my 2008 Report to Parliament, CRI Chatswood Australia Pty Limited (CRI), the developer of the Chatswood Transport Interchange, went into receivership in October 2008. The Authority advised this did not affect taxpayers and the general public as the transport elements supporting the start of services on the new ECRL were already complete.

There were several contractual disputes between the developer and the Authority at the time it went into receivership. These were settled via a settlement deed in June 2009. The Authority also obtained a bank guarantee as part of the settlement deed to cover obligations that may arise during the defects liability period. It also received an undertaking from CRI's financiers to cover the Authority's outgoing expenses on the retail centre for a period of up to three years. The retail shops were constructed, but have remained boarded up and empty for over two years. The Authority has maintained security and cleaning responsibilities for these areas until they are tenanted.

A contractual dispute arose between the private sector developer and private sector retail purchaser, which has delayed the opening of the retail component of the overall development. All contractual disputes relating to the retail component of the CTI between private sector parties were settled in principle in August 2010.

North Sydney Station Project

The Authority completed (excluding defect rectification works) the North Sydney Station Project during 2008 and it became fully operational from December 2008. At 30 June 2010, the Authority had incurred \$85.2 million on the project. It expects the final forecast cost to be \$88.3 million, some \$18.4 million or 26.3 per cent more than the original budget of \$69.9 million. The increase was due to increased construction scope and remediation works, while defects rectification works are continuing.

South West Rail Link (SWRL)

In November 2009, the New South Wales Government committed to deliver the SWRL project at a total cost of \$2.1 billion. At 30 June 2010, the Authority had incurred \$158 million on the project. The project has two stages:

- Stage 1 - upgrading Glenfield station, providing additional commuter car parking, upgrading of power supplies and constructing new stabling facilities at Auburn. The Authority advises Stage 1 will be completed in 2013 at a cost of \$862 million with commissioning of Glenfield Junction in 2014 and staged commissioning of Auburn Stabling in the period 2014-2016
- Stage 2 - 11.4km of new twin track from Glenfield to Leppington, new stations and commuter car parking at Leppington and Edmondson Park and a new train stabling facility. The Authority advised work has begun on Stage 2 and is scheduled for completion in 2016.

Northern Sydney Rail Freight Corridor (NSRF)

The NSRF program is an initiative of the Australian Government to remove operational impediments to rail freight traffic between North Strathfield and Broadmeadow at Newcastle. The Authority received \$15.0 million from the Australian Government in 2008-09 to commence feasibility studies. At 30 June 2010, the Authority had incurred \$12.3 million on the project.

Human Resources

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

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies
- extent of contract staff.

A summary of the results of my review follows.

Workforce Ageing

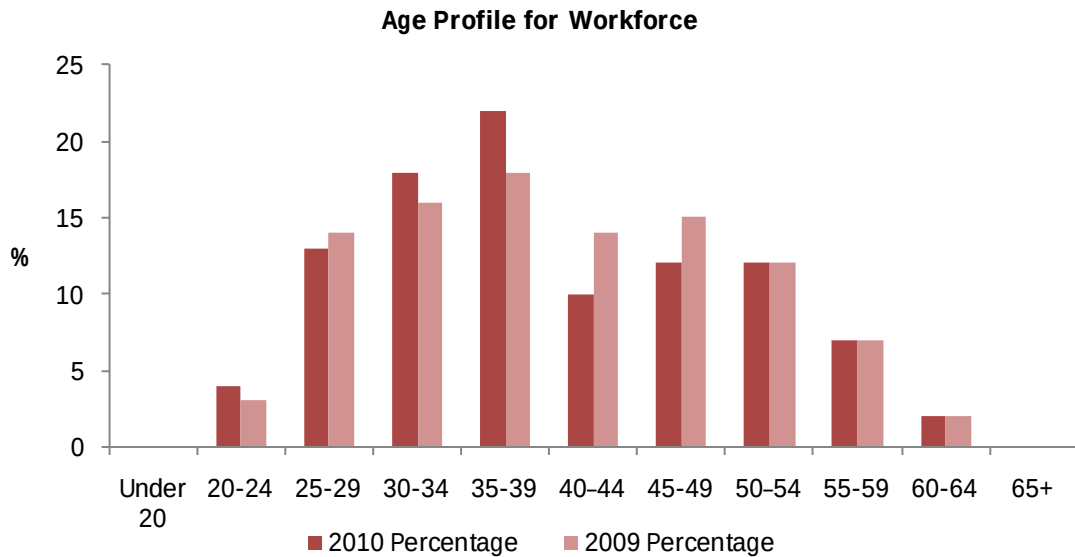
Nine per cent of the Authority's employees are over 55 years of age and 21 per cent are over 50. This distribution of employees across the workforce profile indicates that the Authority is not facing the challenges of an ageing workforce that other transport agencies are currently experiencing.

The age profile of the Authority's employees is shown below:

At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
Up to 35	77	35	61	33
35 – 39	50	22	32	18
40 – 44	23	10	25	14
45 – 49	27	12	27	15
50 – 54	26	12	22	12
55 – 59	16	7	13	7
60 – 64	5	2	3	2
65+	--	--	--	--
Total	224	100	182	100

Source: Transport Construction Authority (Unaudited).

The graph below further demonstrates the age structure of the Authority's employees.



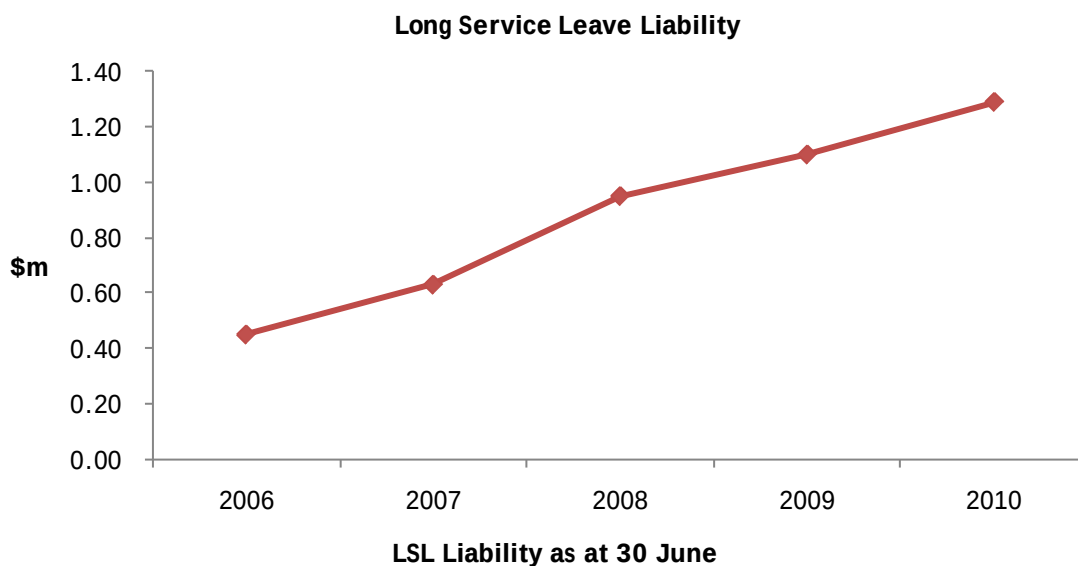
Source: Transport Construction Authority (Unaudited)

While there is still the potential for loss of knowledge and specific skills within the organisation, the Authority places emphasis on graduate programs to attract junior employees and encourages the sharing of knowledge within the Authority.

Long Service Leave Liability

The Authority's liability for long service leave entitlements at 30 June 2010 amounted to \$1.3 million (\$1.1 million in 2009). This liability has increased by over 186 per cent over the last five years. However, the value of the liability is insignificant and has minimal risk to the Authority given the size and nature of its business.

The growth in the long service leave entitlement is illustrated in the graph below.



Source: Transport Infrastructure Development Corporation's audited financial statements.

Annual Leave Balances

The Authority continues to manage annual leave effectively. At 30 June 2010, the Authority reported seven (six) employees with annual leave balances greater than 40 days. The employees in this category represented three per cent (three per cent) of total employees. There have been no significant changes in the percentage of employees with excessive annual leave in the past two years.

Use of Contract Staff

At 30 June 2010, the Authority had eight contractor employees who it had engaged for more than 12 months, and who were paid \$1.0 million in the twelve months to 30 June 2010.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Government grants	656,887	189,710
Other	385,512	348,297
TOTAL REVENUE	1,042,399	538,007
TOTAL EXPENSES*	411,254	359,403
SURPLUS	631,145	178,604
OTHER COMPREHENSIVE INCOME:		
Decrease in property plant and equipment revaluation reserve	(8,550)	(32,616)
Increase on revaluation of South West Rail Line	--	9,036
TOTAL OTHER COMPREHENSIVE EXPENSE	(8,550)	(23,580)
TOTAL COMPREHENSIVE INCOME	622,595	155,024

* Total expenses exclude direct and indirect costs incurred on the ECRL, South West Rail and Commuter Car Park projects. These costs are capitalised as work in progress.

Government grants were higher in 2009-10 because the Authority was provided with funding to construct the South West Railway Link and the Commuter Car Park Program.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	736,084	225,472
Non-current assets	361,691	175,865
TOTAL ASSETS	1,097,775	401,337
Current liabilities	150,932	83,830
Non-current liabilities	953	820
TOTAL LIABILITIES	151,885	84,650
NET ASSETS	945,890	316,687

The significant increase in assets, liabilities and net assets was largely due to increased funding and construction for: the South West Railway Link; the Rail Clearways program; and the Commuter Car Park and Interchange Program.

AUTHORITY ACTIVITIES

For further information on the Authority, refer to www.tca.nsw.gov.au.

Minister for Tourism

Luna Park Reserve Trust

Luna Park Reserve Trust

AUDIT OPINION

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

KEY ISSUES

Going Concern of the Park Operator

I recommend the Trust closely monitor the uncertainty surrounding the Park Operator's ability to continue as a going concern to ensure it meets its financial and social obligations.

The Independent Auditor's Report for the Luna Park site Operator for 2008-09 included an emphasis of matter drawing attention to uncertainty as to whether the Operator will continue as a going concern.

The Trust advised that the Operator is in negotiation with current financiers to identify refinancing alternatives to continue its operations and there is no significant financial exposure to the Trust.

The Trust continues to follow up the developments relating to this matter.

FINANCIAL INFORMATION

Year ended 30 June	2010 \$'000	2009 \$'000
Revenue	1,425	1,567
Expenses	1,787	2,206
Deficit	362	639
Net assets (at 30 June)	31,744	25,563

Revenue is mainly comprised of property rental earned during the year.

The increase in net assets reflects the asset revaluation performed during the year.

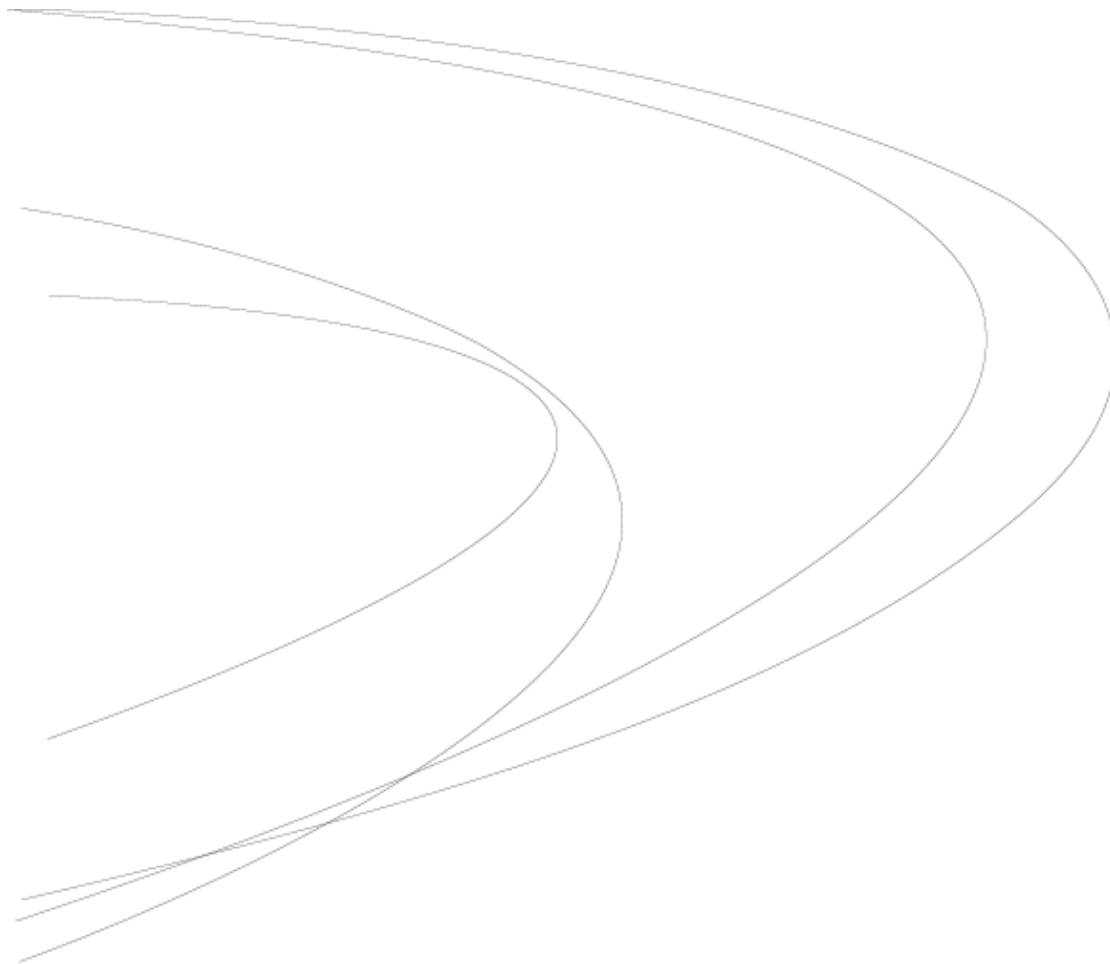
TRUST ACTIVITIES

The Luna Park Reserve Trust was created in October 1990 under the *Luna Park Site Act 1990*. The Trust controls the Luna Park site, an area dedicated for public amusement, recreation and entertainment. It is managed by Sydney Harbour Foreshore Authority but is not a controlled entity.

The Minister for Planning has administrative responsibility for the *Luna Park Site Act 1990* and administrative responsibility for the *Crown Lands Act 1989* so far as it relates to the Luna Park Reserve.

Appendix

Appendix 1 Agencies not reported elsewhere in this Volume



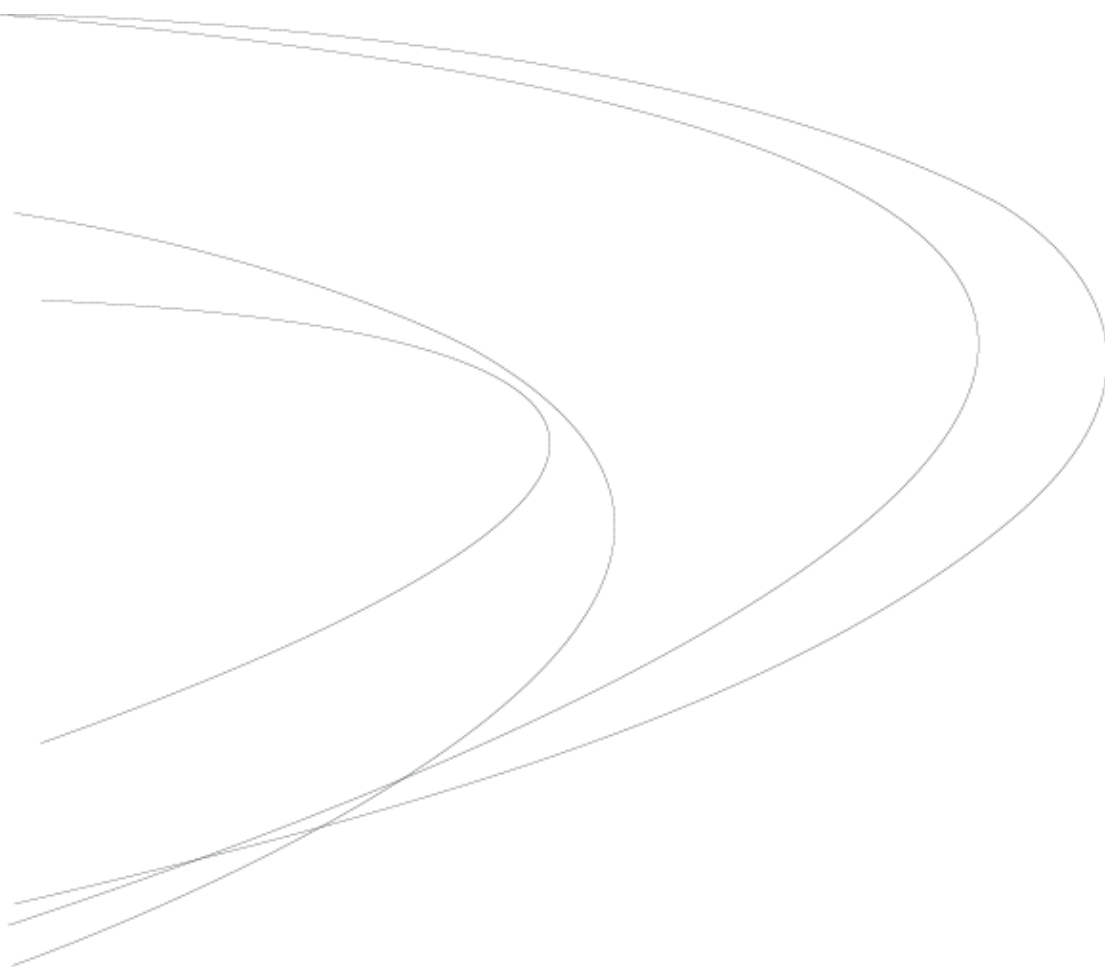
Appendix 1 - Agencies not reported elsewhere in this Volume

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

Entity Name	Website	Period/Year Ended
Agricultural Scientific Collections Trust	*	30 June 2010
Banana Industry Committee	*	30 June 2010
Belgenny Farm Agricultural Heritage Centre Trust	www.belgennyfarm.com.au	30 June 2010
Board of Surveying and Spatial Information	www.bossi.nsw.gov.au	30 June 2010
C.B. Alexander Foundation	www.tocal.com	30 June 2010
Chief Investigator of the Office of Transport Safety Investigations	www.otsi.nsw.gov.au	30 June 2010
Chipping Norton Lake Authority	*	30 June 2010
Festival Development Corporation	*	30 June 2010
Game Council of New South Wales	www.gamecouncil.nsw.gov.au	30 June 2010
- Game Council Division	*	30 June 2010
Hunter Development Corporation	*	30 June 2010
Independent Transport Safety and Reliability Regulator	www.transportregulator.nsw.gov.au	30 June 2010
- Independent Transport Safety and Reliability Regulator Division	*	30 June 2010
Lake Illawarra Authority	www.lia.nsw.gov.au	30 June 2010
Ministerial Corporation for Industry	*	30 June 2010
New South Wales Film and Television Office	*	30 June 2010
NSW Ovine Johne's Disease Transaction Based Contribution Scheme	*	30 June 2010
Rice Marketing Board for the State of New South Wales	www.rmbnsw.org.au	30 June 2010
Riverina Citrus	www.riverinacitrus.com.au	30 April 2010
Small Business Development Corporation of New South Wales	*	30 June 2010
Veterinary Practitioners Board	www.vpb.nsw.gov.au	30 June 2010

* This entity does not have a website.

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AUDITOR-GENERAL'S REPORT FINANCIAL AUDITS

Volume Ten 2010



The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

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

Peter Achterstraat
Auditor-General

Sydney
December 2010

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Significant Items

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Art Gallery of New South Wales Trust	
Visitor numbers were 25 per cent lower in 2009-10. There were fewer exhibitions held, mainly due to disruptions from building works and the relocation of the collection to a new storage facility.	5
The new collection storage facility at Lilyfield became operational in March 2010. The facility will address the risk of damage to collection items that were previously overcrowded in the Gallery's on-site storage facility.	8
Australian Museum Trust	
The Museum's collections exceed 18 million objects of which only 1.6 million were recorded in the electronic database. At the current rate, it will take the Museum 341 years to record its collections in the database.	10
Whilst the Museum is improving access to its collections, a lack of information on its collections limits the Museum's ability to achieve its objectives.	10
In 2009-10, the number of visitors to the Museum increased by 52,647 to 374,601, representing a 16.4 per cent increase over the previous year.	11
Communities NSW	
In 2008, it was estimated that \$2.7 billion was spent on obesity related illness in New South Wales. In 2010 Communities NSW, spent \$102 million increasing and promoting participation opportunities for sport and active recreation, which is about 3.8 per cent of the obesity cost.	16
Historic Houses Trust of New South Wales	
The Trust acquired the former Presbyterian Manse in Moruya. The property will be conserved and sold with proceeds being returned to the Endangered Houses Fund.	24
The transfer of ownership of the Justice and Police Museum to the Trust was completed during the year.	24
Ownership of the historic property, Throsby Park, was transferred from the National Parks and Wildlife Service to the Trust. The property will be leased, with proceeds going to the Endangered Houses Fund.	24
The Trust revalued its properties and collections resulting in an increment of \$58.1 million.	27
Library Council of New South Wales	
The Library's collection was revalued resulting in an increment of \$271 million.	30
At 30 June 2010, 11.1 per cent of contract staff had been engaged by the Library for more than 12 months and one staff member had been contracted for more than six years.	33

Sydney Opera House Trust	Page
Last year, I recommended that critical problems with stage machinery at the Sydney Opera House be addressed and consideration be given to other operational shortcomings. The Trust is progressively addressing these issues. The replacement of obsolete equipment will depend on available funding.	35
There was a two percent increase in overall attendance in 2009-10 compared to the previous year and this was the highest level achieved in the last five years.	35
The Opera House was revalued resulting in an increment of \$314 million.	38
Trustees of the Museum of Applied Arts and Sciences (Powerhouse Museum)	
The Sydney Observatory and the Powerhouse Discovery Centre recorded their highest ever visitor numbers. At the Powerhouse Museum visitor numbers were lower because a major international touring exhibition was not presented this year.	40
Building Education Revolution Program (BER)	
Whilst it appears the Department has delivered on the key objectives of the P21 program, which is rapid construction of school facilities, it appears to have come at a higher cost than in a business as usual environment.	49
In many cases facilities built exceeded the size entitlements specified in the Department's School Facilities Standards.	50
The extra funds used to provide 295 schools with halls bigger than their suggested entitlement could have been directed towards other projects or to those schools that will not have a multipurpose hall at the end of the P21 program.	50
It appears key stakeholders were not fully informed of the Department's Standards and the BER Guidelines, and how they apply to their school, resulting in confusion and concerns about the adequacy of facilities, and why schools did not receive a certain type of facility.	50
Approved managing contractors tendered fees of (\$261 million) were \$40 million, or 18.1 per cent, higher than the Department's own estimate of \$221 million.	50
For 1,270 projects at the time of my audit, the Department's quantity surveyors assessed the estimated project costs to be lower than the managing contractors' estimates. Despite this lower assessment, the Department still approved the managing contractors cost estimates. The total difference for the 1,270 projects was \$188 million.	51
Because the Department had approved the higher cost estimates determined by the managing contractors, there was no real incentive for the managing contractors to try and negotiate a lower price.	51
The volume of work and tight timeframes led to limited competition when tenders were put to the marketplace for individual projects.	51
Tender documents and contracts indicate that most of the site supervision was carried out by sub contractors of managing contractors and therefore there is a risk of the Department paying for a service that was not provided by managing contractors.	51

Building Education Revolution Program (BER) (continued)	Page
The term Benchmark Market Value could be misleading to stakeholders. It only benchmarks a project with other projects in the P21 Program. It is not an external benchmark.	51
The independent quantity surveying firm I engaged to estimate the construction cost for nine P21 projects believes that in eight cases, the estimated construction cost would be between 2.3 per cent and 39.7 per cent lower, in a business as usual environment, than the estimated construction sum/actual tendered amounts under the P21 program.	51
The extra funds used to provide the 220 schools with libraries bigger than their suggested entitlement could have been directed towards other projects or to those schools that will not have a libraries at the end of the P21 program.	61
If the Department had more discretion to transfer funding allocations between schools, it may have resulted in greater benefits to the government school network as a whole.	64
Department of Education and Training	
The results of the National Assessment Program – Literacy and Numeracy indicated New South Wales students continue to perform better than the national average. However, spelling and numeracy results were lower than 2009 for years 3, 5, 7 and 9.	101
Although retention rates in New South Wales improved in 2009 they still remain below the national average.	104
The results of the 2009 national tests for New South Wales Aboriginal students indicated they performed consistently better than the national average for Aboriginal students.	105
Around 92 per cent of students are present at school on an average school day. Attendance was highest in the Northern Sydney region, 94 per cent and lowest in the New England region, 89 per cent.	107
The Department continues to face the loss of large numbers of retiring teachers and the loss of their associated skills, 44.8 per cent of school teachers are aged 50 years and over.	112
The number of international students enrolled increased by 18.8 per cent in 2009. The resultant increase in fees was \$3.7 million or 10.9 per cent.	120
New South Wales Technical and Further Education	
The Commission estimates that backlog maintenance has fallen from \$37.6 million last year to \$8 million.	124
The Commission is facing the loss of large numbers of retiring teachers, 65.3 per cent of its permanent teachers are aged 50 years and over.	125
Wentworth Park Sporting Complex Trust	
The Trust continues to record a loan of \$6.5 million payable to Greyhound Racing NSW. The Trust and Greyhound Racing NSW have again failed to agree on terms to settle this amount.	139

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Illawarra Venues Authority	
The <i>Sporting Venues Authorities Act 2008</i> dissolved the Wollongong Sportsground Trust on 30 November 2009 and established the Illawarra Venues Authority. The change did not impact operations.	161
The Government announced funding of \$28.9 million for replacement of the Western Grandstand. Work commenced in 2010 and is expected to be completed in 2012.	161
Average attendance at the WIN Entertainment Centre increased by 40 per cent due to major music events including concerts by PINK, Lady GaGa, Keith Urban, Tom Jones and John Mayer.	161

Recommendations

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Art Gallery of New South Wales Trust	
I recommend:	
▪ the Gallery establish individual leave plans with employees to reduce leave balances within an acceptable timeframe.	7
▪ the Gallery implement a centralised system for monitoring accrued flex leave balances.	7
Australian Museum Trust	
I have previously recommended the Museum complete its program of recording its collections on an electronic database as soon as possible.	10
I recommend:	
▪ the Museum develops and implements additional procedures requiring all staff with excessive leave balances to have a leave management plan in place to further reduce leave balances within an acceptable timeframe.	13
▪ the Museum establish a central register of all contractors. The Museum should review its use of contractors to ensure it is not excessive and the Museum is receiving value for money by engaging contractors.	13
Communities NSW	
I recommend:	
▪ Communities report on the participation rates of children in sport and active recreation.	16
▪ Communities develop mechanisms to centrally review flex time records to help ensure excessive flex time is not being accrued and forfeited by staff.	20
▪ management review overtime to minimise potential downsides of staff working excessive hours.	20
▪ Communities monitor the use of contractors centrally, to ensure reliance on contractors is not excessive and continues to represent value for money.	20
Historic Houses Trust of New South Wales	
I recommend the Trust:	
▪ develops and implements procedures requiring all staff with excessive leave balances to have a leave management plan in place to reduce leave balances within an acceptable timeframe.	26
▪ periodically review the roles and responsibilities of all contract employees to ensure:	
▫ reliance on contractors is not excessive	
▫ use of contract employees instead of permanent employees is appropriate	
▫ contractors do not become de facto employees by virtue of being with the Trust for an extended period of time	
▫ that the Trust is receiving value for money by utilising these contractors.	26

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Library Council of New South Wales	
I recommend the Library:	
▪ review the effectiveness of its policies in managing its ageing workforce.	31
▪ implement a centralised system for monitoring flex leave arrangements.	32
▪ periodically review the roles and responsibilities of all contract employees to ensure:	
□ reliance on contractors is not excessive	
□ use of contract employees instead of permanent employees is appropriate	
□ contractors do not become de facto employees by virtue of being with the Library for an extended period of time	
□ the use of contract employees continues to represent value for money.	32
Trustees of the Museum of Applied Arts and Sciences	
I recommend the Museum:	
▪ develops and implements procedures requiring all staff with excessive leave balances to have a leave management plan in place to reduce leave balances within an acceptable timeframe.	42
▪ periodically review the roles and responsibilities of all contract employees to ensure:	
□ reliance on contractors is not excessive	
□ use of contract employees instead of permanent employees is appropriate	
□ contractors do not become de facto employees by virtue of being with the Museum for an extended period of time.	43
Building the Education Revolution	
I recommend:	
▪ the Department review whether the library sizes in its School Facilities Standards are appropriate, given that 57 per cent of schools are receiving a library that is bigger than the size guide in the Standards.	61
▪ the Department review whether the multipurpose hall sizes in its School Facilities Standards are appropriate given that 70 per cent of schools are receiving a hall that is bigger than the size guide in the Standards.	62
▪ at the conclusion of each P21 project, the Department offer each school community a briefing on key aspects of the School Facilities Standards and how they apply to their school.	65
▪ the Department complete a comprehensive review of its School Facilities Standards post the BER program. This review should include post occupancy evaluations from all schools that received a new or refurbished facility under the P21 program.	68
▪ the Department should always comply with the recommended tender period of 25 days for projects of this size and complexity.	73
▪ the Department re-estimate its project management fees and advise the Australian Government if its fees exceed the four per cent benchmark.	75

Building the Education Revolution (continued)

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I recommend:

- for future projects, where tenderers do not provide the information requested (such as a split between project management and site supervision fees) the tender evaluation committee request this information before completing the tender process. 76
 - the Department examine the managing contractors' records to confirm they have provided the level of site supervision stipulated in their tender. I believe most of the site supervision was carried out by subcontractors of the managing contractors and therefore there is a risk of the Department paying for a service that was not provided by managing contractors. 77
 - irrespective of time constraints, the Department not approve ECS's that are substantially higher than their own assessment. The Department should investigate significant variances, negotiate with the managing contractors and set the ECS based on their own assessment, not the managing contractor's assessment. 79
 - the Department request statutory declarations from managing contractors which states they have tendered for all works. If managing contractors have entered into direct negotiations they should list these as exceptions in the statutory declaration. Upon receiving the statutory declaration, the Department should audit a sample of direct negotiations to confirm this did not result in an adverse value for money outcome. 84
 - for future projects or programs of similar nature and/or size, the Department consider nominating a Departmental officer to sit on the tender evaluation committee to ensure full compliance with the New South Wales Government Code of Practice for Procurement and NSW Government Procurement Guidelines – Tendering Guidelines. Their presence will also assist in maximising value for money by trying to negotiate a lower price with the preferred tenderer.
- The Department should also issue an instruction to all managing contractors that states they must attempt to negotiate with the preferred tenderer either when:
- (a) very few tenders have been submitted for a project, and/or
 - (b) the tendered price is significantly higher than the Department's cost estimate. 87
- The Department should obtain the managing contractors written acceptance of the 80/20 split used to calculate the Benchmark Market Value. 88

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Department of Education and Training	
I recommend the Department:	
▪ continue to review the effectiveness of its policies for managing excessive annual leave balances.	111
▪ create and maintain a central record of all contract employees to determine, monitor and analyse the cost of contract employees, the number of contract employees and the period of service for all contract employees.	115
▪ periodically review the roles and responsibilities of all contract employees to ensure:	
▫ reliance on contractors is not excessive	
▫ use of contract employees instead of permanent employees is appropriate	
▫ contractors do not become de facto employees by virtue of being with the Department for an extended period of time	
▫ use of contract employees continues to represent value for money.	115
New South Wales Technical and Further Education Commission	
I recommend the Commission:	
▪ better manage the review and transfer of completed projects in capital works in progress.	124
▪ create and maintain a central record of all contract employees to determine, monitor and analyse the cost of contract employees, the number of contract employees and the period of service for all contract employees.	126
▪ periodically review the roles and responsibilities of all contract employees to ensure:	
▫ reliance on contractors is not excessive	
▫ use of contract employees instead of permanent employees is appropriate	
▫ contractors do not become de facto employees by virtue of being with the Commission for an extended period of time	
▫ use of contract employees continues to represent value for money.	126
Wentworth Park Sporting Complex Trust	
I have previously recommended that the Trust endeavour to reach agreement with Greyhound Racing NSW regarding the treatment of monies provided in 1985-87 by the former Racecourse Development Fund.	139
Centennial Parklands Foundation	
I recommend the Foundation determine whether it controls Centennial Parklands Foundation Limited for financial reporting purposes.	151

Section One



Commentary on Government Agencies

Minister for the Arts

Art Gallery of New South Wales Trust

Australian Museum Trust

Communities NSW

Historic Houses Trust of New South Wales

Library Council of New South Wales

Sydney Opera House Trust

Trustees of the Museum of Applied Arts and Sciences

Refer to Appendix 1 for:

Art Gallery of New South Wales Foundation

The Brett Whiteley Foundation

Art Gallery of New South Wales Trust

AUDIT OPINION

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

PERFORMANCE INFORMATION

The Gallery provided the following information regarding its performance.

Year ended 30 June	2010	2009	2008	2007	2006
Visitor numbers ('000s)	1,283	1,706	1,356	1,302	1,690
Admission fees (\$m)	1.9	4.8	2.6	1.9	3.8
Number of exhibitions	31	41	38	38	52
Collections					
Total items ('000s)	29	29	29	28	28
Total value (\$m)	825	813	795	782	629
Acquisitions during the year:					
- dollar value (\$m)	11.8	18.6	14.1	8.2	9.9
- number of items	425	504	467	442	585

Source: Art Gallery of New south Wales Trust.

The annual exhibition program is the major driver of visitor numbers, which were 25 per cent lower in 2009-10. In 2008-09 there were a number of very successful ticketed exhibitions including 'Monet and the Impressionists' and international touring exhibitions including 'The Lost Buddhas'.

The number of exhibitions held in 2009-10 was lower than usual, primarily caused by major building works disruptions and the relocation of the Gallery's collection to a new purpose-designed storage facility at Lilyfield. This new facility commenced operations in March 2010. A total of 13,670 items were transferred to the new facility to ensure safe and secure preservation.

During the year, the Gallery acquired \$11.8 million of artworks, of which \$1.1 million were gifted.

OTHER INFORMATION

Human Resources

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

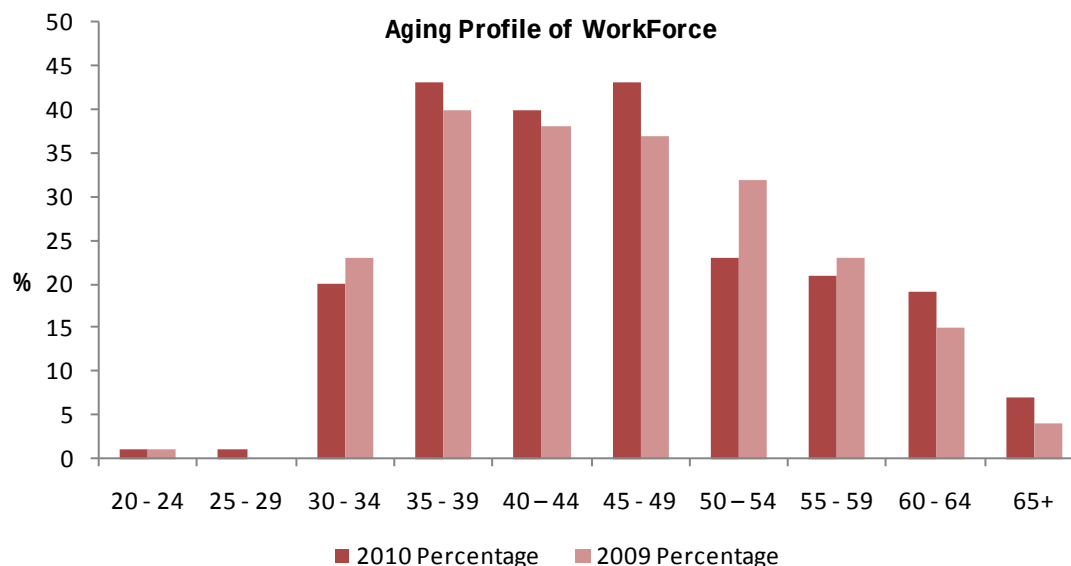
- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- management of excessive flex leave balances

Issues identified from my review are detailed below.

Workforce Ageing

At 30 June 2010, 22 per cent (20 per cent at 30 June 2009) of the Gallery's employees were over 55 years of age and 33 per cent (35 per cent) were over 50. A large number of these employees are likely to retire over the next five to ten years. However, the Gallery does not consider this potential loss of knowledge and skills to be a risk.

The age profile of the Gallery employees is shown below:



At 30 June	2010		2009	
	No. of Employees	%	No. of Employees	%
Up to 39	65	30	64	30
40-44	40	18	38	18
45-49	43	20	37	17
50-54	23	10	32	15
55-59	21	10	23	11
60-64	19	9	15	7
65+	7	3	4	2
Total	218	100	213	100

Source: Information provided by the Gallery (unaudited).

In response to this risk, the Gallery advised it has the following policies and strategies in place for senior positions to address the possible loss of corporate knowledge:

- a two month period of notice required prior to resignation or retirement
- a change over period of one week between new and retiring employees to ensure a thorough handover
- flexible work arrangements to targeted staff to enable a gradual retirement and handover of corporate knowledge
- record management policies to maintain relevant written and electronic records.

Annual Leave Balances

I recommend the Gallery establish individual leave plans with employees to reduce leave balances within an acceptable timeframe.

The Gallery holds quarterly reviews of annual leave balances and has discussions with staff who have high balances. The number of employees with annual leave balances in excess of 40 days has declined from 32 employees at 30 June 2009 to 26 employees at 30 June 2010. Employees in this category represented 9 per cent (10 per cent) of total employees at 30 June 2010.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

Flex Leave

I recommend the Gallery implement a centralised system for monitoring accrued flex leave balances.

The Gallery advised that most of its departments use standard hours however, for departments that do use flex leave, consideration will be given to centralising the management of accrued flex balances.

FINANCIAL INFORMATION**Abridged Statement of Comprehensive Income**

Year ended 30 June	2010 \$'000	2009 \$'000
Government contributions	37,345	27,622
Sale of goods and services	7,406	11,515
Other	15,445	25,417
TOTAL REVENUE	60,196	64,554
Personnel services expenses	20,109	20,036
Operating expenses	13,890	14,832
Depreciation and amortisation	3,215	2,141
TOTAL EXPENSES	37,214	37,009
SURPLUS	22,982	27,545
OTHER COMPREHENSIVE INCOME		
Transfer from asset revaluation reserve	--	287
TOTAL COMPREHENSIVE INCOME	22,982	27,832

Government contributions in 2009-10 included a capital grant of \$15.5 million (\$5.8 million). The increased capital grant related mainly to building works at the off-site collection storage facility at Lilyfield. The new 5,000 square metre facility addresses the risks of damage to collection items that were previously overcrowded in the Gallery's on-site storage facility. The total cost of the construction was \$17.3 million.

From 2010-11, the Gallery will receive an additional annual recurrent operational grant of \$3.0 million to fund operating expenses.

Revenues from the sale of goods and services were down due to reduced visitor numbers.

Other revenue was higher in 2008-09 due to additional donations received to fund the \$16.2 million acquisition of the Paul Cezanne painting *Bords de la Marne* c1888. Donations in 2009-10 amounted to \$8.3 million (\$17.4 million).

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	27,133	33,280
Non-current assets	1,027,902	999,626
TOTAL ASSETS	1,055,035	1,032,906
Current liabilities	6,299	7,154
Non-current liabilities	21	19
TOTAL LIABILITIES	6,320	7,173
NET ASSETS	1,048,715	1,025,733

The increase in non-current assets is primarily due to purchases of art work and the completion of the Lilyfield storage site.

GALLERY ACTIVITIES

The Gallery is constituted under the *Art Gallery of New South Wales Act 1980*. It is subject to the control and direction of the Minister for the Arts. Its main functions are to:

- develop and maintain a collection of works of art
- propagate and increase knowledge and appreciation of art
- give particular emphasis on the visual art of Australia and Asia.

For further information on the Gallery, refer to www.artgallery.nsw.gov.au.

CONTROLLED ENTITY

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

For further financial and other information on this entity we have listed the entity's website.

Entity Name	Website
The Australian Institute of Asian Culture and Visual Arts Limited	www.asianart.com.au

Australian Museum Trust

AUDIT OPINION

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

KEY ISSUES

Collections Database (Repeat Issue)

I have previously recommended the Museum complete its program of recording its collections on an electronic database as soon as possible.

In recent years, I reported the absence of an appropriate database impacts the Museum's ability to discharge its stewardship responsibilities over its collections. Museum management has again advised that completion of this task is dependent on the availability of funds. The Museum is part of a funding bid to The Treasury, which is being prepared and coordinated by the Department of Communities, to allow electronic databasing of its collections.

The Museum continues to process new and old items to the electronic database as resources allow. They are unable to determine when this work will be completed largely because of the number of collection items. Total collection items exceed 18 million objects and the number recorded in the collections electronic database was approximately 1.6 million (8.9 per cent) at 30 June 2010.

The Museum added approximately 48,000 items to its collection database in 2009-10. At this rate, it will take the Museum another 341 years to record its current collections in the electronic database.

Performance Audit

In September 2010, I released my performance audit report on *Knowing the Collections: Australian Museum*, which looked at the information the Museum holds on its collections, its inventory controls and how well it can locate the objects in its care.

The report concluded the Museum is doing much to improve access to its collections. However, a lack of information on its collections limits its ability to fully achieve its stated objectives. Despite efforts to digitise its information, much of the collection remains unregistered or poorly catalogued. Much of the information is still held on paper, cards, slides and old photographs.

The full report, including the Museum's response, can be obtained at:

www.audit.nsw.gov.au/publications/reports/performance/2010/museum_collections/collections_contents.htm.

PERFORMANCE INFORMATION

The Museum provided the following information regarding its performance.

Year ended 30 June	2010	2009	2008	2007	2006
Visitor numbers ('000s)	375	322	333	318	297
Admission fees (\$m)	3.3	2.5	1.9	1.8	2.1
Temporary exhibitions	8	5	8	9	8
Website visits (m)	9.4	14.0	21.0	23.3	17.1
Value of Collection (\$m)	767	767	767	530	530

Source: Annual Report 2009-10 unaudited

In 2009-10, visitor numbers increased by 52,647 to 374,601 (322,065 in 2008-09), a 16.4 per cent increase over the previous year. Revenue from admission fees increased by 30.0 per cent compared to the previous year. The price of admission fees increased between three and 60.0 per cent across all categories in 2008-09 and, whilst admission fees did not increase in 2009-10, the effect of the increase in 2008-09 further bolstered revenues in 2009-10.

The increase in visitor numbers was primarily due to continued public interest in the Museum's exhibitions, which included:

Temporary exhibitions with top-up admission fees

Exhibition Name	Exhibition Start Date	Exhibition Finish Date	Visitors
When Mammoths Roamed	10 April 2009	24 July 2009	42,885
Egyptian Treasures: Art of the Pharaohs	13 September 2009	6 December 2009	60,139
Wildlife Photographer of the Year and My Photo Studio	24 December 2009	26 April 2010	39,094
Total Attendance			142,118

Temporary exhibitions with no top-up admission fees

Exhibition Name	Exhibition Start Date	Exhibition Finish Date
Climate Change – Our Future, Our Choice	2 May 2009	16 August 2009
Menagerie: Contemporary Indigenous Sculpture in Australia	5 September 2009	15 November 2009
Amazing Backyard Adventures	5 December 2009	18 April 2010
Yiloga! Tiwi Footy	15 May 2010	14 November 2010
Alive display and events arena	22 May 2010	20 September 2010

The Museum's website continued to provide interaction between the Museum and the public, with 9.4 million (14.0 million) visits to the sites. Of the 2.9 million visits to the 'australianmuseum.net.au' site, 43.0 per cent were international visitors.

The 'Museum in a Box' program delivered teaching resources to nearly 63,000 school students across New South Wales during the year.

OTHER INFORMATION

Human Resources

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

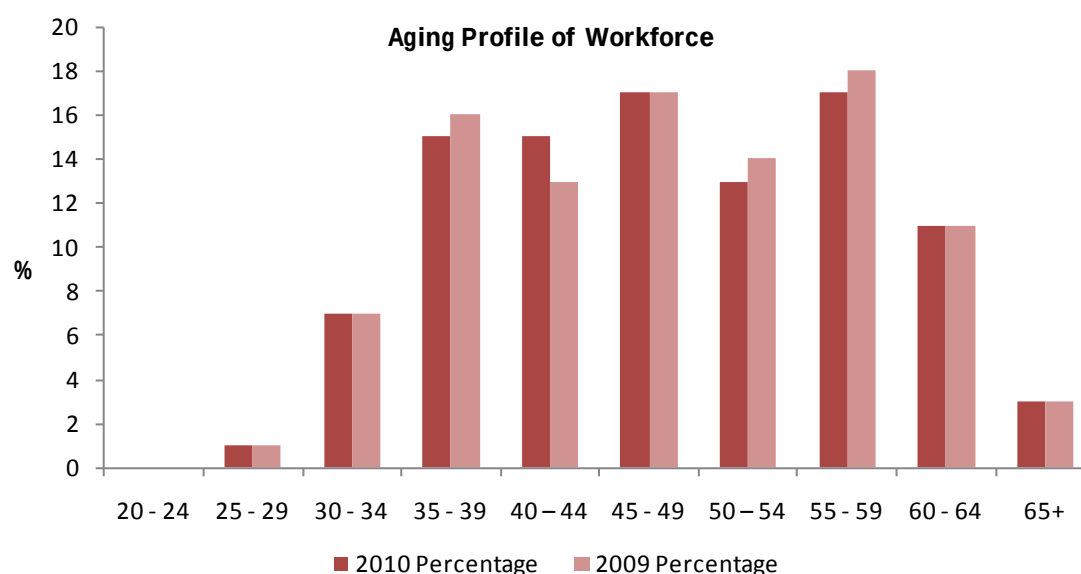
- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- use of contract staff.

Issues identified from my review will be reported in a management letter to the Museum. A summary of the results of my review follows.

Workforce Ageing

At 30 June 2010, 31.0 per cent (32.0 per cent) of the Museum's employees were over 55 years of age and 44.0 per cent (46.0 per cent) were over 50. A large number of these employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for the Museum.

The age profile of Museum employees is shown below:



At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
Up to 39	43	23	44	24
40-44	27	15	24	13
45-49	32	17	30	17
50-54	24	13	26	14
55-59	32	17	32	18
60-64	20	11	20	11
65+	5	3	5	3
Total	183	100	181	100

Source: Information provided by Museum (unaudited)

The Museum does not have a strategic staff succession plan in place to address the ageing workforce risks. It advised it is having difficulties developing one under the existing Government staff freeze. The Museum does, however, provide opportunities for younger staff to act in higher positions, exposing them to relevant experiences and issues, which go some way to addressing the problem.

The Museum's low staff turnover rate, allows more stable employment and provides new staff with the opportunity to build knowledge and experience over time. In that sense, the Museum believes it may be better placed to deal with an ageing workforce than other general Government departments with higher turnover rates and/or younger aged profiles.

The Museum also provides considerable support for retirees to keep them engaged with the salaried workforce. Retirement does not necessarily mean loss of knowledge. The vast majority of Research and Collections (Science) retirees continue productive work at the Museum and, from this perspective, the 'real' turnover rate is considered very low.

The Museum currently has 18 Senior Fellows who were former researchers/curators/collection managers at the Museum. They are provided with a workspace, access to infrastructure and an honorarium of up to \$1,000 per annum for research-related expenses. The more active Fellows apply for research grants, some of which cover the salaries of technical officers and post doctoral positions, they supervise students, publish scientific papers and contribute to the promotion of the Museum's science through, for example, articles in Explore Magazine.

Annual Leave Balances

I recommend the Museum develops and implements additional procedures requiring all staff with excessive leave balances to have a leave management plan in place to further reduce leave balances within an acceptable timeframe.

The Museum has attempted to actively manage employees with excessive annual leave balances in recent years. A monthly report of annual leave balances is generated for executive management's information and action. However, the number of employees with annual leave balances in excess of 40 days has increased from 27 employees at 30 June 2009 to 30 employees at 30 June 2010. Employees in this category represented 8.4 per cent (7.7 per cent) of total.

The Museum's liability for annual leave increased by 23.7 per cent, from \$1.5 million at 30 June 2009 to \$1.8 million at 30 June 2010.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

Use of Contract Staff

I recommend the Museum establish a central register of all contractors. The Museum should review its use of contractors to ensure it is not excessive and the Museum is receiving value for money by engaging contractors.

The Museum advised it does not have a central registry for contractors. No reviews are performed to identify if the reliance on contractors is excessive or to ensure the use of contract employees represents value for money.

The Museum does not believe maintaining a contractor's register would be cost effective. Controls are in place to assess each proposal on its merit and the Director-General's approval is needed for any contractors who replace staff. Appointments are generally short term placements. Each vacancy, and the proposal to fill it with contract staff, is carefully assessed against need, cost, duration, skills requirement and any special circumstances such as the need to fill at very short notice.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Government contributions	27,992	29,733
Sale of goods and services	8,053	6,651
Other revenue	2,804	5,749
TOTAL REVENUE	38,849	42,133
Personal services expenses	22,819	22,560
Other operating expenses	11,866	13,089
Other expenses	5,791	5,030
TOTAL EXPENSES	40,476	40,679
(DEFICIT)/SURPLUS	(1,627)	1,454
OTHER COMPREHENSIVE INCOME	--	--
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	(1,627)	1,454

Total revenue from all sources declined by \$3.3 million in 2009-10. Revenues from the sale of goods and services increased by \$1.4 million, mainly due to the increase in visitor numbers, but Government capital contributions fell by \$2.3 million and prior year revenues included an insurance recovery of \$2.8 million.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	10,574	10,720
Non-current assets	1,027,460	1,029,584
TOTAL ASSETS	1,038,034	1,040,304
Current liabilities	4,046	4,713
Non-current liabilities	392	368
TOTAL LIABILITIES	4,438	5,081
NET ASSETS	1,033,596	1,035,223

The Museum spent \$3.5 million in 2009-10 on additions to property, plant and equipment. The major items of expenditure were:

- \$2.8 million to complete capital improvements at the College Street site
- \$700,000 for upgrades to the Lizard Island Research Station.

MUSEUM ACTIVITIES

The Museum is constituted under the *Australian Museum Trust Act 1975*. Trustees are appointed by the Governor on the recommendation of the Minister for the Arts for a term of up to three years.

The objectives of the Museum are to propagate knowledge about the natural environment of Australia and to increase that knowledge, particularly in the natural sciences of biology, anthropology and geology. The Museum is responsible for the control and management of the Museum.

For further information on the Museum, refer to www.austmus.gov.au.

Communities NSW

AUDIT OPINION

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

KEY ISSUES

Transfer of functions to Communities

Communities was created on 1 July 2009 through the amalgamation of the following departments, offices, divisions of statutory bodies and the transfer of other departmental functions:

- Department of the Arts, Sport and Recreation
- Office of Children
- Office of the Community Relations Commission
- Office of the Sydney Olympic Park Authority
- Office of the Sydney 2009 World Masters Games Organising Committee
- Hunter Region Sporting Venues Authority Division
- Parramatta Stadium Trust Division
- State Sport Centre Trust division
- Wollongong Sportsground Trust Division
- Sydney Olympic Park Authority Aquatic and Athletic Centres Division
- Youth programs and Better Futures Program from the Department of Community Services
- Volunteering and the Office of Western Sydney from the Department of Premiers and Cabinet
- Western Sydney Parklands Trust staff from the Department of Planning.

Participation of Children in Sport and Active Recreation

I recommend Communities report on the participation rates of children in sport and active recreation.

The Department of Health reported:

- in 2004, 25 per cent of boys and 23.3 per cent of girls were either overweight or obese
- trends suggest this will increase to 35.6 per cent of boys and 31.7 per cent of girls by 2016
- making physical activity a priority and encouraging good habits in children from an early age is important and can help children develop the skills they need to be active throughout their lives.

Source: NSW Government Plan for Preventing overweight and obesity in children, young people and their families 2009-2011

In 2008, Access Economics estimated \$2.7 billion was spent on obesity related illness in New South Wales. In 2009-10 Communities, spent \$102 million increasing and promoting participation opportunities for sport and active recreation, which is about 3.8 per cent of the obesity cost. Communities reports on the level of adult participation in sport and active recreation. It does not do this for children. I believe Communities should report the participation rates of children in sport and active recreation so it can monitor its progress against the State Plan target to 'increase participation in sporting and physical activities' by children and young people.

Source: Access Economics – The Growing cost of Obesity in 2008

Prevalence of Problem Gambling

In 2003, the Independent Pricing and Regulatory Tribunal (IPART) recommended 'ongoing prevalence studies should be conducted into problem gambling to assess, and monitor over time, the extent of problem gambling, its geographic spread and the profile of problem gamblers'.

Since the IPART recommendation, two separate studies have been undertaken. The first, in 2006, involved 32,676 people being asked to participate. This resulted in 5,026 people completing questionnaires, 2,010 of whom went on to complete the entire survey, including participating in core interviews and providing demographic data.

The second study, in 2009, conducted by Health NSW, used a slightly different methodology involving 9,161 participants. The results, reported by the Responsible Gambling Fund, identified a decrease in problem gambling in New South Wales. The number of problem gamblers fell from 0.8 per cent of the population in 2006 to 0.4 per cent in 2009. The Department advised that in December 2010, tenders will be called for a new problem gambling prevalence survey.

Results of the gambling prevalence by category of gamblers in 2009 and 2006.

Category of gamblers	2009*	2006*	Change
	%	%	%
Problem gamblers	0.4	0.8	(0.4)
Moderate risk gamblers	1.3	1.6	(0.4)
Low risk gamblers	2.5	2.1	0.4

*Source: Communities (unaudited).

OTHER INFORMATION

Human Resources

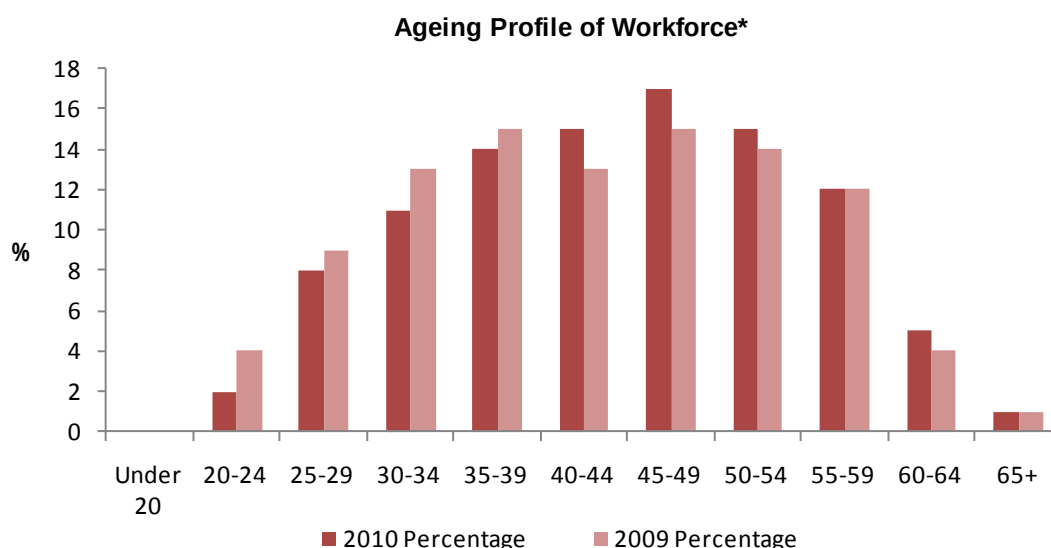
This year we reviewed the following areas relating to human resources:

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- extent of overtime
- extent of contract staff
- management of excessive flex leave balances.

Workforce Ageing

At 30 June 2010, 18.0 per cent of Communities' employees were over 55 years of age and 33 per cent were over 50. A large number of employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for Communities.

The age profile of Communities employees is shown below:



Source: Communities Human Resources Department (unaudited)

* Information relates only to the former Department of Arts, Sport and Recreation

At 30 June Age Group	2010*		2009*	
	No. of Employees	%	No. of Employees	%
Under 39	267	35	303	41
40-44	113	15	99	13
45-49	130	17	114	15
50-54	113	15	105	14
55-59	90	12	88	12
60-64	39	5	27	4
65+	5	1	5	1
Total	757	100	741	100

Source: Communities Human Resources Department (unaudited).

* Information relates only to the former Department of Arts, Sport and Recreation.

In response, Communities advised that in line with the New South Wales Government's Shared Corporate Services Reform Strategy, a strategic new human resource structure is to be established and will focus on identifying and planning for a range of priority areas across Communities. This will include workforce and succession planning.

Annual Leave Balances

There were 104 employees with annual leave balances in excess of 40 days at 30 June 2010 (108 in 2008-09), representing 14.4 per cent (15.2 per cent) of total employees. The excess leave liability for these employees was \$404,000 at 30 June 2010 (\$551,230). This represented 1.9 per cent of total annual leave provision of \$21.8 million (2.9 per cent of \$18.5 million).

Entitlement (days) at 30 June	2010* No. of Employees	2009* No. of Employees
120 +	--	2
91-120	1	2
61-90	17	17
41-60	86	87
Total	104	108

Source: Communities Human Resources Department (unaudited)

* Information relates only to the former Department of the Arts, Sport and Recreation

Liabilities for excess annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

Communities has implemented a review program where division heads are notified of all staff with excess annual leave balances and the requirement for those staff to reduce their balances in accordance with the Crown Employees (PS COE) Award. Division heads are required to develop leave management plans, which will be reviewed every September and March.

Flex Leave

I recommend Communities develop mechanisms to centrally review flex time records to help ensure excessive flex time is not being accrued and forfeited by staff.

Communities staff are employed under flexible work practices. However, Communities does not manage flex leave at the corporate level. The extent to which flex time is accrued and used and the balance accumulated by staff at 30 June 2010 is unknown. Records are decentralised and Communities unit managers and division heads are responsible for ensuring the principles of the flexible working hours agreement are adhered to. If not effectively managed, employees may be accruing and/or forfeiting excessive flex time.

Communities staff are employed under various awards and are advised that the Sport and Recreation division is the only division that allows the accumulation of 42 hours credit from one flex settlement period to the next. Other divisions allow less than 42 hours accumulated credit between flex settlement periods.

Overtime

I recommend management review overtime to minimise potential downsides of staff working excessive hours.

In 2009-10, there were 13 employees who worked more than 100 hours overtime. The highest overtime worked by an employee was 248 hours. High levels of overtime may have adverse occupational health and safety implications.

For the year ended 30 June	2010*	2009*
Total overtime paid (\$'000)	366	433
Total number of employees who worked overtime during the year	132	128
Total number of employees	721	712
Proportion of total employees receiving overtime (%)	18	18

Source: Communities Human Resources Department (unaudited)

* Information relates only to the former Department of the Arts, Sport and Recreation

Use of Contract Staff

I recommend Communities monitor the use of contractors centrally, to ensure reliance on contractors is not excessive and continues to represent value for money.

The amount paid to contract staff in 2009-10 was \$1.9 million (\$2.4 million in 2008-09). Communities does not have details of the number of contract staff engaged during the year and duration of their employment, as it does not keep a centralised register of this data.

Management advised that the need for contract staff is determined and managed by each Division, and is performed on a case-to-case basis at the time of contract renewal. All hiring is subject to approval by the Director-General.

FINANCIAL INFORMATION**Abridged Statement of Comprehensive Income**

Year ended 30 June	2010 \$'000
Employee related	294,392
Other expenses	164,057
OPERATING EXPENSES	458,449
OPERATING REVENUE	258,628
NET COST OF SERVICES	199,821
Government contributions	203,813
SURPLUS	3,992
OTHER COMPREHENSIVE INCOME	
Superannuation actuarial losses	(1,876)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	2,116

This is Communities' first financial reporting year and there are no comparative financial results to report.

Employee related costs represent 64.2 per cent of the operating expenditure. Of this, \$218 million (47.6 per cent of operating expenditure) relates to personnel services provided to other Government agencies.

Abridged Statement of Financial Position

At 30 June	2010 \$'000
Current assets	73,784
Non-current assets	501,894
TOTAL ASSETS	575,678
Current liabilities	53,504
Non-current liabilities	1,679
TOTAL LIABILITIES	55,183
NET ASSETS	520,495

Assets predominantly comprise land and buildings, valued at \$475 million at 30 June 2010, most of which were transferred from the former Department of the Arts, Sport and Recreation.

Communities' net cost of services and net assets on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services		Net Assets
	2010 Budget* \$'000	2010 Actual \$'000	2010 Actual \$'000
Arts Industry Development	291,839	55,420	6,179
Arts Accommodation Development	2,739	2,554	139,524
Regulatory Framework for the Liquor, Gaming, Racing and Charity Industries	17,098	21,412	13,781
Liquor, Gaming and Racing Funding and Information Services	19,105	16,898	1,544
Sport and Recreation Sector Development	37,495	38,105	232,703
Sports Facility Development	44,421	38,532	126,602
Commission for Children and Young People	11,236	13,792	(178)
Office for Children Guardian	3,742	3,303	(147)
Personnel Services	8,022	9,805	(1,627)
Sub Total all service groups	435,697	199,821	518,381
Less Transfer Payments	263,601	--	--
Total all service groups*	172,096	199,821	518,381

* The difference between the Budget Estimates above and the financial reports is due to S24 PF&AA transfers as a result of the Public Sector Employment and Management Act (Departmental Amalgamations) Order 2009.

The net cost of services was higher than budget mainly due to higher grants and subsidies expenses of \$23.6 million, resulting from payments of prior years commitments from the Sport and Recreation Fund and supplementary payments through the Arts Funding program.

Administered Revenue and Expenses

Communities levies the following fees and administers expenses on behalf of the Crown Entity.

Activity Description	2010 \$'000
Administered Revenue	
Speedway racing licences	26
Trade competition fees	2,128
Local court fees	54
Fines - local court	432
TOTAL ADMINISTERED REVENUE	2,640
Administered Expenses	
Liquor subsidies	3,926
TOTAL ADMINISTERED EXPENSES	3,926
ADMINISTERED REVENUE LESS EXPENSES	(1,286)

COMMUNITIES NSW ACTIVITIES

Communities supports the development of vibrant, sustainable and inclusive communities, and fosters opportunities for people to enjoy more active, rewarding and fulfilling lives.

The purpose of Communities NSW is to improve the quality of life of people in New South Wales. This is done by:

- increasing opportunities for people to become involved in their communities
- providing high quality accessible programs, exhibitions, events and activities for New South Wales residents and visitors
- increasing opportunities for participation in the arts, culture, entertainment, recreation and sport
- investing in facilities and community, cultural and sporting infrastructure
- supporting enterprise and employment, particularly in the creative, sporting, recreation and hospitality industries
- promoting the interests of specific population groups including children and young people, people from culturally and linguistically diverse backgrounds and residents of Western Sydney
- working with schools, tertiary and other partners to provide education programs and activities and to contribute to lifelong learning
- enhancing community safety by regulating and promoting responsible liquor, gaming, racing and charitable industry practice and the responsible management of events, and
- sustainable management of cultural, and historically significant, parklands, assets and precincts.

For further information on the Communities NSW refer to www.communities.nsw.gov.au.

Historic Houses Trust of New South Wales

AUDIT OPINION

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

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

PERFORMANCE INFORMATION

The Trust provided the following information regarding its performance.

Year ended 30 June	2010	2009	2008	2007	2006
Visitor numbers ('000s)	829	913	1,012	1,024	993
Admission and function fees (\$m)	2.7	2.8	2.8	2.6	2.3
Temporary exhibitions	9	11	10	9	8
Properties					
Number	19	18	16	16	14
Value (\$m)	271	201	203	202	201
Collections					
Total items ('000s)	48	46	46	45	44
Total value (\$m)	37	36	35	33	27
Acquired this year:					
Total value (\$'000)	213	112	749	5,448	302
Number of items	176	353	738	703	248

Source: Annual Report 2010 (unaudited).

Although paid visits to the Trust's properties increased during the year, there was a decline in visitors using the Trust's free sites and gardens. The tighter economic climate resulted in a slight decline in revenue from booked functions and events.

The Trust acquired the former Presbyterian Manse in Moruya in April 2010 through the Endangered Houses Fund. The property will be conserved and eventually sold with proceeds being returned to the Fund.

The transfer of ownership of the Justice and Police Museum to the Trust was completed during the year.

In March 2010, Parliament approved the transfer of ownership of the historic property, Throsby Park, from the National Parks and Wildlife Service to the Trust. The property will be conserved and then leased, with proceeds going to the Endangered Houses Fund. The transfer of ownership will occur in 2010-11.

Human Resources

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

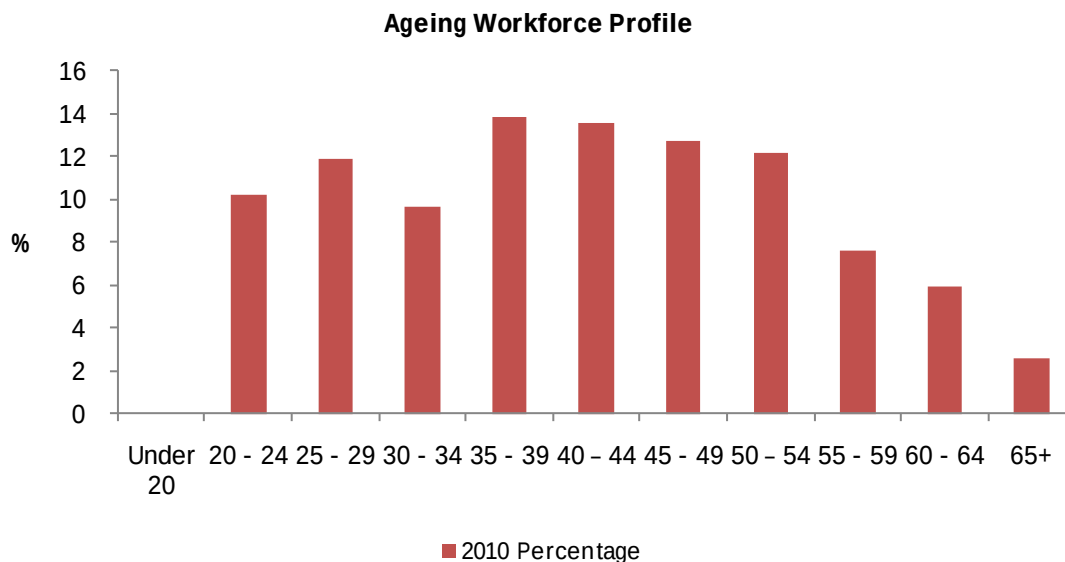
- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- the extent of use of contract staff.

A summary of the results of my review follows.

Workforce Ageing

At 30 June 2010, 16 per cent of the Trust's employees were over 55 years of age, 28 per cent were over 50 and nine employees were over 65. A significant number of these employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for the Trust.

The age profile of the Trust's employees is shown below:



At 30 June	2010	
	No. of Employees	%
Age Group		
Up to 34	112	31.6
35-39	49	13.9
40-44	48	13.6
45-49	45	12.7
50-54	43	12.2
55-59	27	7.6
60-64	21	5.9
65+	9	2.5
Total	354	100

The Trust advises it is currently undertaking a major restructuring exercise designed to address succession planning. The process is expected to identify areas most at risk and many teams will be redesigned with consideration to succession planning.

Annual Leave Balances

I recommend the Trust develops and implements procedures requiring all staff with excessive leave balances to have a leave management plan in place to reduce leave balances within an acceptable timeframe.

The Trust has attempted to actively manage employees with excessive annual leave balances in recent years. However, at 30 June 2010, there were 26 (26 at 30 June 2009) employees with annual leave balances in excess of 40 days, and of these, four (five) employees had annual leave balances in excess of 60 days. Employees with balances greater than 40 days represented seven per cent (nine per cent) of total employees at 30 June 2010.

The Trust's liability for annual leave increased by 29.1 per cent from \$990,000 at 30 June 2009 to \$1.3 million at 30 June 2010.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

The Trust advises that managers are regularly informed of excess leave balances of their staff. However, due to the current internal restructuring process and the ongoing external corporate services reform process, many units are experiencing long term ongoing staff shortages. For this reason, many staff are unable to take leave without crucial service delivery being impacted. It is anticipated that, once the restructuring is finalised, this situation will ease.

Use of Contractors

I recommend the Trust periodically review the roles and responsibilities of all contract employees to ensure:

- reliance on contractors is not excessive
- use of contract employees instead of permanent employees is appropriate
- contractors do not become de facto employees by virtue of being with the Trust for an extended period of time
- that the Trust is receiving value for money by utilising these contractors.

In 2009-10, the Trust engaged five contractors for a total cost of \$512,000. At 30 June 2010, three contractors had been with the Trust for more than three years, including one contractor for more than six years. The highest payment to a contractor over the life of the contract was \$130,000. Over the past few years, the Trust has paid over \$300,000 to employment agencies for temporary finance staff.

The Trust does not have a central registry for contractors and has advised it does not have the resources to conduct a review to ensure its reliance on contractors is appropriate and represents value for money.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Government contributions	21,456	22,685	21,456	22,685
Other Revenue	7,163	8,285	6,981	7,956
TOTAL REVENUE	28,619	30,970	28,437	30,641
Personnel services	16,901	16,175	16,901	16,175
Other expenses	10,323	11,149	10,144	11,014
TOTAL EXPENSES	27,224	27,324	27,045	27,189
SURPLUS	1,395	3,646	1,392	3,452
OTHER COMPREHENSIVE INCOME				
Revaluation of land, buildings, and collections	58,107	940	58,107	940
TOTAL OTHER COMPREHENSIVE INCOME	58,107	940	58,107	940
TOTAL COMPREHENSIVE INCOME	59,502	4,586	59,499	4,246

The Trust does not have the authority to employ staff. Personnel services are provided by Communities NSW. The increase in personnel services expenses reflects pay rises and event and function staffing requirements.

At 30 June 2010, the Trust revalued its various properties and collections resulting in an increment of \$58.1 million. Collections were also revalued at that date, resulting in an increment of \$758,000.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	11,364	12,664	8,478	10,894
Non-current assets	313,441	241,352	312,533	240,442
TOTAL ASSETS	324,805	254,016	321,011	251,336
Current liabilities	3,123	2,372	3,102	3,460
Non-current liabilities	12	11	12	11
TOTAL LIABILITIES	3,135	2,383	3,114	3,471
NET ASSETS	321,670	251,633	317,897	247,865

The increase in non-current assets reflects the revaluation of assets, as noted above, combined with additional capital expenditure. In 2009-10, the Trust completed the restoration and refurbishment of the historic 1887 schoolhouse at Rouse Hill House and Farm, along with construction of a new education centre and covered outdoor learning area.

ENTITY ACTIVITIES

The principle functions of the Trust are to:

- manage and conserve historic buildings or places which have been acquired by or vested in it
- collect, manage, maintain and conserve objects and materials associated with those buildings and places
- research and interpret the significance of those buildings, places, objects and materials
- provide educational, cultural and professional services (including research, publications, information, public programs and activities) in respect of those buildings, places, objects and materials.

Under the *Historic Houses Act 1980*, the Trust is subject to the direction and control of the Minister for the Arts.

For further information on the Trust, refer to www.hht.nsw.net.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.

Where available, we have listed the websites for further information on these entities.

Entity Name	Website
Foundation for the Historic Houses Trust of New South Wales	www.hht.net.au/support_us/foundation
Foundation for the Historic Houses Trust of New South Wales Limited	*
Hamilton Rouse Hill Trust	*
Rouse Hill Hamilton Collection Pty Limited	*

* This entity does not have a website.

Library Council of New South Wales

AUDIT OPINION

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

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

PERFORMANCE INFORMATION

The Library provided the following information regarding its performance:

Year ended 30 June	2010	2009	2008	2007	2006
Onsite visitor numbers ('000s)	804	*	646	639	629
Electronic records available ('000s)	2,227	1,921	1,692	1,621	1,567
Online visits ('000s)	2,134	2,074	**	**	**
Collections					
Total items ('000s)	5,413	5,361	5,280	5,221	5,158
Total value (\$m)	2,142	1,873	1,874	1,877	1,880
Acquired this year:					
dollar value (\$m)	7.0	7.7	6.9	7.1	6.9
number of items ('000s)	52.0	83.0	59.0	63.6	53.6

* Not available for 2008-09.

** New measure in 2008-09 to replace web page requests statistics.

In October 2008, the Library commenced the eRecords project, which is a long-term project to convert catalogue records on manual cards into electronic records. In 2009-10, 305,298 new electronic records were created for books, maps and heritage collections. This achievement was 20 per cent above target. The New South Wales Government has committed funding of \$10.0 million over three years to support this project.

The Library's collection was revalued in 2009-10 resulting in a 12.7 per cent or \$271 million increase in the collection's value.

OTHER INFORMATION

Human Resources

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

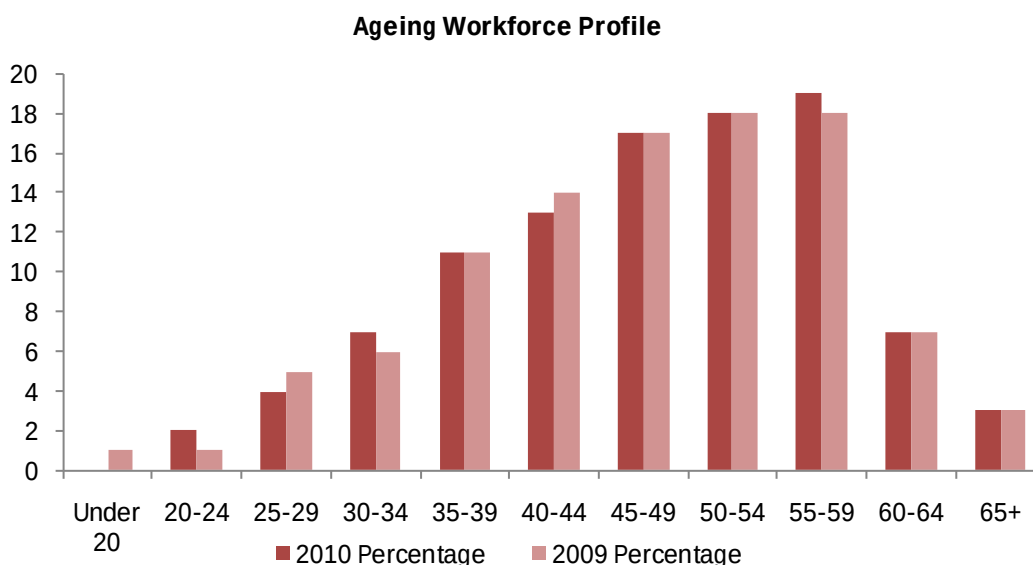
- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- management of excessive flex leave balances
- extent of contract staff.

Workforce Ageing

I recommend the Library review the effectiveness of its policies in managing its ageing workforce.

Twenty nine per cent of the Library's employees are over 55 years of age and 47 per cent are over 50. A large number of these employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for the Library.

The age profile of Library employees is shown below:



Source: Information provided by Library (unaudited).

At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
Under 39	91	23	89	23
40-44	51	13	55	14
45-49	66	17	65	17
50-54	72	18	72	18
55-59	73	19	70	18
60-64	28	7	27	7
65+	11	3	13	3
Total	392	100	391	100

Source: Information provided by the Library (unaudited)

Annual Leave Balances

At 30 June 2010 there were 28 employees (29 at 30 June 2009) with annual leave balances in excess of 40 days. Two of these employees had more than 60 days accrued.

The Library advised it requires its divisional heads and managers to develop leave plans for employees with excess leave to reduce the balances. The number of employees with annual leave balances in excess of 40 days has remained at less than 8 per cent of all employees over the last two years.

Flex Leave

I recommend the Library implement a centralised system for monitoring flex leave arrangements.

The Library has advised that, as the information would have to be extracted manually, and given current resource limitations, it is unable to provide details of accumulated flex balances and the extent of flex time forfeited by its employees.

Use of Contract Staff

I recommend the Library periodically review the roles and responsibilities of all contract employees to ensure:

- reliance on contractors is not excessive
- use of contract employees instead of permanent employees is appropriate
- contractors do not become de facto employees by virtue of being with the Library for an extended period of time
- the use of contract employees continues to represent value for money.

The Library's use of contract staff fell from 11.5 per cent of the workforce in 2008-09 to 6.9 per cent in 2009-10. In 2009-10, the Library paid \$905,000 (\$1.2 million) to a total of 27 (45) contractors. At 30 June 2010, 11.1 per cent (13.3 per cent) of contract staff had been engaged for more than 12 months. One staff member had been contracted for more than six years.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Government contributions	77,878	70,887	77,878	70,887
Other revenue	9,549	9,649	7,984	8,420
TOTAL REVENUE	87,427	80,536	85,862	79,307
Personnel services expenses	28,804	28,401	28,329	28,099
Other expenses	57,101	56,315	56,904	55,523
TOTAL EXPENSES	85,905	84,716	85,233	83,622
SURPLUS/(DEFICIT)	1,552	4,180	629	4,315
OTHER COMPREHENSIVE INCOME				
Collection Revaluation	271,082	--	271,082	--
Land & Building Revaluation	--	(1,853)	--	(1,853)
TOTAL OTHER COMPREHENSIVE INCOME	271,082	(1,853)	271,082	(1,853)
TOTAL COMPREHENSIVE INCOME	272,604	(6,033)	271,711	(6,168)

The \$6.9 million increase in total revenue in 2009-10 was mainly due to additional capital contributions from the New South Wales Government. These will be used to fund capital works including: new air conditioning within the Mitchell Library building; an upgrade to the Mitchell Galleries; and new information communication technology infrastructure.

The Library does not have the authority to employ staff. It recognises personnel services expenses for employees provided by Communities NSW.

Abridged StatementS of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	27,937	25,754	16,029	14,745
Non-current assets	2,375,067	2,102,871	2,374,750	2,102,550
TOTAL ASSETS	2,403,004	2,128,625	2,390,779	2,117,295
Current liabilities	8,674	6,899	8,617	6,844
TOTAL LIABILITIES	8,674	6,899	8,617	6,844
NET ASSETS	2,394,330	2,121,726	2,382,162	2,110,451

The 12.9 per cent increase in non-current assets as at 30 June 2010 was mainly due to the revaluation of collection assets by \$271 million.

LIBRARY ACTIVITIES

The Library is constituted under the *Library Act 1939*. It is subject to the control and direction of the Minister for the Arts in the performance of its duties and functions relating to local library services.

Its main function is to provide library and information services to the people of New South Wales through the State Library and the statewide network of public libraries and information agencies.

For further information on the Library, refer to www.sl.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	Website
State Library of New South Wales Foundation	*

* This entity does not have a website.

Sydney Opera House Trust

AUDIT OPINION

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

KEY ISSUES

Maintenance Required

Last year I recommended critical problems with stage machinery at the Sydney Opera House be addressed and consideration be given to other operational shortcomings.

The Trust engaged a second expert to undertake a peer review of the initial report on the condition of stage machinery, and completed its own risk assessment of stage machinery. The Trust created an action plan to implement recommendations identified in these reviews and is progressively addressing those actions. This action plan only provides short term responses to the issues identified. The necessary replacement of obsolete equipment over the next two to three years will depend on available funding.

Vehicle Access and Pedestrian Safety Project

On 6 June 2010, the New South Wales Government announced a grant of \$152 million to the Trust to fund the Vehicle Access and Pedestrian Safety Project. This project will see the biggest building works on site since the Opera House's opening in 1973. The project will improve safety and security; preserve essential site heritage and conservation values; and also improve efficient management of the site. The project will begin in early 2011 with completion planned for mid 2013.

PERFORMANCE INFORMATION

The Trust provided the following information regarding its performance:

Year ended 30 June	2010	2009	2008	2007	2006
Performances	1,679	1,677	1,661	1,595	1,558
Audience ('000s)	1,272	1,242	1,270	1,212	1,130
Guided tour attendees ('000s)	310	319	330	328	270

Source: Annual report 2009-10 (unaudited).

Overall attendance increased by two percent in 2009-10, the highest level achieved in the last five years.

During the year, the trust engaged the Boston Consulting Group to undertake an efficiency and strategy review to assess options for future operating models that include operational and commercial improvements. The results identified opportunities in retail; food and beverage operations; marketing and new performance revenue; further transformation of the tourism experience; reinforcement of the programming identity; and addressing organisational complexities. Plans of action are currently being developed to address these issues.

OTHER INFORMATION

Human Resources

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

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies.

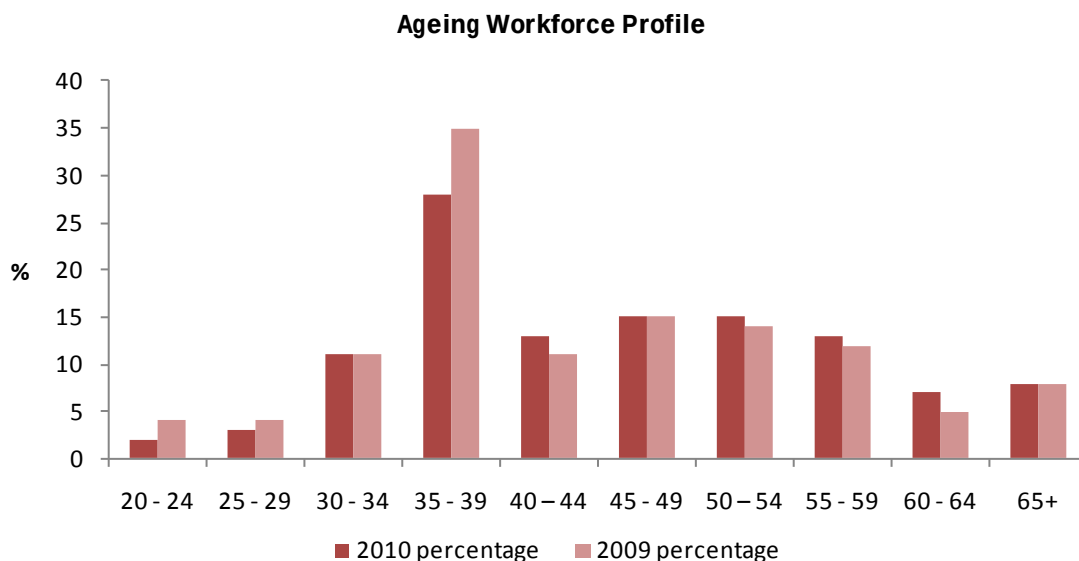
While no significant issues were identified from my review, a summary of the findings follows.

Workforce Ageing

At 30 June 2010, 28.0 per cent (26.0 per cent at 30 June 2009) of the Trust's employees were over 55 years of age, 43.0 per cent (40.0 per cent) were over 50 and eight per cent were over 65.

A large number of these employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for the Trust.

The age profile of the Trusts' employees is shown below:



At 30 June	2010		2009	
Age Group	No. of Employees	%	No. of Employees	%
Up to 39	135	44	172	54
40-44	40	13	35	10
45-49	46	15	47	15
50-54	47	15	45	14
55-59	40	13	40	12
60-64	20	7	17	6
65+	25	8	25	8
Total	304	100	321	100

Source: Information provided by the Trust (unaudited).

The Trust advised it is developing a strategy to manage risks associated with an aging workforce. As part of the Trust's business plan for 2009-10, projects are being implemented to address: succession planning; the rotation of teams; and the provision of development opportunities. The Trust expects these activities will enable the transfer of sufficient knowledge and skills to ensure the consistency and continuity for the business.

Annual Leave Balances

I recommend the Trust further focus on ensuring all staff with excessive leave balances have leave management plans in place to further reduce leave balances within an acceptable timeframe.

There were 21 employees (22) with annual leave balances in excess of 40 days at 30 June 2010. One of these employees had 104 days accrued.

The Trust has actively managed employees with excessive annual leave balances in recent years. A monthly report of annual leave balances is generated for executive management's information and leave plans are put in place for those with excess leave. At 30 June 2010, the number of employees with annual leave balances in excess of 40 days represented 2.9 per cent (3.1 per cent) of the Trust's workforce.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

FINANCIAL INFORMATION**Abridged Statement of Comprehensive Income**

Year ended 30 June	2010 \$'000	2009 \$'000
Sales of goods and services	51,300	50,030
Government contributions	43,456	44,834
Other	9,288	11,752
TOTAL REVENUE	104,044	106,616
Personnel services expenses	39,183	38,016
Other operating and maintenance expenses	62,241	59,416
Depreciation and amortisation	17,008	17,884
TOTAL EXPENSES	118,432	115,316
DEFICIT	14,388	8,700
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Revaluation of land, property and internal fit outs	350,063	(63,291)
Unrealised losses on forward exchange contracts	(189)	(136)
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	349,874	(63,427)
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	335,486	(72,127)

New South Wales Government contributions of \$43.5 million (\$44.8 million) were for operating expenses, \$14.4 million (\$14.4 million) for operating expenses and \$29.0 million (\$30.4 million) for strategic asset maintenance.

The revaluation of the Trust's land, at 30 June 2010, resulted in a \$36.0 million increase in the value. The building fabric, structure, internal fit out and building services were also revalued at 30 June 2010 resulting in a revaluation increment of \$314 million.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	59,967	69,532
Non-current assets	2,105,238	1,761,806
TOTAL ASSETS	2,165,205	1,831,338
Current liabilities	29,895	31,695
Non-current liabilities	1,389	1,208
TOTAL LIABILITIES	31,284	32,903
NET ASSETS	2,133,921	1,798,435

The increase in non-current assets in 2009-10 primarily reflects the increase in the valuation of the Opera House land and building as noted above.

TRUST ACTIVITIES

The Trust is constituted under the *Sydney Opera House Trust Act 1961*. It is subject to the control and direction of the Minister for the Arts. Its main functions are to manage and maintain the Sydney Opera House and site as a heritage building, performing arts and conference centre, tourism destination, and to promote and encourage the performing arts.

For further information on the Trust, refer to www.sydneyoperahouse.com.

Trustees of the Museum of Applied Arts and Sciences

AUDIT OPINION

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

PERFORMANCE INFORMATION

The Museum provided the following information regarding its performance:

Year ended 30 June	2010	2009	2008	2007	2006
Visitor numbers ('000s)	671	719	676	622	535
Admission fees (\$m)	2.8	4.3	4.3	3.1	2.3
Temporary exhibitions	19	23	24	31	28
Collections					
Total items ('000s)	390	389	389	388	387
Total value (\$m)	397	407	405	403	401
Acquired this year:					
- dollar value (\$m)	1.7	1.9	2.5	1.9	2.1
- number of items	871	414	889	725	707

Source: Annual Report 2010 (unaudited).

The Museum comprises the Powerhouse Museum, the Sydney Observatory, the Powerhouse Discovery Centre Collection Stores at Castle Hill and the New South Wales Migration Heritage Centre.

The overall number of visitors to the Museum's sites dropped by seven per cent compared to the previous year. The Sydney Observatory and the Powerhouse Discovery Centre recorded record numbers of visitors. However, visitor numbers at the Powerhouse Museum were lower because the prior year included the very successful exhibition: Star Wars - Where Science Meets Imagination. In 2009-10, the Museum did not present a major international touring exhibition.

Whilst visitor numbers were down, the Powerhouse Museum had the highest visitation since 1994-95 for a non-blockbuster year. It is part of the Museum's strategy to improve visitation through a variety of exhibitions and programs using its own collections.

Collection assets were revalued during the year resulting in an \$11.9 million decrease in value. Of the 871 collection items acquired during 2009-10, 843 were donations.

OTHER INFORMATION

Human Resources

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

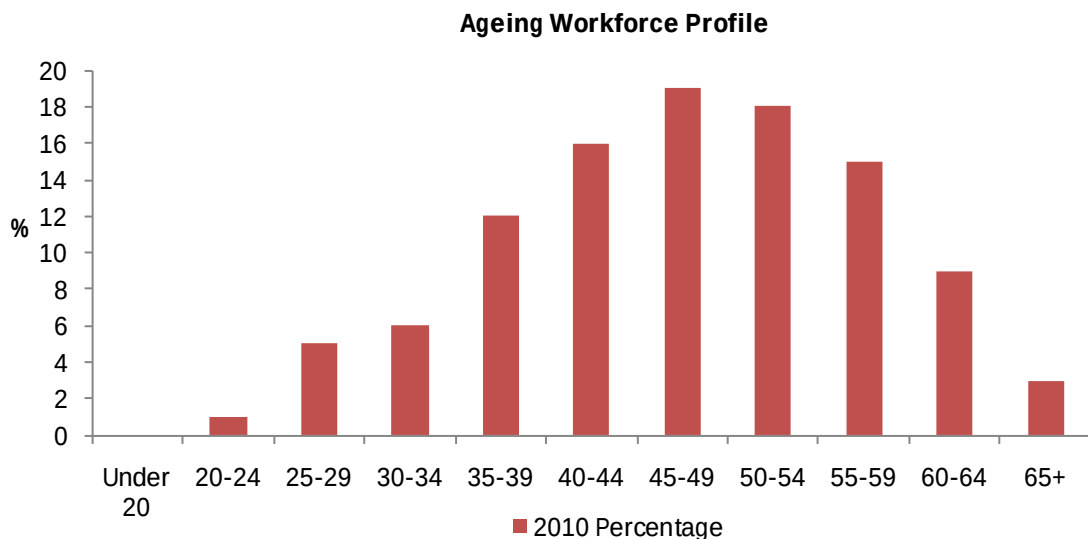
- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- management of flex leave balances
- the extent of use of contract staff.

A summary of the results of my review follows.

Workforce Ageing

At 30 June 2010, 27 per cent of the Museum's employees were over 55 years of age and 45 per cent were over 50. A large number are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for the Museum. The Museum has adopted strategies to ensure staff approaching retirement not only mentor younger staff, but also document their knowledge for future use.

The age profile of the Museum's employees is shown below:



The graph indicates the progression of long serving staff through to senior positions in what management considers a mature cultural organisation.

At 30 June	2010	
	No. of Employees	%
Age Group		
Up to 34	32	11.7
35-39	32	11.7
40-44	36	13.0
45-49	52	19.0
50-54	49	17.9
55-59	41	14.7
60-64	24	8.9
65+	9	3.1
Total	275	100.0

The age profile of the Museum's staff reflects the available expertise in the fields of museum administration, collection management, research and conservation. Workers tend to remain for long periods in the cultural sector as they undertake research in their chosen fields whilst working.

Annual Leave Balances

I recommend the Museum develops and implements procedures requiring all staff with excessive leave balances to have a leave management plan in place to reduce leave balances within an acceptable timeframe.

The Museum has attempted to actively manage employees with excessive annual leave balances in recent years. A monthly report of annual leave balances is generated for senior management information and action. However, at 30 June 2010, 35 (37 at 30 June 2009) employees had annual leave balances in excess of 40 days. Employees in this category represented 12 per cent (13 per cent) of total employees at 30 June 2010.

In 2009-10, the Museum's staff workload increased through the delivery of a large number of temporary exhibitions, the planning of future temporary exhibitions, public programs, servicing regional areas and loans to other institutions. Management advised the effects of a recent reduction in staff numbers is causing significant issues with annual leave management, but they will continue to strive to reduce excess annual leave balances.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

Flex Leave

The Museum's flex leave policy is that no employee can carry more than 21 hours accrued flex leave. Therefore, it considers that any liability for flex leave would not be significant. Whilst the Museum does not have a central register to record the flex leave balances for all staff, management does have access to each employee's individual monthly balance.

Use of Contractors

I recommend the Museum periodically review the roles and responsibilities of all contract employees to ensure:

- reliance on contractors is not excessive
- use of contract employees instead of permanent employees is appropriate
- contractors do not become de facto employees by virtue of being with the Museum for an extended period of time.

In 2009-10, the Museum engaged 32 contractors for a total cost of \$2.1 million. This represents 13.1 per cent of its workforce. Twenty contractors have been with the Museum for more than three years, including one contractor for more than six years. At least one third of the contractors are employed on temporary contracts of employment working on specific projects.

The Museum advises that contractors fill positions within the Museum's establishment, are paid via the payroll system at public sector award rates and accrue entitlements no greater or less than other permanent/part-time employees.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Government contributions	34,021	32,699
Sales of goods and services	4,763	7,586
Other	4,050	4,975
TOTAL REVENUE	42,834	45,260
Personnel services expenses	25,470	26,124
Other operating expenses	12,350	14,252
Depreciation and amortisation	5,872	5,839
Other gains/(losses)	173	(15)
TOTAL EXPENSES	43,865	46,200
DEFICIT	1,031	940
OTHER COMPREHENSIVE INCOME		
Gain on revaluation of property, plant and equipment, and collections	20,825	--
TOTAL OTHER COMPREHENSIVE INCOME	20,825	--
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	19,794	(940)

Government contributions increased by \$1.3 million, primarily due to increases in capital funding for major building repairs. The repairs were to the sandstone elements of the Powerhouse building's facade.

Revenue from admission fees and membership fees fell by \$1.5 million and \$1.0 million respectively. Admissions and new member numbers were higher in the previous year because of the Star Wars exhibition.

The introduction of zero base budgeting in 2008-09 helped the Museum's management keep tight control of operating expenses in 2009-10. The previous year's operating expenses included significant expenditure on the Star Wars exhibition.

At 30 June 2010, the Museum revalued land and buildings, plant and equipment, and collection assets resulting in a net increment in value of \$20.8 million.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	9,102	8,103
Non-current assets	554,819	536,145
TOTAL ASSETS	563,921	544,248
Current liabilities	6,031	6,156
Non-current liabilities	32	28
TOTAL LIABILITIES	6,063	6,184
NET ASSETS	557,858	538,064

The increase in non-current assets reflects the revaluation of assets as noted above.

MUSEUM ACTIVITIES

The Museum is constituted under the *Museum of Applied Arts and Sciences Act 1945*. Under the Act, the Trustees are subject to the control and direction of the Minister for the Arts.

The Museum's main function is to preserve the State's cultural heritage in science, technology, history, decorative arts and design and to provide access to New South Wales' residents.

For further information on the Museum, refer to www.powerhousemuseum.com.

Minister for Citizenship

Refer to Appendix 1 for:

Community Relations Commission for a Multicultural New South Wales

Minister for Education and Training

Building the Education Revolution

Department of Education and Training

New South Wales Technical and Further Education Commission

Office of the Board of Studies

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 (2009)

*NSW Vocational Education and Training Accreditation Board (2010)

The Board of Studies

Uniprojects Pty Limited

Universities Admissions Centre (NSW & ACT) Pty Limited

*The audit was incomplete at the time of compiling this Volume

The comment will be included in a later Volume

Building the Education Revolution

The Department of Education and Training (the Department) was required to spend \$3.0 billion on almost 2,400 projects within a short period of time or risk losing the money. Schools benefited from receiving facilities that were not expected. The short time frame resulted in the Department paying higher construction costs than would have been the case in a business as usual environment. If it had more time the Department may have been able to obtain better value for money if it negotiated lower construction costs.

As reported by the Building Education Revolution Implementation Taskforce (the BER Taskforce) in their Interim Report, many Government school stakeholders acknowledged the Primary Schools for the 21st Century P21 program (P21 program):

- was unique in its size and scale
- was about stimulus, preserving and creating jobs
- required haste to get construction started and therefore the business as usual processes and timetables for major capital works projects did not apply.

This report does not compare costs to build a Department facility against non-government authorities as I only have access to Departmental information. For example, I am aware cost per square metre rates were provided by the New South Wales Catholic Block Grant Authority as part of the Australian Government Inquiry into the P21 program; however I could not use it as a comparator because the basis for these rates is unclear.

The Department has advised me the BER Taskforce is currently performing a cost comparison of delivering the Building Education Revolution program across education authorities. The BER Taskforce will gather information from more than 2,000 projects, representative of building types and education authorities, and cost per square metre rates will be audited to ensure consistency.

The results of the comparison are due to be published in the BER Taskforce's next report, which should be published shortly. In view of this, and the fact my report contains cost analysis of only nine schools, the BER Taskforce is better placed to comment on the differences in costs and building specifications across the different education authorities.

KEY FINDINGS

Whilst it appears the Department has delivered on the key objectives of the P21 program, which is rapid construction of school facilities, it appears to have come at a higher cost than in a business as usual environment and with some reduced flexibility to meet the preferences of the local community. My review of the P21 program in New South Wales also found:

Program Delivery

- the timeframes to complete projects were much shorter than business as usual
- the shorter timeframe resulted in a reduced consultation period
- in many cases the Department built facilities which exceeded the size entitlements specified in the Department's School Facilities Standards (the Standards) for those particular schools
- if the Department had more discretion to transfer funding allocations between schools, it may have resulted in greater benefits to the government school network as a whole
- the extra funds used to provide the 295 schools with halls bigger than their suggested entitlement could have been directed towards other projects or to those schools that will not have a multipurpose hall at the end of the P21 program
- the extra funds used to provide the 220 schools with libraries bigger than their suggested entitlement could have been directed towards other projects or to those schools that will not have a libraries at the end of the P21 program
- less than one per cent of the total P21 funding allocation provided to New South Wales was reallocated between schools.

Project Selection and Approval

- the Department established appropriate checks to ensure each project was consistent with the Australian Government's 'Building the Education Revolution Guidelines' (the BER Guidelines) and represented a top priority for the school
- the Department established appropriate checks to ensure newly built schools had a clear need for additional or refurbished facilities
- the Department established appropriate checks to ensure schools earmarked for possible closure did not utilise any available funding
- it appears key stakeholders were not fully informed of the Department's Standards and how they apply to their school, resulting in confusion and concerns about the adequacy of facilities, and why schools did not receive a certain type of facility
- the Department has closely followed the BER Guidelines and standard design templates, whilst we understand some non government authorities have sought and obtained exemptions from prioritising libraries, halls and classrooms and using standard design templates.

Managing Contractor Appointment and Fees

- the timeframe for appointing managing contractors was extremely short
- the level of competition in appointing managing contractors was limited
- the fees paid to managing contractors appear excessive relative to their responsibilities
- whilst the Department did negotiate a \$10.0 million reduction in managing contractor fees with the successful tenderers, the approved tendered fees (\$261 million) were still \$40.0 million, or 18.1 per cent, higher than its own estimate of \$221 million.

Building Costs

- the Department was not as rigorous as it would normally be when reviewing estimated constructions costs. For 1,270 projects at the time of my audit, the Department's quantity surveyors assessed the estimated project costs to be lower than the managing contractors estimate. Despite this lower assessment, the Department still approved the managing contractors cost estimates. The total difference for the 1,270 projects was \$188 million, or 13.3 per cent of the total Estimated Construction Sum (ECS)
- as managing contractors went to the marketplace with pre-tender estimates set at \$188 million higher than the Department's internal pre-tender estimate, the Department missed out on the opportunity to negotiate a better deal with successful tenderers
- it appears approvals of ECS by Departmental staff were largely focused on whether the ECS was within the Australian Government's indicative funding cap for a school, and the Department largely relied on the tender and the Benchmark Market Value (BMV) processes to achieve value for money
- because the Department had approved the higher cost estimates determined by the managing contractors, there was no real incentive for the managing contractors to try and negotiate a lower price
- the volume of work and tight timeframes led to limited competition when tenders were put to the marketplace for individual projects
- tender documents and contracts indicate that most of the site supervision was carried out by sub contractors of managing contractors and therefore there is a risk of the Department paying for a service that was not provided by managing contractors
- the BMV process does not have a significant impact on the final actual cost as it is an internally calculated benchmark
- the term BMV could be misleading to key stakeholders. It only benchmarks a project with other projects within the P21 Program. It is not an external benchmark
- the independent quantity surveying firm I engaged to estimate the construction cost for nine P21 projects believes that in eight cases, the estimated construction cost would be between 2.3 per cent and 39.7 per cent lower, in a business as usual environment, than the estimated construction sum/actual tendered amounts under the P21 program
- of 68 schools I surveyed, only 41 per cent thought the project they received represented value for money.

RECOMMENDATIONS

Program Delivery

- the Department should review whether the library sizes in its Standards are appropriate, given that:
 - 57 per cent of schools are receiving a library that is bigger than the size guide in the Standards
 - 70 per cent of schools are receiving a multipurpose hall that is bigger than the size guide in the Standards
- at the conclusion of each P21 project, the Department should offer each school community a briefing on the key aspects of the Standards and the BER Guidelines, and how they apply to their school
- the Department should complete a comprehensive review of the Standards post the BER program. This review should include post occupancy evaluations from all schools who received a new or refurbished facility under the P21 program.

Managing Contractor Appointment and Fees

- whilst the 'NSW Government Procurement Guidelines – Tendering Guidelines' (the New South Wales Tendering Guidelines) allow agencies to have a tender period of 10 days, for projects of this size and complexity the Department should always comply with the recommended tender period of 25 calendar days
- the Department should re-estimate its project management fees and advise the Australian Government if its fees will exceed the four per cent benchmark
- for future projects, where tenderers do not provide the information requested (such as a split between project management and site supervision fees) the tender evaluation committee should request this information before completing the tender process
- the Department should examine managing contractors' records to confirm they have provided the level of site supervision stipulated in their tender. I believe most of the site supervision was carried out by sub contractors of managing contractors and therefore there is a risk of the Department paying for a service that was not provided by the managing contractor
- the Department should request a statutory declaration from managing contractors that attests they have tendered for all works. The Department should audit a sample of any direct negotiations to confirm they did not result in an adverse value for money outcome.

Building Costs

- irrespective of time constraints, the Department should not approve EECs that are substantially higher than the Department's assessments. The Department should investigate significant variances, negotiate with the managing contractors and set the ECS based on their own assessment, not the managing contractor's assessment
- for future projects or programs of a similar nature and/or size, the Department should consider nominating a Departmental officer to sit on the tender evaluation committee to ensure full compliance with the New South Wales Government Code of Practice for Procurement (the NSW Procurement Code) and NSW Tendering Guidelines. Their presence will also assist in maximising value for money by ensuring negotiations for lower prices are held, where appropriate, with preferred tenderers

The Department should also issue an instruction to all managing contractors that states they must attempt to negotiate with the preferred tenderer either when:

- very few tenders have been submitted for a project, and/or
 - the tendered price is significantly higher than the Department's cost estimate
- the Department should obtain managing contractors written acceptance of the 80/20 split used to calculate the Benchmark Market Value.

INTRODUCTION

In February 2009, the Australian Government announced the Nation Building Economic Stimulus Plan. The plan was in response to the global financial crisis which resulted in reduced construction activity in Australia. The Building Education Revolution (BER) was a component of this plan and the Australian Government allocated \$3.5 billion to New South Wales Government schools.

The BER was initiated by the Australian Government at a special Council of Australian Governments meeting on 5 February 2009. The communiqué from that meeting said:

Leaders agreed that the additional stimulus *needed to flow quickly into aggregate demand through the rapid implementation of the [National Building and Jobs] Plan.*

The BER funding would 'help to stimulate economies in local communities *through the scale and pace of the work undertaken*'.

The key objectives of the BER were to:

- provide economic stimulus through rapid construction and refurbishment of school infrastructure, and
- to build learning environments to help children, families and communities participate in activities that support achievement, develop learning potential and bring communities together.

The BER was made up of three programs, the biggest being the Primary Schools for the 21st Century program (the P21 program). The P21 program accounts for \$14.1 billion of funding nationally. The other national programs account for \$2.1 billion in funding and include the Science and Language Centres for the 21st Century and the National School Pride program. New South Wales Government schools were allocated national funding of \$2.98 billion for the P21 program, \$151 million for Science and Language for the 21st Century and \$287 million for the National School Pride program.

This report focuses solely on the P21 program. In delivering the P21 program the New South Wales Government's aim was to:

- deliver it in accordance with the BER Guidelines
- build high quality learning environment in New South Wales Government schools
- maximise value for money.

Value for money is generally made up of three components, namely quality, time and cost. To deliver overall value for money requires an element of each component. However, the weighting to each one is not always the same and can result in a trade off. Under the P21, program the Department used the following definition of value for money:

- Quality: building excellent, long lasting facilities that meet the Department's Standards.
- Time: meeting the timeframes set by the Australian Government to maximise the amount of economic stimulus delivered quickly.
- Cost: obtaining the best price the market will offer for works in schools across New South Wales.

The key performance indicators and performance measures under the National Partnership Agreement on the Nation Building and Jobs Plan were: the number of new or refurbished facilities; completing projects on time; the amount of money spent; the number of jobs created through the BER project; and the number of construction milestones met. The Department advised that a dollar spent within the Australian Government imposed timeframe in order to meet the stimulus objective was much better value for money than a dollar spent after the imposed timeframes.

ACHIEVEMENTS

The Department has achieved the following under the P21 program:

- rapid construction and refurbishment of school infrastructure in New South Wales
- built learning environments in New South Wales Government schools that will help children, families and communities participate in activities that support achievement and develop learning potential
- substantial adherence to the Australian Government timeframes
- used its School Facilities Standards and its standard design templates to meet the Australian Government timeframes and ensure schools received a facility as opposed to receiving nothing
- average daily employment on projects in excess of 7,800 persons
- approximately 3,900 apprentices worked on the program
- more than 1,000 Indigenous people participated in the program
- a Lost Time Injury Frequency Ratio of 3.1 injuries per one million hours worked, which is approximately five times better than the Australian construction industry average
- in the year to June 2010 the value of public school construction in New South Wales rose 324 per cent compared to the other states of Victoria (150 per cent), Queensland (132 per cent) and Western Australia (124 per cent).

The trade-off in achieving the above was:

- the Department paid a cost premium
- the Department was unable to provide all schools with their first project preference
- the Department, in some instances, was inflexible in the type of facilities (i.e. hall, library, classroom) provided to schools due to their strict adherence to:
 - conditions imposed by the Australian Government funding and the priorities set by the BER Guidelines
 - its Standards and standard design templates.

GOVERNANCE

The Department is responsible for delivering the P21 program in New South Wales Government schools. The Department established the Integrated Program Office (IPO) to deliver all components of the BER program. The Australian Government initially allocated \$44.8 million (1.5 per cent of the approved project allocation) to the Department to meet the costs of the IPO. This was subsequently revised to \$40.8 million. The IPO was resourced with a mix of public and private sector personnel.

The governance arrangements were reviewed by several independent parties who all concluded they were appropriate.

PROJECT STATUS

The P21 program at 1 November 2010 was made up of 2,364 individual projects across 1,781 state schools. The 2,364 projects were made up of the following project types:

Project Type [^]	Number of Projects	Percentage of Total Projects %
Hall	520	22.0
Library	473	20.0
Classroom	943	39.9
Covered Outdoor Learning Area (COLA)	249	10.5
Other*	179	7.6
TOTAL	2,364	100.0

Source: Department of Education and Training (unaudited).

[^]Includes projects that consist of an existing facility upgrade, associated support spaces or other work relevant to the facility type.

* Includes: administration, canteen and student amenities facilities, covered walkways and storage facilities.

The latest project budget, at 1 November 2010, is shown in the table below. The program is tracking within the original budget.

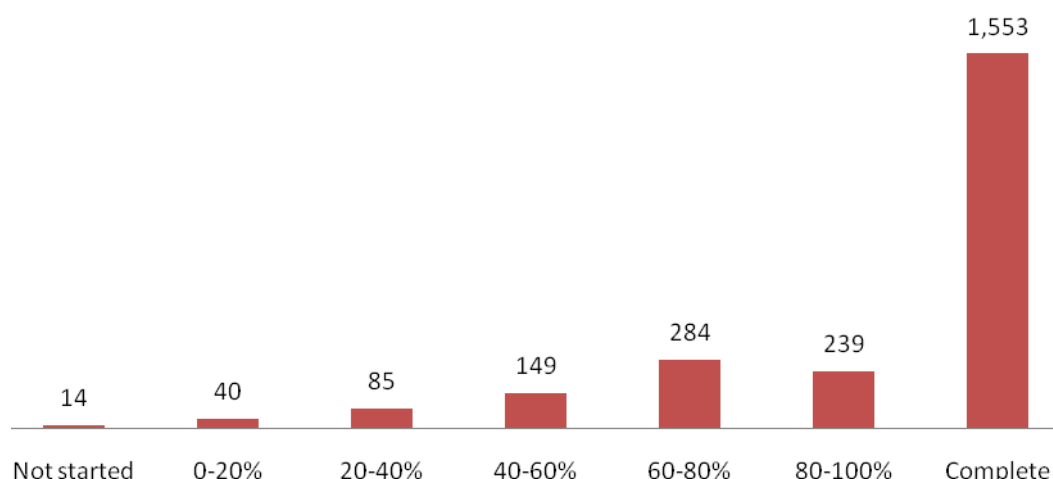
Region	Number of Projects	Approved Funding \$m	Expenditure \$m	Budget Spent %
Hunter/Central Coast	303	436.6	321.9	73.7
Illawarra and South East	239	301.2	223.4	74.2
New England/North Coast	408	383.4	293.8	76.6
Northern Sydney	170	307.3	242.2	78.8
Riverina	207	173.1	142.4	82.3
South Western Sydney	308	454.3	382.1	84.1
Sydney	242	357.0	276.3	77.4
Western NSW	206	177.0	137.5	77.7
Western Sydney	281	395.3	362.8	91.8
TOTAL	2,364	2,985.2	2,382.4	79.8

Source: Department of Education and Training (unaudited).

Construction status

At 19 November 2010, 1,553 projects (65.7 per cent of all projects) were complete, with another 239 projects more than 80 per cent complete. Only 14 projects had not started. In their interim report released in August 2010, the BER Taskforce found the Department, relative to other large government education authorities, had delivered impressively against the required timeframes. At the time of preparing their report the BER Taskforce found the Department had commenced or completed 95 per cent of all projects. This compared favourably against the Victorian Government (64 per cent) and the Queensland Government (60 per cent). The following graph depicts the construction status.

Construction Status (Number of Projects)



Source: Department of Education and Training (unaudited).

The BER Taskforce found the Department had the most challenging P21 implementation task of all education authorities. Its program of works accounts for 22 per cent of the entire P21 program. The Department's program is three times bigger than the New South Wales Catholic Education Authority's program.

P21 Funding entitlement

Under the BER Guidelines, funding for P21 projects was based on school enrolments. Funding was not allocated to schools on a needs basis. The indicative funding caps were as follows:

School students (full time equivalent)	Indicative funding cap \$
1 to 50 students	250,000
51 to 150 students	850,000
151 to 300 students	2,000,000
301 to 400 students	2,500,000
401+ students	3,000,000

Source: Building the Education Revolution Guidelines (Version 3) dated 21 September 2009.

The Department was able to provide schools with lower or higher amounts of funding, subject to:

- the Department remaining within its total agreed funding allocation
- school principals agreeing to reallocate funds.

Project priorities

Under the CBER Guidelines the Department had to use the funding for the following items, in order of priority:

1. construction of a new library
2. construction of a new multipurpose hall, or in the case of smaller schools, COLA
3. construction of classrooms, replacement of demountables or other buildings approved by the Australian Government
4. refurbishment of existing facilities.

If a school applied for funding that was not the first funding priority, being a library, it had to explain to the Department why this was the case. Equally if a school applied for funding for new classrooms it had to explain why it did not require a library or multipurpose hall. Consistent with the BER Guidelines, the Department advised schools that its priorities (by order) were:

- building halls or libraries in schools where these facilities did not exist or were considered inadequate under the Department's Standards
- replacing demountables or other buildings that support long term enrolments with permanent buildings
- refurbishing existing facilities
- projects which would provide educationally beneficial outcomes.

Project timing

P21 funding was provided to schools in three funding rounds and each round had specific commencement and completion dates. Under the BER Guidelines the Department had up to 18 months to complete a project. The timetable set by the Australian Government is shown in the table below.

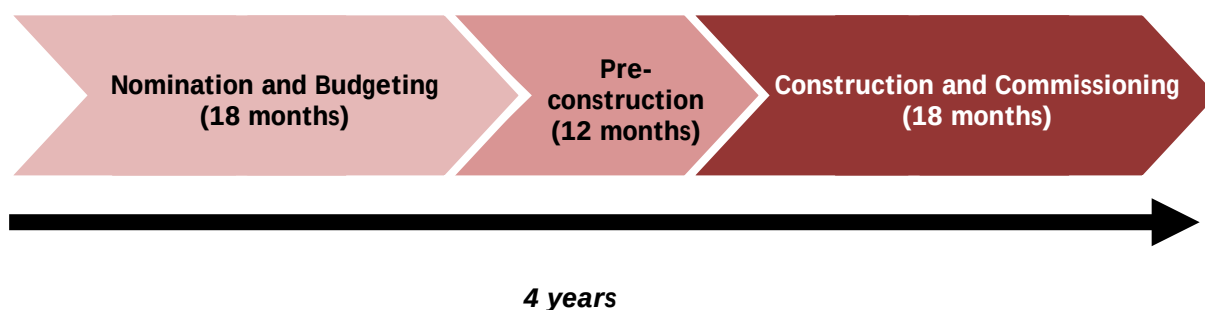
	Projects to commence by	Number of Projects	Schools with less than 150 students	Schools with 150 students or more
			Projects to be completed by	Projects to be completed by
Round 1	30 June 2009	309	31 January 2010	20 December 2010
Round 2	31 July 2009	1,278	28 February 2010	31 January 2011
Round 3	31 October 2009	777	31 May 2010	31 March 2011
		<u>2,364</u>		

Source: Department of Education and Training (unaudited).

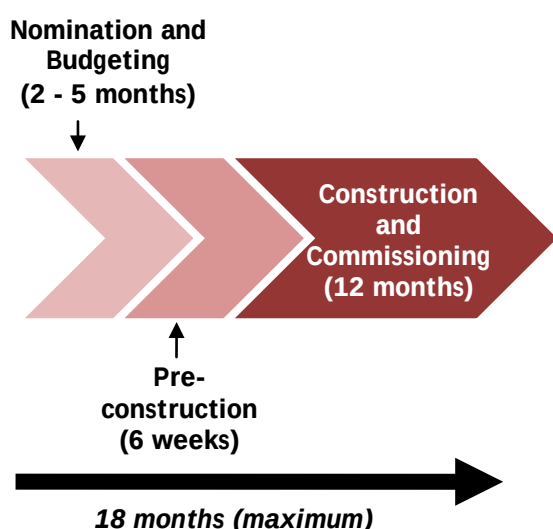
Under business as usual, the Department would spend up to 18 months nominating a project, developing a business case and obtaining approval to proceed with the project. Under the P21 program, it only had eight weeks to five months depending on whether the project was in round one, two or three.

Under business as usual, the Department would then spend another 12 months completing pre construction activities, such as design and consultation. Under the P21 program, the Department had six weeks to complete the same pre construction activities. The diagram below illustrates the timeline for delivering P21 projects compared to delivering major capital works project under business as usual.

**Department of Education Major Capital Works
'Business as usual'**



Building the Education Revolution



NOMINATING AND APPROVING PROJECTS

On 17 February 2009, the Department requested school principals to nominate preferred P21 projects by 16 March 2009. School principals were required to consult with the school's Parent and Citizens (P&C) Association before responding.

Anecdotal evidence suggests that for some schools the time provided for consultation was insufficient. As part of the financial audit of the Department, I asked 68 school principals whether they were satisfied with the consultation time provided to assess their school's needs, nominate and approve specific projects. Twelve of the 68 principals (18 per cent) said they felt rushed and would have preferred more time.

Upon receiving school nominations, the Department's Asset Planners undertook checks including:

- ensuring the nominated projects were consistent with the projects allowed under the BER Guidelines
- reviewing the projects against the Department's Standards
- comparing the existing school facilities against the Standards to identify any gaps
- reviewing the constraints on the project such as contamination and heritage issues
- current and projected student numbers.

These checks were important in minimising the risk of schools requesting facilities they did not need. It also assisted the Department in advising schools of their correct entitlements and needs according to the Standards.

From this review the Department put forward to each school principal up to two proposed projects. The Department advised the Department of Education, Employment and Workplace Relations told them that schools could not have more than two projects. Depending on the funding available, the Department offered schools only those projects that were considered affordable within their funding allocation. If the school principal was unhappy with the proposals they could discuss alternatives with the Department, though any alternative project had to comply with the BER Guidelines. The school principal had to sign off on a project before detailed planning could commence.

The NSW Nation Building and Jobs Plan Taskforce commissioned an independent review of the nomination and approval process in June 2009, to ensure a sample of round three project submissions by the Department complied with the BER Guidelines. The review was a high level analysis to assist the Taskforce identify areas where the Department should improve its documentation. This review, performed by a large accounting firm identified the following:

- the Department had continually improved its quality assurance checks over time, resulting in improved submissions to the Australian Government
- while all school principals had agreed to their nominated projects with an official Department representative, in some cases this was not in writing. However, this was followed up by the Department before forwarding nominations to the Australian Government, and
- the Department could improve its documentation in some areas.

Compliance with the BER Guidelines

As reported in the BER Taskforce's Interim Report, the Department has closely followed the BER Guidelines, whilst the non government authorities have sought and obtained exemptions from prioritising libraries, halls and classrooms. They have also sought exemptions from using standard design templates.

The BER Taskforce found a major theme from complaints in New South Wales related to frustration over inflexibility. It found those education authorities that put in the additional effort and sought the Australian Government's approval to vary a requirement in the BER Guidelines received a higher of level stakeholder satisfaction.

The Department chose to strictly conform with the BER Guidelines, particularly around standard design templates and priorities, in order to meet the tight timeframes. The BER Taskforce found the Department used the standard design templates in 97 per cent of all projects. In contrast, in the Catholic and independent education system, school principals were given some flexibility in designing custom buildings.

The Department advised it did apply for variations to the BER Guidelines where it was justified under the Standards or in instances where, due to site constraints or specific issues, a modified template design was required. Due to the large number of projects, tight timeframes and the risk of having funding withdrawn, the Department decided to use the standard templates in the majority of cases. This ensured an efficient delivery timeframe for the large number of projects and compliance with the Department's Standards.

CONSTRUCTING UNNECESSARY FACILITIES

Because funding to schools was based on student enrolments, the risk of constructing unnecessary facilities arose. As mentioned earlier, the Department implemented checks to ensure each school received maximum benefits from the P21 program. Checks included reviewing a school's current facilities, backlog maintenance requirements and expected student enrolment growth.

Under the BER Guidelines, the Department could not reallocate any portion of a school's indicative funding cap unless the school principal agreed. For example, if a newly constructed school was entitled to \$3.0 million and the Department felt another school had a greater need for new facilities than the newly constructed school, the Department could not reallocate the funding unless the school principal agreed to it.

I undertook a high level review on whether schools were receiving facilities they did not need. I found:

- no instances of schools replacing existing libraries, which complied with the Department's Standards, with new libraries. However, 269 schools that already had a library received a new or upgraded library under the program
- no instances of schools replacing existing multipurpose halls, which complied with the Department's Standards, with new halls. However, 316 schools that already had a multipurpose hall received a new or upgraded hall under the program.

The high level review I undertook was based on data in the Department's Asset Management System. I did not check its accuracy or completeness.

New libraries

Under the P21 program, the Department will build 388 new libraries. Based on my review of the information in the Department's asset management system, and comments received from the Department, I found no evidence of existing libraries, which complied with the Standards, being demolished for new libraries. My review found:

- 115 schools did not have a library
- 211 schools had a library, but its size did not meet the minimum entitlements in the Department's Standards
- 58 schools had a library that met or exceeded the size entitlements in the Department's Standards, but did not comply in terms of quality and/or was not ideal for students. For example, some libraries were a combination of rooms and did not have an adequate, single main reading space. In other cases, the libraries were quite old or located in demountables. Also, only five schools had an existing library that was built in 1980 or later
- 220 schools are receiving a library whose size exceeds the minimum entitlement in the Standards. For example, Anna Bay Public School and Kensington Public School, which are entitled to a Core 14 library, are receiving a Core 21 library as the schools had sufficient funding to cover the extra cost
- all 388 schools are receiving a library whose size is in line with or greater than their entitlement under the Standards.

Libraries are categorised as follows:

Type	Student Enrolment	Size based on reading area square metres	Students accommodated	P21 Program Average cost/sqm \$
Core 3 library	26-149	70	149	na
Core 7 library	150-300	90	300	4,746
Core 14 library	301-500	163	500	5,156
Core 21 library	>500	230	>500	4,886

na - not available.

Average cost per square metre provided by the Department of Education and Training (unaudited).

I recommend the Department review whether the library sizes in its School Facilities Standards are appropriate, given that 57 per cent of schools are receiving a library that is bigger than the size guide in the Standards.

It appears the library entitlements in the Standards may not reflect the schools' actual needs, given that 220 of 388 schools will receive a library much bigger than their entitlement. While the Department advised there are valid reasons for each individual case, such as site specific issues, the school's student population not far off the next entitlement, and projected population growth in the area, the high percentage of deviation from the size guide in the Standards suggests a review is appropriate.

The extra funds used to provide the 220 schools with facilities bigger than their entitlement could have been directed towards those schools that will not have a library at the end of the P21 program. Libraries were the first priority project under the BER Guidelines.

As mentioned earlier, five of the 388 schools are replacing or upgrading an existing library facility built between 1995 and 2006. Explanations provided by the Department for replacing or upgrading the existing facilities were:

School name	Reason for replacing or upgrading existing library
Bexhill Public School (existing library built in 2002).	Existing library does not have a main reading area that complies with the Standards. Library comprised of several separate rooms.
Holmwood Public School (existing library built in 2006)	The school was provided with some reading areas in the new building constructed in 2006. However, the school does not have a main reading area that complies with the Standards.
Marayong Heights Public School (existing library built in 2001)	School is using the existing library as a special programs room. The existing facility will remain and the school will receive a Core 14 library.
Southern Cross School (existing library built in 1995)	School is using the existing library as a computer laboratory.
Tomaree Public School (existing facility built in 1998)	School enrolments have exceeded original capacity. The school is upgrading its existing library.

New multipurpose halls

Under the P21 program, the Department will build 420 new multipurpose halls. Based on my review of the information in the Department's Asset Management System, and comments received from the Department, I found no evidence of existing multipurpose halls, which complied with the Standards, being demolished for new multipurpose halls. My review found:

- 222 schools already had a multipurpose hall, but their size did not meet the minimum size entitlements in the Department's Standards. This includes schools that may have been using a COLA as a hall, such as Mount St Thomas Public School
- 295 schools are receiving a multipurpose hall whose size exceeds the minimum entitlement in the Standards. For example, Wollongong Public School, which had enrolments of 354 students and is entitled to a Core 14 hall, is receiving a Core 21 hall that accommodates more than 500 students
- 77 schools are receiving a hall even though they are not entitled to a multipurpose hall per the Department's Standards. These schools had enrolment numbers below 151 students. This includes schools such as Berrigan Public School (student enrolment of 78), Beverley Public School (student enrolment of 57) and Boggabri Public School (student enrolment of 102)
- 94 schools already had a multipurpose hall that met or exceeded the size entitlements in the Standards, but did not comply in terms of quality and/or were not ideal. For example, some school halls were a combination of two or more areas that did not adjoin one another. In other cases the halls were quite old or were located in demountable structures. Of these 94 schools, only four had an existing multipurpose hall that was built in 1980 or later
- 419 schools are receiving a multipurpose hall that is in line with or greater than their entitlement under the Standards. The only school which will receive a multipurpose hall below its entitlement is Coogee Public School. The school, which had 559 full time equivalent students at the time funding was allocated, was entitled to a Core 21 hall. However the Department advised it could not provide the school with a Core 21 hall because of site restrictions and heritage issues. The school will receive a Core 14 hall instead.

Halls are categorised as follows:

Type	Student Enrolment	Size based on floor space square metres	Students accommodated	P21 Program Average cost Hall and Cola/sqm \$
Core 7 multipurpose hall	151-300	120	300	3,963
Core 14 multipurpose hall	301-500	190	500	3,496
Core 21 multipurpose hall	>500	250	>500	3,592

Average cost per square metre provided by the Department of Education and Training (unaudited).

I recommend the Department review whether the multipurpose hall sizes in its School Facilities Standards are appropriate given that 70 per cent of schools are receiving a hall that is bigger than the size guide in the Standards.

It appears that multipurpose hall entitlements in the Department's Standards may not reflect schools' actual needs, given that 295 of 420 schools will receive a multipurpose hall much bigger than their entitlement. For example, Aberdeen Public School had 182 full time equivalent students. This entitles them to a Core 7 hall which comprises 120 square metres of floor space. A Core 7 hall can accommodate up to 300 students per the Department's Standards. Instead the school will receive a Core 14 hall which has 190 square metres of floor space and can accommodate up to 500 students.

The Department advised the Minister approved some flexibility in multipurpose hall sizes when available funding allowed this, and the school community specifically requested a bigger hall. The reason for greater flexibility was the Australian Government's requirement for schools to make halls readily available to the general community. The Department also advised it plans facilities for the long term, incorporating anticipated cyclical trends in enrolments. Thus it believes comparisons of entitlement to core size at a point in time are a guide only.

The extra funds used to provide the 295 schools with facilities bigger than their entitlement could have been directed towards other projects or to those schools that will not have a multipurpose hall at the end of the P21 program. Some of the 90 schools that will not have a multipurpose hall after the P21 program include:

- Morpeth Public School (receiving new classroom facilities)
- Urunga Public School (receiving new classrooms and toilet facilities)
- Granville South Public School (receiving new classroom facilities)
- Green Valley Public School (receiving new classrooms)
- Fairvale Public School (receiving new classrooms).

As mentioned earlier, four of the 420 schools were going to replace an existing multipurpose hall built between 1980 and 2005 with a new one. The explanations provided by the Department for replacing the existing facilities are listed in the table below.

School name	Reason for replacing existing multipurpose hall
Briar Road Public School (existing hall built in 2005)	Existing hall is largely a COLA.
Double Bay Public School (existing hall built in 1991)	Existing hall is a demountable structure with low ceiling. It does not comply with the Department's Standards.
Hillvue Public School (existing hall built in 1980)	Existing hall does not comply with the Department's Standards.
Nemingha Public School (existing hall built in 1994)	Existing hall does not comply with the Department's Standards and has extensive termite damage.

Schools earmarked for possible closure

The Department does not maintain a list of schools earmarked for closure. However, it does maintain a 'Teachers Withdrawn Schools' list. The schools on this list are mostly small, one teacher schools located in remote parts of the State. The Department closely monitors future enrolment numbers because these schools have no enrolments and the teacher has been withdrawn for a period of twelve months, pending a decision on whether the school should be formally closed. According to the Department's records, none of the 21 public schools on this list received any P21 funding.

Funding allocation

As previously mentioned, under the BER Guidelines the Department could not reallocate a school's funding entitlement unless the school principal agreed to it. This condition precluded the Department from freely transferring funding allocation between schools. The total funding reallocated under the P21 program is shown in the table below.

School type	Funding cap	Reallocated funds
	\$000	\$000
Newly constructed schools (15 schools)	26,650	14,079
All other schools (18 schools)	40,750	14,178
TOTAL	67,400	28,257

Whilst \$28.3 million was made available, this represents less than one per cent of the P21 program budget. Furthermore, only 33 of the 1,781 State schools offered to not spend their full funding cap. If the Department had more discretion to reallocate funds between schools, it may have resulted in greater benefits to the Government school network as a whole. For example, if the Department had more discretion it may have chosen to reallocate funding to smaller rural schools that were only entitled to \$850,000 and missed out on constructing a hall or library because the budgeted cost was marginally more than the funding cap of \$850,000.

Newly constructed schools

Recognising the risk of schools requesting facilities they might not need, the Department analysed all nominations, particularly those newly established schools or those that had recent major capital works.

Between 2000 and 2008, the Department built 15 new schools using the public-private partnership model. As shown in the table above, these schools were entitled to \$26.7 million of P21 funding. Three of the 15 schools agreed to reallocate their full entitlement as they had no other need for new or refurbished facilities. The remaining 12 schools used most of their entitlement on projects such as hall extensions, construction of COLAs and more classrooms to accommodate increasing student numbers.

Complaints and media

Over the last twelve months there has been substantial media regarding schools receiving a new facility they did not want or need. As part of my audit I made inquiries with the Department to assess some of those claims. The responses from the Department are listed in the table below.

School name	Concerns	Comments
Waverley Public School	School does not need a hall.	School did nominate a school hall as one of their priorities. Current hall is a double classroom and inadequate for increasing student enrolments. The Department assessed the current hall as not complying with its Standards. The school already had a library which complied with the Department's Standards and so under the BER Guidelines it received the second priority, a hall.
Annangrove Public School	School wanted a hall, not a library.	School did nominate both a hall and library. However, based on the Department's Standards, the school was not entitled to a hall. Its enrolment numbers were below 151 students. The school currently uses a demountable as its library. The Department assessed the current library as not complying with its Standards. For this reason, and that libraries were the first priority in the BER Guidelines, the school received a library.
Manly Village Public School	School does not want a hall.	School did nominate a school hall as one of their priorities. Its current hall is only 195 square metres, well below the recommended 250 square metres in the Department's Standards and therefore non compliant.
Cattai Public School	School wanted a hall, not a library.	The school is not entitled to a hall as it has less than 151 students. The school had a demountable library which the Department assessed as not complying with its Standards. For this reason, and that libraries were the first priority in the BER Guidelines, the school received a library.

I recommend at the conclusion of each P21 project, the Department offer each school community a briefing on key aspects of the School Facilities Standards and the BER Guidelines, and how they apply to their school.

Much of the concerns raised in the media may have arisen from stakeholders not being fully informed, on a timely basis, of the Department's Standards and how they apply to their school. For example, some stakeholders were unaware they were not entitled to a multipurpose hall if the school had less than 151 students. I believe the local school community would find it beneficial if the Department briefed them on key aspects of the Standards and how they apply to their school.

The Department advised it extensively communicated the key requirements of the Standards to the key stakeholders throughout the program. For example it:

- sent out regular bulletins
- provided updates through newsletters
- assigned school facilities planners and principal liaison officers to each school
- made available fact sheets and other pertinent information on its BER website.

SCHOOL FACILITIES STANDARDS

School facilities are designed and built in accordance with the Standards. The Standards specify minimum performance requirements for facilities and results in facilities of a same standard irrespective of the school size or location. The Standards are designed to deliver high quality facilities that meet the curriculum requirements set by the NSW Board of Studies.

The Department advised the Standards sometimes exceed those set by the Australian Building Code and Regulations, and this can make school projects more expensive than commercial projects. However, the Department advised this results in good value for money over the life of the building as less maintenance is required. The Department also advised the Schools Public Private Partnership Consortium, which has facilities management responsibilities for over 20 recently constructed public schools, supports this view.

In response to observations made in the BER Taskforce Interim Report, the Department engaged both an architectural firm and an independent quantity surveyor to analyse the additional capital cost imposed by the Standard's during the construction phase. Design analysis performed by the architect compared the Department's double classroom to the Building Code of Australia compliant double classroom.

The quantity surveyor cost analysis showed the added capital cost to comply with the Standards during the construction phase was 37 per cent higher than the Building Code of Australian double home base. Managing contractor's fees, design fees and contingencies were excluded from the cost analysis. The result of the analysis on the double home base is presented in the following table.

	Building Code of Australia (BCA) Double Home Base	BER School Facilities Standard Double Home Base
Construction Cost	\$668,000	\$917,000
Roof	Minimum gauge metal and wall linings	Heavy gauge metal roof and wall linings
Photovoltaic cells*	No	Yes
Translucent double skin skylight panels (reduces heat gain while improving light distribution)	No	Yes
Pinboard wall panel lining (durable and minimise recurrent maintenance)	No Only 10mm plasterboard wall lining	Yes 13mm plasterboard wall lining Pinboard wall panel lining
Balustrade**	Only required where drop is equal to or more than 1000mm	Extra required where drop is equal to or more than 300mm
Downpipes	Standard 90mm colorbond	Heavy duty galvanised steel
Doors	35mm, with no vision panel	40mm, solid core doors with vision panels
Windows	Standard aluminium framed window suite. No sun screens.	Specific, Department designed heavy duty window suite (e.g. robust frame and thicker glass for durability and weather protection) Sun screens over windows
Eaves	Overhang 450mm	1200mm
Ceiling	Flat under timber truss	Raked to allow skylight detail
Turbo automated turbo ventilators to provide ventilation (to help ensure controlled regular fresh air)	No	Yes
Frame Construction	Timber with timber roof trusses	Structural steel building frame
Interactive whiteboard	No	Yes
Insulation	Standard to comply with BCA	40% greater insulation value than minimum BCA requirements
Carpet	Carpet tiles	Heavy duty pure wool carpet and underlay
Furniture	Not part of building contract	Full furniture fit-out for all Department schools
Operable wall between classrooms	No	Yes

*Solar panels

**Small posts that support the upper rail of a railing

I recommend the Department complete a comprehensive review of its School Facilities Standards post the BER program. This review should include post occupancy evaluations from all schools that received a new or refurbished facility under the P21 program.

The Department regularly reviews the Standards to ensure they remain up to date and represent the best balance between safety and educational outcomes. However, given the misunderstanding in the school community of school entitlements and concerns around hall sizes, it is timely for the Department to conduct a comprehensive review of the Standards. The review should incorporate schools' feedback and views on the appropriateness of the new facilities.

SURVEY OF SCHOOL PRINCIPALS

Audit Office school audit program

During my audit of 68 schools I asked school principals some questions on the P21 program. The summary of their responses on consultation, value for money, project priority and overall satisfaction is shown in the table below.

	YES	NO	Partly /Unsure	Total responses
Was the school happy with the consultation period?	56	12	--	68
Did the school receive its top priority project?	57	9	2	68
Does the project meet the medium term future needs of the school?	61	7	--	68
Does the project represent value for money?	28	25	15	68

Source: Audit Office of NSW school audit questionnaire.

The majority of school principals were happy with the consultation period, though 12 schools did say it was too short. Many of these related to round two projects, whose consultation period included the Easter school holiday period, thus reducing the available time.

In terms of receiving top priority, some schools believe they did not receive their first preference. I conducted a review of some of these schools and generally found there was some confusion around what projects were allowable under the BER Guidelines. At the time school principals nominated potential projects (between February and March 2009), it was still somewhat unclear what projects could be completed under the P21 program. Another reason why schools were not happy with the outcome was because they nominated two or more projects, but only received one project. Other examples include:

- one school identified an extension to its existing hall and extra classrooms as its top priorities. The Department assessed the school's hall as meeting current and future needs of the school and therefore suggested a new library as the school's top priority. The school community agreed on a new library as the existing library was built in 1971 and was not ideally located on the school site
- one school nominated a library upgrade, extension of their hall and replacement of demountables as their top priorities. However, its only successful nomination was the replacement of demountables. The Department assessed its existing library and hall facilities as compliant with its Standards.

As part of the questionnaire we also asked the school principals whether they felt the new facilities would meet their future needs. Generally, most schools believed their projects would accommodate current and future needs. Of the seven schools that did not believe the project would meet their needs, five related to classroom upgrades, whereby schools had existing demountables replaced with permanent structures and therefore the schools capacity was not increased. The other two schools felt the multipurpose halls they were receiving could not accommodate all students. Both of these schools received a hall in accordance with their entitlement under the Department's Standards.

Australian Primary Principals Association

The Australian Primary Principals Association (APPA) represents all schools across Australia. It surveyed its members in March 2010 to better understand its members' views on how well the P21 program was being implemented. The key results from the survey are shown in the table below. The results were drawn from 2,438 responses.

Survey question	Percentage Agreed			
	NSW - all schools (%)	Government - Australia wide (%)	Catholic - Australia wide (%)	Independent - Australia wide (%)
Are your students going to benefit from the BER Primary Schools for the 21st Century (P21) project?	97.4	96.5	99.3	98.3
Within the BER guidelines for the BER program, is your school receiving projects that you and your school community want?	86.9	87.6	98.3	97.4
Have you been able to access the specific costings for your projects?*	45.3	42.9	86.6	93.0

Source: Australian Primary Principals Association 'Building the Education Revolution Survey Report 30 April 2010'.

*The Department advised that at the time the survey was conducted cost breakdowns for 1,861 projects at 1,414 schools (82 per cent) were displayed on their BER website.

The survey found that Government schools particularly in New South Wales, Victoria and Western Australia were less happy than their counterparts in other States and certainly less satisfied than Catholic and Independent schools. It also found that the schools that reported as having provided the least access to specific costings were in the larger States of Victoria, New South Wales and Western Australia. Considerable frustration was expressed with regard to the centralised decision making and variations to projects without consultation and access to costings.

However the BER Taskforce in its Interim Report awarded the Department a ranking of high in terms of cost transparency to stakeholders. The Department was one of only two government education authorities to receive a high rating. Of the remaining government education authorities, two received a rating of moderate and three received a rating of low. The Department also advised the Implementation of the Nation Building and Jobs Plan in New South Wales and Potential Applications for Other Projects review (Shepherd Report – November 2010) concluded the Department was more transparent, complete and timely in presenting costs than most jurisdictions.

The APPA survey also included written open questions. From the written responses provided, APPA found that:

- only 53.9 per cent of New South Wales principals reported positive experiences/outcomes
- for New South Wales principals, the main concern was that the project was not the best fit with the schools' needs (13 per cent) or was too costly for what was achieved (10.2 per cent)
- government school principals reported the project was not optimal (9.5 per cent), or the process was difficult or unsatisfactory (8.4 per cent) or did not represent value for money (7.2 per cent) at considerably higher rates than did Catholic or Independent school principals.

APPOINTMENT OF MANAGING CONTRACTORS

In order to meet the Australian Government's timeframes and the Department's quality and safety requirements, the New South Wales Infrastructure Coordinator General advised the Department to use the most capable and largest construction companies to deliver the P21 program under a managing contractor model. This model also allowed the Department to transfer a number of risks to the private sector. This included transferring risks such as delivering the works to a high quality, on time and at a reasonable cost that represented value for money. The Department had assessed that it could not deliver the works in the timeframe available, and to the quality expected, without the resources and experience available through the managing contractors.

Under the model used by the Department, the managing contractor is involved in all phases of construction, from concept design through to project completion and handover. Some of their key responsibilities include:

- preparing project documentation including developing detailed briefs by interpreting the Standards
- preparing and lodging applications
- preparing preliminary cost estimates and estimated construction costs
- liaising with each school and facilitating acceptance of the finals designs, time programs and site logistics
- tendering for works, assessment of tenders and awarding of contracts
- site supervision and site management
- managing the safety of staff and children on the site
- contract administration, quality assurance
- project reporting and handing over completed sites (including pre-handover inspections, handover documentation and identification and rectification of defects before handover).

New South Wales public schools were grouped into nine regions and a managing contractor was appointed to each region. Managing contractors were appointed through a selective tendering process.

Managing contractor model

The managing contractor model was chosen by the NSW Nation Building and Jobs Plan Taskforce. Whilst this model is more complex than adopting a single site approach adopted by other large interstate government education authorities, the Department believes it has resulted in achieving the most rapid roll out of the P21 program.

Other education authorities have used different models. In Victoria and Queensland, the government authorities adopted a more flexible approach by using managing contractors in different capacities in each funding round. The Catholic and independent school education authorities generally adopted a single site approach.

The managing contractor model used by the Department, in some ways, is similar to the one used in business as usual, whereby units within the Department responsible for major capital works and asset management engage the Department of Services, Technology and Administration (DSTA) to oversee their major capital works program. In effect, the model replaces these units operating within the Department with the managing contractors and removes the engagement of DSTA. However, the Department advised the biggest difference between the two models is the transfer of risk. In a business as usual environment, the transfer of time, quality and safety risk from the Department to DSTA is very modest, whereas under the BER this risk was transferred to the managing contractors.

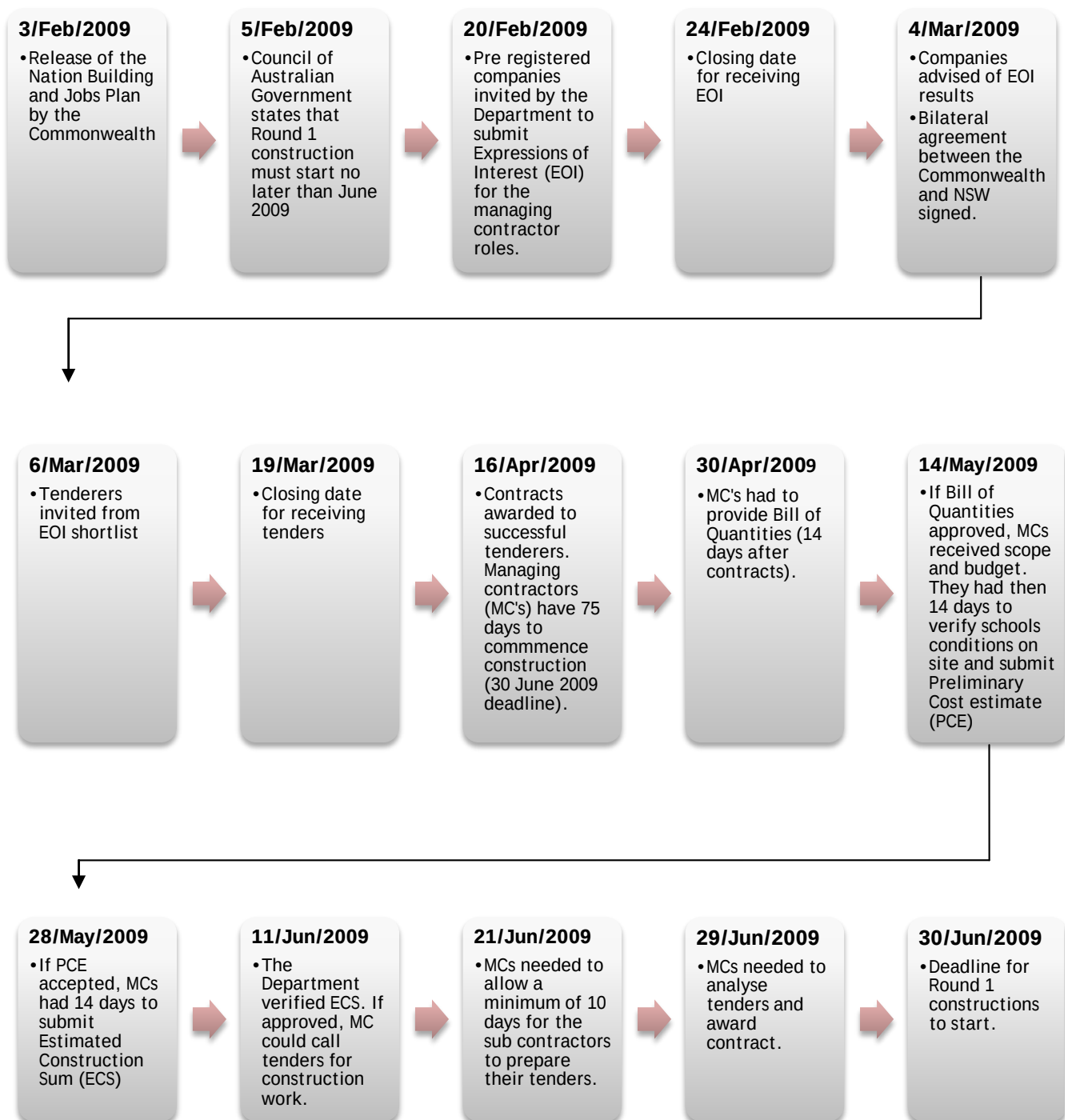
The Department did offer schools the opportunity to self manage a project, however, only four chose to self manage their P21 project. Subsequently one of the four schools withdrew their request to self manage.

In its Interim Report the BER Taskforce stated that had the majority of public schools in New South Wales self managed their P21 project, it would have increased the risk of not delivering the P21 program as a whole on time. It would have also led to less certainty regarding the final project cost.

Tender process

The Department used a selective tendering process to appoint the managing contractors. It used the New South Wales Government's panel of pre qualified contractors for construction works. The panel provides easy access to contractors that meet the Government requirements for capability, management systems, financials and performance to tender for government construction contracts.

The Department sought expressions of interest from the 14 pre qualified companies on the New South Wales Government's existing supply panel for construction works exceeding \$20.0 million. All 14 companies on the panel submitted an expression of interest but only 13 were shortlisted for the request for tender phase. The timeline of events leading to the appointment of the managing contractors is outlined on the following page, as well the events that had to occur before construction could commence on round one projects by 30 June 2009.



The timeframe for selecting the managing contractors was short. The tenderers only had ten working days to submit their tender. The Department advised the short time frame was due to the BER Guidelines stipulating construction on round one projects had to commence by 30 June 2009.

The awarding of contracts on 16 April 2009 gave the Department and managing contractors just 75 days to conduct design and investigation works, consultations and seek statutory planning approval on more than 300 projects. This was clearly not enough time, resulting in only six projects receiving approval to proceed to tender. While no construction work had commenced by 30 June 2009, all projects in round one had commenced at that time. The Department advised that issuing the brief to the managing contractor constituted commencement under the BER guidelines.

I recommend the Department should always comply with the recommended tender period of 25 days for projects of this size and complexity.

Whilst the NSW Government Procurement Guidelines - Tendering Guidelines (NSW Tendering Guidelines) allows agencies to reduce the tender period from no less than 25 days (when using electronic tendering) to no less than 10 days, this shorter time period may have not given the short listed companies enough time to properly assess the managing contractor's role and associated risks. Given the payment calculation process (the BMV process) had not been defined, the short time frame and other uncertainties at the time of tendering, this may have resulted in bids including a premium for risk uncertainties.

All tenders were first assessed on non price criteria. The non price assessment was based on the tenderers understanding of the scope of works, assessment of risk, procurement strategy, proposed team, stakeholder management, and commitment to training and Indigenous participation. Only ten of the 13 tenderers passed the non price criteria. The region that had the strongest field of non-price tenderers was the Hunter/Central Coast region. It received four high quality non-price tenders. In contrast the Western New South Wales region only had one high quality tender and one tender of marginal quality.

The next phases included price assessment and analysis of the tenders' capacity and strategy of delivery. Contracts were awarded to seven of the 13 tenderers. Some received more than one region to manage, as outlined in the table below.

Region	Managing Contractor
Hunter Central Coast	Bovis Lend Lease
Illawarra and South East	Richard Crookes Construction
New England/North Coast	The Reed Group
Northern Sydney	Bovis Lend Lease
Riverina	Laing O'Rourke
South Western Sydney	Hansen Yuncken
Sydney	Abigroup
Western NSW	Laing O'Rourke
Western Sydney	Brookfield Multiplex

As outlined in the Tender Evaluation Report, the best value tender in each region was spread across four companies. However, the limitations of financial capacity and risk management of only two regions per company meant in some regions the best value tenderer was not awarded the contract. The decision to reduce the delivery risk and select the second and third best value tenderers increased managing contractor fees by \$23.0 million. The Western New South Wales and New England/North Coast regions were two of the four regions where either the second or third best value tenderers were appointed.

Probity auditor

The Department appointed a probity auditor to review the expression of interest and tender process. This was appropriate given the size, risks and nature of the tender process. Overall, the probity auditor found the Department had complied with the NSW Procurement Code and the NSW Tendering Guidelines.

MANAGING CONTRACTOR FEES

The estimated managing contractor fees for the P21 program at November 2010 was \$313 million. This accounts for 11.6 per cent of the total project costs for the P21 program. The tendered and approved managing contractor fees (site supervision, project management and profit margin) range from 6.9 per cent (Fee A and Fee B) to 18 per cent (Fee A) and 25 per cent (Fee B).

Fee A applies to projects where more than 85 per cent of the work (by value) is to be carried out by a single subcontractor. Fee B applies to projects where no subcontractor will be greater than 85 per cent of the total subcontract costs (by value). Fee A projects would result in less contract and site management compared to a Fee B project

Whilst the Department did negotiate a \$10.0 million reduction in managing contractor fees with the successful tenderers, the approved tendered fees were still \$40.0 million, or 18.1 per cent, higher than its own estimate.

The higher than expected managing contractor fees were largely attributable to the country regions such as the Riverina, Western New South Wales and North Coast/New England. The comparison between the Department's own estimate and tendered amounts is shown in the table below. The tendered fees of \$261 million were based on the original program budget at the time.

	Tendered and approved (%)	Department's estimate (%)	Tendered and approved fees (\$m)	Department's estimate (\$m)**
Project management and site supervision – Fee A	7.4	2.0	74	18
Project management and site supervision – Fee B	10.9	7.6	101	86
Profit margin	2.7	4.0	51	77
Incentive	1.7	2.0	35	40
Total Fee A	11.8	8.0	Na	na
Total Fee B	15.3	13.6	Na	na
Total	13.1*	11.1*	261	221

Source: Department of Education and Training (unaudited).

*represents weighted average

** This was based on Australian Government advice the Department would receive \$2.77 billion of P21 funding.

na – not available.

Before the Department commenced the tender process, it engaged an independent quantity surveyor to develop its own estimates of management contractor fees for each region. The quantity surveyor's estimate was \$221 million, or 11.1 per cent of total construction costs. This included a two percent incentive fee for completing works to an appropriate standard and on time. The tendered and approved fees were 13.1 per cent of total construction costs or \$40.0 million higher than the quantity surveyor's estimate.

The Department advised the \$40.0 million difference between its pre tender estimate of managing contractor fees and approved tendered fees was reasonable because the pre tender estimate was prepared in a short time frame without full knowledge of the methodology that tenderers would base their price on. It stated the pre tender estimate was significantly impacted by assumptions such as how the managing contractors would deploy their resources and their understanding and pricing of the risks associated with the benchmark market value process.

In two of the three country regions, the approved managing contractor fees were 100 per cent or more than the pre tender estimate. According to the Tender Report prepared by the Tender Evaluation Committee, some of the reasons for the higher than expected fees were due to lower budgeted works, the dispersed nature of the schools and the managing contractors being located in Sydney. The selection of the second and third best value tenderers, because of the limitation of a company not managing more than two regions, also contributed to the higher than expected managing contractor fees.

The Department advised an alternative model, such as geographically based and aggregated design, development and construct contracts (one contract for say 10-20 schools) may have better managed risk in respect of managing contractor fee costs in the regional areas. This, together with the deployment of multiple local contractors would have mitigated the time risk associated with the P21 program.

P21 Management fees vs Business as usual

The Department analysed the management fees under the P21 program against the estimated fees under business as usual. This analysis was performed after selecting the managing contractors.

	P21 program	Department - business as usual
	(%)	(%)
Project management fees and profit	8.5	6.0
Site supervision	5.7	5.5
Incentive fee	1.7	--
Total	15.9	11.5

Source: Department of Education and Training (unaudited).

The Department's analysis highlights that it is paying around 4.4 per cent more for managing the P21 program compared to business as usual. Of this difference, 1.7 per cent is attributable to the incentive fee which was included to encourage completion of projects on time and within the benchmark market value. This means that 2.7 per cent is attributable to other factors. The Department concluded the 2.7 per cent premium was due to factors such as additional risk transferred to the managing contractor, such as time and budget risk. It also concluded increased level of reporting and transparency and a shorter planning and procurement process also contributed to the higher management fees.

P21 Management fees vs Australian Government Guidelines

I recommend the Department re-estimate its project management fees and advise the Australian Government if its fees exceed the four per cent benchmark.

I understand the Department of Education, Employment and Workplace Relations (DEEWR) stipulated project management fees under the P21 program should not exceed four per cent of total costs. The Department has publicly stated on its BER website and in submissions to various parliamentary inquiries that project management fees do not exceed four per cent. However, based on my analysis, shown below, the Department's project management fees do exceed this benchmark. This table only relates to project management fees. It excludes site supervision, profit margin and incentive fees. The Department advised the Australian Government has not defined project management fees.

	Department (%)	Audit Office estimate (%)	DEEWR benchmark (%)
Managing contractor's project management fees	2.7	3.1	na
Department of Education and Training project management fees	1.3	1.3	na
Total	4.0	4.4	4.0

Source: Department of Education and Training (unaudited).
na - not available.

I recommend for future projects, where tenderers do not provide the information requested (such as a split between project management and site supervision fees) the tender evaluation committee request this information before completing the tender process.

The 0.4 per cent difference between the Department's publicly stated figure and my estimate is due to some managing contractors not splitting their project management and site supervision fees in their tenders.

For example, one managing contractor's tender included over 10 per cent for site supervision and nil for project management. They failed to split their fees between the two components. The Department did not factor this shortcoming into their publicly communicated figure of 4.0 per cent.

My estimate of 4.4 per cent for project management fees was derived from applying an average from the other successful tenderers in similar regions who did split their fees between project management and site supervision.

P21 Management fees vs Other States and independent schools

In their interim report released in August 2010, the BER Taskforce concluded the Department was paying the highest percentage of management and design fees when compared with the Victorian Government, Victorian Catholic schools, New South Wales Catholic (Sydney Diocese only) schools, the Queensland Government and the Western Australian Government. It also estimated the Department was paying around five per cent more than it was before the BER started. A summary of the BER Taskforce's interim findings are shown in the table below.

	NSW Department of Education and Training	NSW Catholic Sydney Diocese	Victorian Public schools	Queensland public schools (round three)
	(%)	(%)	(%)	(%)
Program management, project management and design fees	20-24	15-17	12.5	9-13

Source: Building the Education Revolution Implementation Taskforce: Interim Report August 2010

The BER Taskforce suggested the higher management fees payable to the managing contractors in New South Wales were prima facie due to a higher assumption of risk and liability than managers in some of the other contract models. However, it concluded managing contractors are able to mitigate much of this risk to subcontractors who would reasonably price this into their tendered fees. This view is consistent with my review of a sample of projects.

I recommend the Department examine the managing contractors' records to confirm they have provided the level of site supervision stipulated in their tender. I believe most of the site supervision was carried out by subcontractors of the managing contractors and therefore there is a risk of the Department paying for a service that was not provided by managing contractors.

Later in this report, I have reported cost estimates, provided to me by an independent quantity surveyor, for a sample of nine projects. The quantity surveyor found that managing contractors' fees were up to 412 per cent higher than his estimate of a reasonable managing contractor fee. The quantity surveyor considered the responsibilities of the managing contractor set out in the tender documents and actual contracts, and he felt most of this responsibility had been passed onto the managing contractor's subcontractor. For example, he felt the subcontractor would provide most site supervision.

The BER Taskforce proposes to closely review the costs claimed by managing contractors in selected P21 projects and include its findings in its full report to be released in November/December 2010.

VALUE FOR MONEY

The BER Guidelines did not define value for money. Instead it stated education authorities must have tendering and procurement arrangements that demonstrate value for money. In the absence of a definition, the Department adopted the following value for money definition:

The best price for completing the work to the required quality standard and within the set timeframe.

Value for money is generally made up of three components, quality, time and cost. To deliver overall value for money requires an element of each component. However, the weighting to each one is not always the same and can result in a trade off. For example, a low cost outcome might be achieved by reducing quality. In assessing value for money, it appears the Department placed more importance on time and quality. That is, delivering the required works within the timeframes stipulated in the BER Guidelines and constructing facilities that meet the Department's Standards.

The ability to commence construction on as many projects as quickly as possible was one of the objectives of the P21 program. This highlights the importance of the time aspect. The second objective of the P21 program was to build learning environments that support achievement and develop learning potential. This objective is synonymous with achieving a quality outcome.

Quality is important. If a facility being built under the P21 program does not meet the Department's Standards then, in its opinion, it cannot represent value for money. For example, building a Core 14 multipurpose hall that does not comply with the Standard's and represents a hazard to students will not meet a school's needs, irrespective that it could be delivered on time and on budget.

There has been some debate as to whether the quality sought by the Department in its Standards is higher than other education authorities. My review did not examine if there were any substantive differences between building quality.

The Department established a number of cost control and value for money checks to ensure the price paid for construction work was fair, reasonable, and good value for money in the current market. These checks included:

- reviewing and approving the preliminary construction estimate and the estimated construction sum for all projects
- the use of competitive tendering for all school projects
- using the BMV process to determine the maximum cost payable to the managing contractor.

These three checks are explained in more detail below.

APPROVING PROJECT BUDGETS

Once the school had approved its project the managing contractor prepared a Preliminary Cost Estimate (PCE). The primary objective of the PCE was to confirm the project was affordable and within the approved funding envelope for the school. If the PCE was above the funding envelope then the managing contractor worked with the school to reduce the PCE to within the available funds. This may have involved changing the site location of the new facility, changing the design or de-scoping works such as rainwater tanks and solar panels. If the PCE was still higher than the school budget (after these cost saving strategies), the school was required to change the project.

Upon the Department approving the PCE the managing contractor proceeded to preparing an Estimated Construction Sum (ECS). The ECS is a detailed estimate which breaks down the total project costs into a number of components such as design and documentation, preliminaries, site services, site works, superstructure and structure costs. The ECS represents a managing contractor's best cost estimate based on the project brief, site specific issues, experience, knowledge and the current market conditions. The ECS is the cost that appears on the Department's BER website.

The managing contractor could not tender for works until the Department approved the ECS. Approval involved Departmental quantity surveyors reviewing the managing contractor's detailed cost estimates against:

- the drawings provided for the project
- internal database of prices which was developed using a combination of historical tender data for similar projects, and prices submitted by the managing contractors at the beginning of the BER program for seven standard building types.

I recommend irrespective of time constraints, the Department not approve ECS's that are substantially higher than their own assessment. The Department should investigate significant variances, negotiate with the managing contractors and set the ECS based on their own assessment, not the managing contractor's assessment.

I found that for 1,270 projects, the Department's quantity surveyors assessed the project cost to be lower than the managing contractor's ECS. Despite this lower assessment, the Department still approved the managing contractor's ECS. The total difference for the 1,270 projects was \$188 million, or 13.3 per cent of the total ECS.

The Department advised their review of ECSs was not rigorous. They advised the rigour applied to reviewing ECSs depended on the complexity of the project, the value of the ECS and the time constraints imposed by the BER Guidelines. In some cases the Department only completed a partial review of ECSs.

In my opinion, the review and approval of ECSs by the Department's quantity surveyors was critical to delivering projects at a price that reflected value for money. This was highlighted in the checklist used by the quantity surveyors. The checklist required the quantity surveyors to verify the ECS as 'representing value in the current market'. Its importance in achieving value for money was also highlighted in legal advice obtained by the Department which concluded '*the key to whether the ECS...process led to or contributed to value for money lies in the administration of the process by the Department of Education and Training*'. By not rigorously assessing each ECS I do not believe the Department properly administered this important control in achieving value for money.

My analysis of approved ECSs found the Department's quantity surveyors approved 1,270 ECSs that were higher than their own assessment. This is contrary to normal business practice and the Department should have further investigated the causes for the differences between their own assessment and the managing contractor's assessment. After completing their investigations, they should have set the ECS at their estimated cost, not the managing contractor's estimate.

Whilst an organisation may set a threshold at say 10 per cent greater than their own assessment, in the case of P21 projects there were instances where managing contractors' ECSs were 100 per cent higher than the Department's own assessment. Despite these large differences in cost assessments, the Department still approved the managing contractors' ECSs. Under the contract the Department had the right to not accept an ECS for any reason whatsoever.

The Department advised the approval of ECSs was a desktop exercise without detailed knowledge of the site and therefore could not take into account additional costs that resulted from topography, distance from services and other site specific details. The Department advised where the ECS differed substantially from their own assessment, the managing contractor was asked to provide reasons explaining why. From my review nothing came to my attention to confirm this occurred other than the approval letter sent to the managing contractor stipulating that some components of their ECS were outside the Department's assessment.

In normal circumstances an organisation will develop their pre tender estimate for a project (similar to the assessment performed by the Department's quantity surveyors) and on that basis proceed with obtaining funding and project approval from the board or agency head. If upon tendering for the project the marketplace priced the project significantly higher than the pre tender estimate, then the organisation would look to negotiate a price that was acceptable to them. In the worst case scenario it may consider retendering because the prices submitted were not within a range the organisation deemed to be value for money.

Whilst in most cases the managing contractor's ECS was within the overall school project budget, over inflating the estimated costs from the outset will minimise the opportunity to negotiate a better price with tenderers and improve value for money outcomes. The analysis of ECSs above the Department's own assessment is shown in the table below.

Region	ECS greater than Department estimate (number of projects)	Number of approved ECSs	ECS greater than Department estimate (% of approved ECSs)	Difference in estimates (\$m)
Hunter/Central Coast	198	221	89.6	45
Illawarra and South East	197	203	97.0	35
New England/North Coast	135	144	93.8	8
North Sydney	142	160	88.8	34
Riverina	56	95	58.9	5
South Western Sydney	156	301	51.8	18
Sydney	214	233	91.8	32
Western NSW	51	82	62.2	3
Western Sydney	121	246	49.2	8
Total	1,270	1,685	75.4	188

Source: Department of Education and Training (unaudited).

The table shows that over 85 per cent of the ECSs for projects in the Hunter/Central Coast, Illawarra, Northern Sydney and Sydney regions were greater than the Department's estimate. These regions combined accounted for over 77.7 per cent of the \$188 million difference in estimates.

It is fair to say that irrespective of where you set your pre tender estimate, the market may ultimately determine the final price. But as managing contractors went to the marketplace with pre tender estimates set at \$188 million higher than the Department's internal pre tender estimate means the Department missed out on the opportunity to negotiate a better deal with successful tenderers. To demonstrate this point a good example is the multipurpose hall, COLA and canteen project at Mount St Thomas Public School.

	Department pre tender estimate (\$)	Managing contractor ECS (\$)	Difference (\$)	Difference (%)
Design and documentation	95,620	127,334	31,714	33.2
Preliminaries	191,183	191,183	--	--
Site Preparation & Bulk Earthworks and external works	--	265,558	265,558	100
Other costs	1,346,556	1,224,306	122,250	10
Total cost to construct (excluding management fees and GST)	1,633,359	1,808,381	175,022	10.7

Source: Department of Education and Training (unaudited).

The table above demonstrates the Department, based on its knowledge of the project and current market prices, estimated the multipurpose hall, COLA and canteen project at Mount St Thomas School would cost \$1,633,359, some \$175,022 or 10.7 per cent less than the estimate submitted by the managing contractor (excluding management fees and GST). And within this total cost, the managing contractor's design and documentation costs were some 33.2 per cent higher than the Department's estimate. Whilst the Department made the managing contractor aware of these significant differences, it did not attempt to negotiate a lower ECS. It approved the ECS at \$1,808,381. This is contrary to normal business practice.

It appears that approval of ECSs by Departmental staff was largely focused on whether the ECS was within the project budget, and the Department largely relied on the tender and BMV processes to achieve value for money. This is evident from the Department's instruction to its quantity surveyors which focused on comparing the ECS with the school budget. However, as noted by the BER Taskforce in their Interim Report, relying on competitive tendering alone is a necessary, but not sufficient approach, to ensuring value for money. Furthermore, whilst it is correct to say that through the BMV process the Department might enforce a lower cost, as explained later in this report, the BMV process only applies to 20 per cent of the project costs, thus limiting its effectiveness in ensuring value for money.

Estimated Construction Sum higher than project budget

If the ECS for a project exceeded the project budget, the Department still approved it on the basis the managing contractor had to value engineer the project to no more than 100 per cent of the project budget, or offset the increased cost with savings from other schools in the same region. Value engineering essentially involved de-scoping works from the project. Common items that were de-scoped were solar panel cells, covered walkways and rainwater tanks. The Department provided instructions which outlined which items they could de-scope. At June 2010, the Department had de-scoped \$67.4 million of works.

In July 2010, the Minister for Education announced that \$50.0 million of de-scoped items would now be provided. Had the Department made a concerted effort to reduce ECSs to their own assessment then the need for de-scoping may have been alleviated. A lot of concerns by stakeholders were the exclusion of items promised at the beginning of the program, such as rainwater tanks and solar panels.

PROCURING GOODS AND SERVICES

All managing contractors were directed to comply with the NSW Procurement Code. This was enforced by the Department through its contract with each managing contractor. The requirement to comply with the same standards applicable to government agencies meant all managing contractors had to tender for all school projects. The NSW Procurement Code seeks to ensure that procurement activities are fair, ethical and transparent, and achieve value for money when expending public funds.

To ensure each managing contractor complied with this requirement, the Department established an audit program to address the risks of:

- fraud and corruption arising within the program
- probity issues (or allegations) arising as part of the contractor procurement process
- inadequate managing contractor procurement processes that could result in cost blow outs and cost overruns.

The audit program comprises reviewing the managing contractor's procurement framework, their tendering and procurement processes, and conducting special request audits. This audit activity is performed by the Governance Unit established in the IPO. The audits completed at July 2010 are outlined in the table below.

	Procurement framework	Tendering and Procurement	Special request audits	Tendering spot checks
Total audits to be completed	7	70	N/A	1
Audits completed at July 2010	7	16	15	1
Audits in progress at July 2010	--	18	11	--

Source: Department of Education and Training (unaudited).

N/A - not applicable

Procurement framework audits

The Department audited each managing contractor's procurement framework in early September 2009 (when less than 50 projects had started construction), assessing their framework against the following elements of the NSW Procurement Code: tender methods and process; evaluation criteria; submission of tenders; confidentiality; evaluation of tenders; clarification of tenders; and tender negotiation. One reason for the audits was to assist managing contractors establish a framework that was consistent with the NSW Procurement Code.

The audits were completed at an early stage of the program so changes to their practices could be made, if required, to ensure later procurement efforts were aligned with the NSW Procurement Code.

Overall, the audits concluded the managing contractors were materially complying with the NSW Procurement Code. The audits found six of the seven managing contractors had not included the criteria by which tenders would be evaluated in the tender documentation. This requirement and a number of minor opportunities for improvement were identified and these were accepted and implemented by the managing contractors.

Tendering and procurement audits

In April 2010, the Department commenced its tendering and procurement audits. These audits review a sample of project tenders to ensure compliance with the NSW Procurement Code as well as the NSW Tendering Guidelines.

At July 2010, the Department completed 16 tendering and procurement audits. While the audits found the managing contractors had materially complied with the NSW Procurement Code they did identify some issues which did not compromise the tender process. The issues included:

- some tender evaluation processes lacked detail and scrutiny in many areas eg. price, qualifications, exclusions
- insufficient documentation on why packaging a number of school projects as one tender was appropriate
- information used as the basis for making recommendations was sometimes incomplete, inaccurate or unsubstantiated
- some tender evaluation reports did not detail the tender box, method of delivery, and the tender opening process
- insufficient documentation on whether the acceptance of late tenders compromised the integrity of the tender
- insufficient documentation of negotiations that took place with tenderers
- tender evaluation committee members not signing a confidentiality and conflict of interest declaration.

Special request audits

At July 2010, the Department completed 15 special request audits. These audits are similar to the tendering and procurement audits however, they are conducted when concerns are raised by one or more project stakeholders. These audits also examine value for money. The assessment of value for money was determined by referring to information in Rawlinson's Australian Construction Handbook and costs incurred for similar projects before the BER commenced.

The cost analyses within special request audits generally focus on design and documentation, preliminaries, and design and price risk cost components only. They do not check whether value for money was achieved on other costs such as structural costs, site services, site works and management fees as these were subject to competitive tender.

Of the 15 completed audits, the Department found one instance where a managing contractor had not materially complied with the NSW Procurement Code. The managing contractor advised the Department it did not comply because of time pressures.

Whilst the managing contractor did not comply with the NSW Procurement Code, the audit concluded the non compliance did not have a negative impact on the cost of the project. The audit recommended the managing contractor review and make corrections to all future procurement efforts to ensure compliance. It also recommended a further audit once the Subcontractor Award Report and actual construction sum figures become available for that project.

From the completed audits, the Department also identified two instances where value for money was not achieved on either preliminaries and/or design and documentation costs. One of the audits related to multiple schools in the New England/North Coast region. The results of these audits are outlined in the table below.

	Department pre tender estimate	Approved ECS	Upper acceptable estimate used in the audit	Difference
	(\$)	(\$)	(\$)	(\$)
Tarcutta Public School – design, documentation and preliminaries	26,719	91,510	64,807	26,703
Coffs Harbour Public School – preliminaries	207,067	233,740	178,589	55,151
Narranga Public School – preliminaries	457,146	341,860	245,707	96,153
Sandy Beach Public School – preliminaries	na	334,213	276,226	57,987
Toormina Public School – preliminaries	na	222,515	177,835	44,680
Yamba Public School – design, documentation and preliminaries	na	417,734	355,494	62,240

Source: Department of Education and Training (unaudited). Figures are GST exclusive.
na – not available.

In the case of Tarcutta Public School, the Department had assessed the project preliminaries plus design and documentation costs to be \$26,719. Despite this, the Department approved the ECS for these items at \$91,510, or 243 per cent more than its estimate. This highlights my previous observation regarding the Department's failure to adjust ECSs in line with their own assessment. It appears the Department made a choice to accept this significant variance in order to complete projects within the timeframe available.

The Department advised it will conduct a further audit of those projects whose cost elements were assessed as representing value for money. They will do this once the Sub-contractor Award Report and actual construction sum figures become available.

Direct negotiations

At 31 July 2010, the Department identified only one instance of a managing contractor not tendering for works. The contractor chose to enter into direct negotiations with preferred suppliers. The direct negotiations were only undertaken for the provision of site works, not for the whole project. In this case, the managing contractor experienced difficulty in finding suitable trades people to complete the work by the set deadline.

I recommend the Department request statutory declarations from managing contractors which states they have tendered for all works. If managing contractors have entered into direct negotiations they should list these as exceptions in the statutory declaration.

Upon receiving the statutory declaration, the Department should audit a sample of direct negotiations to confirm this did not result in an adverse value for money outcome.

The Department is unable to confirm the exact number of direct negotiations that have occurred across the program. I suggest they seek a statutory declaration from managing contractors to find out how often this procurement method was used. The Department should also audit some direct negotiations to ensure it has not resulted in poor value for money outcomes.

The NSW Tendering Guidelines allow direct negotiations (without prior competitive tendering) in specific circumstances. However, the guidelines say that direct negotiations should be avoided as there are very few circumstances in which this approach will result in the best value for money. Under the guidelines the agency must obtain high level authorisation beforehand and must demonstrate that direct negotiation is the best way of achieving value for money.

The Department's audit into the one instance of direct negotiation found insufficient evidence that the Department approved this before the negotiations were conducted. It also found the managing contractor could not provide sufficient evidence that it conducted the direct negotiations in accordance with a specified negotiation protocol or that it kept a detailed written record of direct negotiations.

Tender periods and marketplace competition

From the completed tendering and procurement, and special request audits, there is an emerging pattern of potential suppliers being unable to submit a tender because they did not have available capacity. The tender results for 26 projects are listed in the following table.

	Number of firms requested to submit a tender	Number of tenders received	Number of conforming tenders	Tender period length (Calendar Days)
Eungai Public	12	6	6	16
Dubbo North Public	5	5	5	17
Albury Public	5	4	4	24
Albury North Public	5	4	4	24
Corowa Public	5	4	4	24
Glemroy Public	5	4	4	24
Thurgoona Public	5	4	4	24
MDR package	6	5	3	15
Wagga Wagga Public	3	2	2	58
South Wagga Wagga Public	3	2	2	43
Hastings Public	4	2	2	21
Tottenham Central	5	2	2	15
Boombee Public	3	2	2	40
Coffs Harbour Public	3	2	2	40
Maclean Public	3	2	2	40
Narranga Public	3	2	2	40
Sandy Beach Public	3	2	2	40
Toormina Public	3	2	2	40
Yamba Public	3	2	2	40
North Wagga Public	7	3	1	21
Tarcutta Public	4	2	1	28
Turvey Public	4	2	1	28
Junee North	4	2	1	28
Uranquinty Public	4	2	1	28
Stuarts Point Public	1	Direct Negotiation	1	--

Source: Department of Education and Training (unaudited).

Of the 25 projects tendered, 17 projects received two or less conforming tenderers. In three of the 26 projects listed above, the period allowed for the tenderers to prepare their bids was less than 17 days. Although this complies with the NSW Tendering Guidelines, it may have been better to provide the marketplace with more time to respond to tenders though the table shows the school projects with the highest number of conforming tenders had amongst the shortest tender periods, and vice versa. The fact that, in many instances, the longer tender periods only resulted in one conforming tender being submitted may have indicated suppliers had no capacity at the time. This was especially evident for projects in non-metropolitan areas.

Negotiating with preferred tenderer

Whilst the NSW Tendering Guidelines do not require an entity to negotiate with the preferred tenderer, this practice is not uncommon when seeking to maximise value for money. For most of those projects listed in the table above which received only two tenders, there was no evidence that the managing contractor attempted to negotiate a lower price.

For example, one of the projects was a COLA at Hastings Public School. The managing contractor sent out invitations to four firms to tender for the works. Only two firms submitted a tender. The other two firms chose not to submit a tender on the basis they could not source key trades, they could not do any further work due to their current workload, or they were unable to prepare a tender within the required timeframe. In these circumstances, given the limited competition, and given the Department had told the managing contractor their ECS was some 20.6 per cent higher than the Department's estimate, it would have been prudent to enter into negotiations with the preferred tenderer. There was no evidence of this occurring.

Another example where it may have been prudent for the managing contractor to enter into negotiations with the preferred tenderer was the Tottenham Central Public canteen project. Of the five companies that requested a tender package, only two submitted a tender. Both tenders exceeded the Department's estimate by over 20 per cent. However, because the Department had approved the managing contractor's ECS, there was no real incentive for the managing contractor to try and negotiate a lower price.

I recommend for future projects or programs of similar nature and/or size, the Department consider nominating a Departmental officer to sit on the tender evaluation committee to ensure full compliance with the New South Wales Government Code of Practice for Procurement and NSW Government Procurement Guidelines – Tendering Guidelines. Their presence will also assist in maximising value for money by trying to negotiate a lower price with the preferred tenderer.

The Department should also issue an instruction to all managing contractors that states they must attempt to negotiate with the preferred tenderer either when:

- (a) very few tenders have been submitted for a project, and/or
- (b) the tendered price is significantly higher than the Department's cost estimate.

All the tenders were assessed by the managing contractors. As the primary client, the Department should have had some presence on the tender evaluation committees. This would have resulted in greater compliance with the NSW Procurement Code and NSW Tendering Guidelines, and could have resulted in more negotiations to maximise value for money.

Under business as usual arrangements, the Department uses DSTA to act as its managing contractor. This includes DSTA managing the tender process. Whilst DSTA is the Department's managing contractor, the Department nevertheless still has a representative on the tender evaluation committee to ensure the tender process results in the best possible outcome. This practice was not used for the P21 program. Had it been used it may have resulted in savings.

BENCHMARK MARKET VALUE PROCESS

The Department developed the BMV process as another measure to maximise value for money from the P21 program. The process involves establishing a BMV for each project by using the tendered cost of the project and the average tendered cost for similar projects under the P21.

The term benchmark generally implies that it is derived from an external source. However under the P21 the benchmark is determined using projects costs within the program. For this reason I believe the BMV process is somewhat misleading.

Once a BMV is established for the project, the Department will only pay the managing contractor the lower of the actual construction sum or 105 per cent of the BMV. All costs except for the managing contractor's fees are subject to the BMV process. The BMV is the sum of:

- 80 per cent of the actual tendered cost for the project, and
- 20 per cent of the average tendered cost for similar projects.

This amount is multiplied by 105 per cent to calculate the final BMV.

The final actual payment for a project could be less than the BMV, however, 105 per cent of the BMV is the maximum amount payable for a project (excluding management fees).

I recommend the Department obtain the managing contractors written acceptance of the 80/20 split used to calculate the Benchmark Market Value.

The managing contractors have not accepted, in writing, the 80/20 split used by the Department. The signed contract between the Department and the managing contractors only refers to using similar projects under the P21 program to calculate the BMV. It makes no reference to how it should work. While the Department has received legal advice indicating it does not require formal sign off from the managing contractors, I recommend the Department seek the managing contractors written acceptance. This will avoid any future disputes. The Department advised they have consulted the managing contractors and they have agreed to the BMV model.

Whilst the Department has indicated the BMV acts as a mechanism to ensure it obtains value for money, its ability to do this is quite limited. This is because 80 per cent of the BMV is derived from the tendered cost for the actual project. Only 20 per cent of the project cost is compared with similar projects in the P21 program. To illustrate this, the table below is a worked example of the canteen project at Tottenham Central Public where the actual tendered cost for the project was \$464,277.

	Lowest cost (\$)	Highest cost (\$)
BMV – 80 per cent of tendered cost	371,422	371,422
BMV – 20 per cent of similar projects (say average cost of \$500,000 – worst case scenario)	N/A	100,000
BMV – 20 per cent of similar projects (say average cost of \$350,000 – best case scenario)	70,000	N/A
Total BMV	441,422	471,422
105 per cent of BMV	463,493	494,993
Actual tendered cost	464,277	464,277
Maximum potential saving from BMV	784	Nil

Source: Actual tendered cost obtained from the Department of Education and Training.
N/A – not applicable.

The table shows the maximum saving to the Department, assuming a BMV of \$350,000 for similar projects, is \$784, or 0.2 per cent of the tendered cost. Because the BMV uses tendered costs within the P21 program (including the project subject to BMV), it is highly unlikely that the BMV for this project would be less than \$350,000.

PROJECT COST ANALYSIS

To help with my audit of the Department's financial statements, I engaged Muller Partnership, an independent quantity surveying firm, to estimate the construction cost for nine P21 projects. The cost estimates prepared by Muller Partnership have assisted me in assessing whether the carrying value of the Department's assets materially reflect fair value at 30 June 2010, which is a requirement of Australian Accounting Standards.

Based on the information provided to them by the Department, Muller Partnership believes that in all projects except one, the estimated construction cost would be between 2.3 per cent and 39.7 per cent lower (in a business as usual environment) than the estimated construction cost/actual tendered amounts under the P21 program. The average difference across the nine projects was 12.7 per cent. The biggest variance was on the hall, COLA and toilets at Merrylands East Public School. Muller Partnership believes the estimated cost to construct the hall, COLA and toilets is \$1,645,755. The ECS was \$2,299,601, a difference of \$653,846.

I took into account a number of factors when selecting which projects I should review. This included selecting schools from different regions and selecting common projects. I also took into account projects that were reported in the media as being overly expensive.

I selected Muller Partnership through a selective procurement process. Muller Partnership are independent of the Department's BER program of works. They have not performed any work for the Department or its managing contractors. The senior staff from Muller Partnership have over 20 years experience in all areas of quantity surveying.

Case Study 1: Mount St Thomas Public School (Core 21 hall, canteen and COLA)

The school's P&C association was concerned about the size of the multipurpose hall and its cost.

Under the P21 program Mount St Thomas Public School agreed to the construction of a new Core 21 multipurpose hall, canteen and COLA. Based on the school's full time equivalent population of 312 students at the time of the funding allocation, the school was entitled to funding of \$2.5 million.

In responding to requests for project nominations in March 2009, the school submitted a number of proposals. One of those proposals was for a new hall, canteen and COLA. Other proposals included replacing two demountable buildings and an upgrade to the administration building. It was agreed between the school and the Department that a new school hall and associated works represented the school's highest priority.

Construction of the new hall and associated works commenced in November 2009. At June 2010, the project was over 50 per cent complete and the project is expected to be completed in November 2010. The school is located in the Wollongong local government area.

Multipurpose hall size

The multipurpose hall is consistent with the floor space requirements set out in the Department's Standards. The hall has 190 square metres of floor space, which is made up of a 44 square metre stage and 146 square metres for student to sit.

The Standards state the size of a multipurpose hall is determined by the number of enrolled students. Multipurpose halls are designed to provide enough floor seating space for enrolled students.

Cost

Muller Partnership provided me with an estimated construction cost for this project in today's environment and under normal circumstances, without the time constraints imposed by the Australian Government. Based on their estimate, the tendered cost to complete the multipurpose hall and associated works is some 19.3 per cent higher. The table below provides a comparison between the tendered cost and my estimate.

	Audit Office estimate	Tendered amount	Difference	Difference
	\$	\$	\$	%
Construction costs*	1,643,083	1,829,048	185,965	11.3
Management fees	57,336	189,490	132,154	230.5
TOTAL COST	1,691,419	2,018,538	327,119	19.3
Cost per square metre	3,297	3,935	638	19.3

*Construction costs exclude IPO management fee, design costs, design and price risk, substation allowance and managing contractor incentive fee.

I attempted to analyse the cost of this project against the cost for similar Departmental projects completed before the BER commenced. The Department advised it could not provide me with data for comparable projects built between 2000 and 2009.

The Department advised they have 29 other projects with the same facility type within the P21 program and the tendered cost of these projects range from \$1,677,625 to \$2,264,593. The tendered amount for the Mount St Thomas project lies just above the middle of this cost range.

The Department also advised the NSW Architect's Office Principal Quantity Surveyor estimates delivering projects under the P21 program has increased costs by 10.5 per cent, compared to the Department's business as usual costs.

Case Study 2: Tottenham Central Public (Canteen and classroom refurbishment)

The school's P&C association was concerned the new canteen did not represent value for money, was half the size of the original building and had limited cooking facilities.

Under the P21 program Tottenham Central Public agreed to the construction of a new canteen and refurbishment of some classrooms. Based on the school's full time equivalent population at the time of the funding allocation, the school was entitled to funding of \$850,000.

Construction of the new canteen and associated works was completed in March 2010. The school is located in the Western New South Wales region.

Cost

Muller Partnership provided me with an estimated construction cost for this project in today's environment and under normal circumstances, without the time constraints imposed by the Australian Government. Based on their estimate, the tendered cost to complete the canteen and classroom refurbishment is some 2.3 per cent higher. The table below provides a comparison between the tendered cost and my estimate.

	Audit Office estimate	Tendered amount	Difference	Difference
	\$	\$	\$	%
Construction costs*	660,946	650,667	(10,279)	(1.6)
Management fees	89,315	117,120	27,805	31.1
TOTAL COST	750,261	767,787	(19,987)	2.3
Cost per square metre	1,753	1,794	41	2.3

*Construction costs exclude IPO management fee, design costs, design and price risk, substation allowance and managing contractor incentive fee.

My estimate of \$750,261 includes \$81,400 to upgrade electrical services at the school. This upgrade was required to meet the needs of the new canteen.

I attempted to analyse the cost of this project against the cost for similar Departmental projects completed before the BER commenced. The Department advised it could not provide me with data for comparable projects built between 2000 and 2009.

The Department advised they have two other projects with the same facility type within the P21 program and the tendered cost range from \$709,737 to \$872,039. The tendered cost of the Tottenham Central project lies slightly below the middle of this cost range.

The Department also advised the NSW Architect's Office Principal Quantity Surveyor estimates delivering projects under the P21 program has increased costs by 10.5 per cent, compared to the Department's business as usual costs.

Case Study 3: Irrawang Public School (Core 14 hall and COLA)

Irrawang Public School agreed to the construction of a new Core 14 multipurpose hall and COLA. Based on the school's full time equivalent population at the time of the funding allocation, the school was entitled to funding of \$2.0 million.

In responding to requests for project nominations in March 2009, the school submitted three proposals. One of those proposals was for a new multipurpose hall and toilet upgrade. Other proposals included improving the sports courts and provision of covered walkways between three classrooms and the administration area. It was agreed between the school and the Department that a new multipurpose hall and COLA represented the school's highest priority.

Construction of the new multipurpose hall and COLA was completed in February 2010. The school is located in the Hunter region.

Cost

Muller Partnership provided me with an estimated construction cost for this project in today's environment and under normal circumstances, without the time constraints imposed by the Australian Government. Based on their estimate, the tendered cost to complete the hall and COLA is some 11.2 per cent higher than their estimate. The table below provides a comparison between the tendered cost and my estimate.

	Audit Office estimate	Tendered amount	Difference	Difference
	\$	\$	\$	%
Construction costs*	1,401,068	1,518,699	117,631	8.4
Management fees	83,825	133,038	49,213	58.7
TOTAL COST	1,484,893	1,651,737	166,844	11.2
Cost per square metre	3,126	3,477	351	11.2

*Construction costs exclude IPO management fee, design costs, design and price risk, substation allowance and managing contractor incentive fee.

I attempted to analyse the cost of this project against the cost for similar Departmental projects completed before the BER commenced. The Department advised it could not provide me with data for comparable projects built between 2000 and 2009.

The Department advised they have 159 other projects with the same facility type within the P21 program and the tendered cost of those projects range from \$1,195,104 to \$2,349,227. The tendered cost of the Irrawang Public School project lies just below the middle of this cost range.

The Department also advised the NSW Architect's Office Principal Quantity Surveyor estimates delivering projects under the P21 program has increased costs by 10.5 per cent, compared to the Department's business as usual costs.

Case Study 4: Caroline Chisholm School (Core 7 hall)

The school agreed to the construction of a new Core 7 multipurpose hall. Based on the school's full time equivalent population at the time of the funding allocation, the school was entitled to funding of \$850,000.

In responding to requests for project nominations in March 2009, the school submitted a number of proposals including a new hall and new library. It was agreed between the school and the Department that a multipurpose hall represented the school's highest priority.

Construction of the new hall commenced in January 2010. At August 2010, the hall was 95 per cent complete. The project is expected to be completed in November 2010. The school is located in the South Western Sydney region.

Cost

Muller Partnership provided me with an estimated construction cost for this project in today's environment and under normal circumstances, without the time constraints imposed by the Australian Government. Based on their estimate, the tendered cost to complete the hall is some 22.0 per cent higher. The table below provides a comparison between the tendered cost and my estimate.

	Audit Office estimate	Tendered amount	Difference	Difference
	\$	\$	\$	%
Construction costs*	692,883	795,431	102,548	14.8
Management fees	46,975	107,383	60,408	128.6
TOTAL COST	739,858	902,814	162,956	22.0
Cost per square metre	5,400	6,589	1,189	22.0

*Construction costs exclude IPO management fee, design costs, design and price risk, substation allowance and managing contractor incentive fee.

I attempted to analyse the cost of this project against the cost for similar Departmental projects completed before the BER commenced. The Department advised it could not provide me with data for comparable projects built between 2000 and 2009.

The Department advised they have four other projects with the same facility type within the P21 program and the tendered cost of those projects range from \$709,737 to \$942,351. The tendered cost of the Caroline Chisholm Public School project lies at the high end of this cost range.

The Department also advised the NSW Architect's Office Principal Quantity Surveyor estimates delivering projects under the P21 program has increased costs by 10.5 per cent, compared to the Department's business as usual costs.

Case Study 5: Blacktown South Public School (Core 21 library and new classrooms)

The school agreed to the construction of a new Core 21 library and new classrooms. Based on the school's full time equivalent population at the time of the funding allocation, the school was entitled to funding of \$3.0 million.

In responding to requests for project nominations in March 2009, the school submitted a number of proposals including a new modular design range library and new classrooms. It was agreed between the school and the Department that a new school library and classrooms represented the school's highest priorities.

Construction of the new library and classrooms at Blacktown South commenced in November 2009. At August 2010, the library project was over 90 per cent complete. The classrooms project was around 50 per cent complete. The project is expected to be completed in December 2010. The school is in Western Sydney.

Cost

Muller Partnership provided me with an estimated construction cost for this project in today's environment and under normal circumstances, without the time constraints imposed by the Australian Government. Based on their estimate, the ECS to complete the library and new classrooms is some 5.8 per cent higher. The table below provides a comparison between the ECS and my estimate.

	Audit Office estimate	ECS**	Difference	Difference
	\$	\$	\$	%
Construction costs*	2,646,819	2,662,648	15,829	0.6
Management fees	92,871	234,847	141,976	152.9
TOTAL COST	2,739,690	2,897,495	157,805	5.8
Cost per square metre	2,748	2,906	158	5.8

*Construction costs exclude IPO management fee, design costs, design and price risk, substation allowance and managing contractor incentive fee.

** Actual tendered amount is not available.

I attempted to analyse the cost of this project against the cost for similar Departmental projects completed before the BER commenced. The Department advised it could not provide me with data for comparable projects built between 2000 and 2009.

The Department also advised they do not have any directly comparable projects within the P21 program.

The Department also advised the NSW Architect's Office Principal Quantity Surveyor estimates delivering projects under the P21 program has increased costs by 10.5 per cent, compared to the Department's business as usual costs.

Case Study 6: Goolgowi Public School (Core 7 library and classroom refurbishment)

The school agreed to the construction of a new Core 7 library and classroom refurbishment. This analysis refers only to the new library. Based on the school's full time equivalent population at the time of the funding allocation, the school was entitled to funding of \$850,000.

In responding to requests for project nominations in March 2009, the school submitted a number of proposals including a new library, covered walkways and an upgrade to its administration building. It was agreed between the school and the Department that a new school library and classroom refurbishment represented the school's highest priority.

Construction of the new library was completed in June 2010. The school is in the Riverina region.

Cost

Muller Partnership provided me with an estimated construction cost for this project in today's environment and under normal circumstances, without the time constraints imposed by the Australian Government. Based on their estimate, the tendered cost to complete the library and classroom refurbishment was 4.6 per cent lower. The table below provides a comparison between the tendered cost and my estimate.

	Audit Office estimate	Tendered amount	Difference	Difference
	\$	\$	\$	%
Construction costs*	716,973	662,063	(54,910)	(7.7)
Management fees	101,812	119,171	17,359	17.1
TOTAL COST	818,785	781,234	(37,551)	(4.6)
Cost per square metre	5,807	5,541	(266)	(4.6)

*Construction costs exclude IPO management fee, design costs, design and price risk, substation allowance and managing contractor incentive fee.

I attempted to analyse the cost of this project against the cost for similar Departmental projects completed before the BER commenced. The Department advised it could not provide me with data for comparable projects built between 2000 and 2009.

The Department advised they have 34 other projects with the same facility type within the P21 program and the tendered cost of these projects range from \$523,958 to \$874,263. The tendered cost of the Goolgowi Public School project lies at the high end of this cost range.

The Department also advised the NSW Architect's Office Principal Quantity Surveyor estimates delivering projects under the P21 program has increased costs by 10.5 per cent, compared to the Department's business as usual costs.

Case Study 7: Turramurra Public School (Core 21 library and administration refurbishment)

The school agreed to the construction of a new Core 21 library and a refurbishment of an administration building. Based on the school's full time equivalent population at the time of the funding allocation, the school was entitled to funding of \$3.0 million.

In responding to requests for project nominations in March 2009, the school submitted a number of proposals including a COLA, an electrical upgrade, toilet upgrade and improved access for students with special needs to the administration area. The school did not nominate a library. However, subsequent consultation with the school community identified a central library as the school's highest priority.

Construction of the new library commenced in November 2009. At August 2010, the project was over 90 per cent complete. The school is in the Northern Sydney region.

Cost

Muller Partnership provided me with an estimated construction cost for this project in today's environment and under normal circumstances, without the time constraints imposed by the Australian Government. Based on their estimate, the tendered cost to complete the library and administration refurbishment is some 14.3 per cent higher than their estimate. The table below provides a comparison between the tendered cost and my estimate.

	Audit Office estimate	Tendered amount	Difference	Difference
	\$	\$	\$	%
Construction costs*	2,155,284	2,345,095	189,811	8.8
Management fees	75,624	205,430	129,806	171.6
TOTAL COST	2,230,908	2,550,525	319,617	14.3
Cost per square metre	3,229	3,691	463	14.3

*Construction costs exclude IPO management fee, design costs, design and price risk, substation allowance and managing contractor incentive fee.

I attempted to analyse the cost of this project against the cost for similar Departmental projects completed before the BER commenced. The Department advised it could not provide me with data for comparable projects built between 2000 and 2009.

The Department advised they do not have any directly comparable projects within the BER program.

The Department also advised the NSW Architect's Office Principal Quantity Surveyor estimates delivering projects under the P21 program has increased costs by 10.5 per cent, compared to the Department's business as usual costs.

Case Study 8: Marrickville Public School (COLA, covered walkway and toilet refurbishment)

Stakeholders were concerned about excessive costs. The school agreed to the construction of a new COLA, covered walkway and a toilet refurbishment. Based on the school's full time equivalent population at the time of the funding allocation, the school was entitled to funding of \$850,000.

In responding to requests for project nominations in March 2009, the school submitted a number of proposals including a new COLA, toilet upgrade and an upgrade to the playground. It was agreed between the school and the Department that a new COLA, covered walkway and toilet represented the school's highest priority.

Construction of the new COLA, covered walkway and toilet was completed in May 2010. The school is located in the Sydney region.

Cost

Muller Partnership provided me with an estimated construction cost for this project in today's environment and under normal circumstances, without the time constraints imposed by the Australian Government. Based on their estimate, the tendered cost to complete the COLA, covered walkway and toilet refurbishment is 4.2 per cent higher. The table below provides a comparison between the tendered cost and my estimate.

	Audit Office estimate	Tendered amount	Difference	Difference
	\$	\$	\$	%
Construction costs*	613,237	640,808	27,571	4.4
Management fees	44,169	44,512	46	0.0
TOTAL COST	657,406	685,023	27,617	4.2
Cost per square metre	1,050	1,094	44	4.2

*Construction costs exclude IPO management fee, design costs, design and price risk, substation allowance and managing contractor incentive fee.

I attempted to analyse the cost of this project against the cost for similar Departmental projects completed before the BER commenced. The Department advised it could not provide me with data for comparable projects built between 2000 and 2009.

The Department advised they do not have any directly comparable projects within the BER program.

The Department also advised the NSW Architect's Office Principal Quantity Surveyor estimates delivering projects under the P21 program has increased costs by 10.5 per cent, compared to the Department's business as usual costs.

Case Study 9: Merrylands East Public School (Core 14 hall, COLA and toilets)

Under the P21 program Merrylands East Public School agreed to the construction of a new Core 14 multipurpose hall, COLA and toilets. Based on the school's full time equivalent population at the time of the funding allocation, the school was entitled to funding of \$2.5 million.

In responding to requests for project nominations in March 2009, the school submitted a number of proposals including the proposal for a new hall, canteen and covered walkways. It was agreed between the school and the Department that a new multipurpose hall, COLA and toilets represented the school's highest priority.

I understand the school recently obtained approval to self manage this project. The school is located in the South Western Sydney Region.

Cost

Muller Partnership provided me with an estimated construction cost for this project in today's environment and under normal circumstances, without the time constraints imposed by the Australian Government. Based on their estimate, the ECS to complete the hall, COLA and toilets was 39.7 per cent higher. The table below provides a comparison between the ECS and my estimate.

	Audit Office estimate	ECS	Difference	Difference
	\$	\$	\$	%
Construction costs*	1,589,967	2,014,102	424,135	26.7
Management fees	55,788	285,499	229,711	411.8
TOTAL COST	1,645,755	2,299,601	653,846	39.7
Cost per square metre	3,014	4,211	1,197	39.7

*Construction costs exclude IPO management fee, design costs, design and price risk, substation allowance and managing contractor incentive fee.

I attempted to analyse the cost of this project against the cost for similar Departmental projects completed before the BER commenced. The Department advised it could not provide me with data for comparable projects built between 2000 and 2009.

The Department advised they do not have any directly comparable projects within the BER program.

The Department also advised the NSW Architect's Office Principal Quantity Surveyor estimates delivering projects under the P21 program has increased costs by 10.5 per cent, compared to the Department's business as usual costs.

Comments from the Department of Training and Education

When the BER was initiated in February/March 2009, the Australian stock market had halved in value in the previous 15 months, interest rates were at a 49-year low, advanced economies were forecasting the worst recession in a generation, and growth was expected to slow to a crawl in China and India.

Australia expected rapidly rising unemployment at best, with a recession a real possibility. And within Australia, NSW seemed at greatest risk with the highest rates of household debt, the slowest growth in state final demand for the previous year and a very sharp fall in building approvals.

The BER was a two-year stimulus program. Its over-riding objective was to create a rapid increase in aggregate demand and employment.

The intergovernmental agreements make clear that quick delivery and strict adherence to timeframes was the first concern. The stimulus investment was to be targeted, timely and temporary, with all works finished by March 2011.

NSW reacted immediately. Within weeks we had engaged managing contractors and on 11 March 2009 the NSW Parliament passed legislation to expedite planning approvals for school buildings and new social housing.

In the six months to December 2009, ABS data shows approvals for building work in NSW public schools rose nearly 1,400%.

Now, 20 months later, NSW public schools have delivered the fastest and largest stimulus of any education system. The third and final element of the BER, the P21 program, will be 99% completed to schedule between December 2010 and March 2011.

The latest ABS data shows in 2009-2010 the value of non-residential construction in NSW rose by 14.8% on the year before. Without the BER stimulus it would have fallen, as it did in most other states.

NSW has delivered on its commitments under the intergovernmental agreements, including making sure apprentices have undertaken 10% of the BER work.

And despite the pace of delivery, the BER in NSW public schools has a safety record five times as good as the Australian construction industry.

The BER stimulus program has delivered good value for money overall with more than 97% satisfaction based on complaints data, but we are working to improve value in a small number of projects with problems.

In coming months the Department will re-instate into scope many of the smaller items removed earlier from projects as a result of our conservative approach to managing the total budget.

The Department is also working with the managing contractors to rectify any defects in projects at their expense.

The Department welcomes many of the findings of the audit but, as the body of the report indicates, we disagree with a number of conclusions.

The Department did check and negotiate the initial cost estimates – the so-called estimated construction sums – provided by the managing contractors. We provided the audit with examples of these.

Where time allowed managing contractors did re-tender projects when the market price they received was judged too high. For example, the managing contractor delivering projects in the Illawarra and South East NSW re-tendered 27% of projects.

As the report makes clear, the very small number of schools – nine of 1,794 – subjected to a cost analysis are not representative of the program. This very limited analysis found projects were 12.7% more expensive than usual construction.

The NSW Government Architect's Office Principal Quantity Surveyor estimates the cost premium from accelerated delivery of the BER at around 10.5% compared to ordinary construction.

Regardless of quantity surveyor's estimates, the price is ultimately determined by the market to deliver the project as specified.

In four regions of NSW the Department accepted recommendations to appoint managing contractors that did not offer the lowest prices.

This cost \$23 million more but greatly reduced the program risks to time, quality and safety of relying on too few managing contractors to deliver the program. On this basis, the extra cost was formally assessed as representing the best value.

(signed)

*Michael Coutts-Trotter
Director-General*

Dated: 30 November 2010

Department of Education and Training

AUDIT OPINION

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

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

KEY ISSUE

Commentary on the Building Education Revolution Program audit is included in this report.

As a result of this audit and due to the significant projects under construction the Department will need to:

- assess the implications for asset revaluation
- plan for higher maintenance expenses in future years.

PERFORMANCE INFORMATION

The New South Wales State Plan provides the overall direction for improvements in performance and it significantly influenced the Department's priorities for 2010. Its priorities included:

- increasing levels of attainment for all students, including increasing the percentage of students exceeding the national benchmarks in reading 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)
- increasing the proportion of population aged 15-64 participating in vocational education and training.

The Department measures whether it is achieving its priority outcomes by using performance indicators, such as:

- literacy and numeracy
- year 12 retention rates
- achievement gap for Aboriginal students
- government school enrolments.

Literacy and Numeracy

Since 2008, all Australian schools use the National Assessment Program - Literacy and Numeracy (NAPLAN) to assess the literacy and numeracy learning of students at Years 3, 5, 7 and 9. Students participate in NAPLAN tests in May of each year and 2010 is the third year of testing.

The table below details the 2010 NAPLAN summary results of the percentage of students at or above the national minimum standard:

Years	Change	NSW			National	
		2010 %	2009 %	2010 Ranking	2010 %	2009 %
Reading						
Year 3	↓	95.2	95.6	3	93.9	93.7
Year 5	↓	93.0	93.7	3	91.3	91.7
Year 7	↑	95.0	94.8	4	94.8	94.0
Year 9	↓	91.2	93.6	3	90.7	92.2
Writing						
Year 3	↓	96.8	97.2	2	95.6	95.7
Year 5	↑	95.1	95.0	1	93.1	93.0
Year 7	↓	93.3	93.7	4	92.6	92.5
Year 9	↓	87.6	89.0	3	87.2	87.8
Spelling						
Year 3	↓	93.8	94.9	3	91.0	92.2
Year 5	↓	94.1	94.6	equal 1	91.9	92.4
Year 7	↓	94.1	94.6	2	92.9	92.9
Year 9	↓	91.1	91.5	2	89.6	89.7
Punctuation and Grammar						
Year 3	↓	93.6	94.8	3	92.0	92.4
Year 5	↑	93.8	93.7	3	92.2	92.0
Year 7	↓	91.8	92.5	4	91.5	92.1
Year 9	↑	91.5	90.9	3	90.8	90.4
Numeracy						
Year 3	↓	95.0	95.5	3	94.2	94.0
Year 5	↓	94.6	95.5	3	93.6	94.2
Year 7	↓	94.9	95.1	5	95.0	94.8
Year 9	↓	93.1	95.5	3	93.1	95.0

Source: Australian Curriculum, Assessment and Reporting Authority (ACARA) - National Assessment Program - Literacy and Numeracy Summary Report 2010 (unaudited).

Notes:

- Key: ↑ Change upwards, ↓ Change downwards, ~ No change
- The rankings range from one to eight (highest to lowest).

The results of the 2010 national tests indicate New South Wales students continue to perform consistently better than the national average. Although the changes for New South Wales are mostly consistent with the trends nationally, the State's performance and ranking is lower in most domains compared to 2009.

The Department advised it spent \$230 million (\$174 million in 2008-09) on the literacy and numeracy plan in 2009-10 and an additional \$959 million (\$968 million) will be spent over the next four years to further improve student literacy and numeracy levels.

Retention Rates from Years 7 to 12 for Government Schools

Year ended 31 December	2009 %	2008 %	2007 %	2006 %	2005 %
All students	66.3	64.6	64.5	65.1	65.8
Aboriginal students	33.1	32.2	30.9	28.7	29.4
Students from language backgrounds other than English	108.0	106.0	101.8	105.4	109.5
Students from low socio-economic status backgrounds	53.9	54.5	53.2	52.9	55.5
Geographically isolated students	46.8	41.1	48.6	41.3	45.6

Source: DET Statistical Compendium 2009 (unaudited).

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 for 2002 to 2006, 2008 and 2009 are based on participating schools in 2007, 2008 and 2009 respectively.
- 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
- Care should be exercised in interpreting changes in apparent retention rates for Aboriginal students and students from geographically isolated areas due to the small numbers involved
- The 2009 rate for all students is consistent with the confidentialised data published in Table 4.03 of the DET Statistical Compendium 2009 and sourced from ABS Schools Australia.

Over the past five years the retention rates from Years 7 to 12 have remained relatively stable. The retention rate for geographically isolated students turned around a five year low in 2008 with an increase of 5.7 per cent in 2009. The Department continued a range of strategies it put in place in 2007 that were designed to encourage more students to complete Year 12. It expects that the initiatives will start to impact positively on retention rates in 2012 when the 2007 Year 7 students are due to reach Year 12.

Retention Rates of Full-time Students for Government Schools by State (2005-2009) for Years 7/8 to 12

Years	NSW %	Vic %	Qld %	SA %	WA %	Tas %	NT %	ACT %	National %
2009	66.3	73.2	72.8	69.1	69.2	61.3	61.2	99.5	70.1
2008	64.6	71.9	70.3	64.7	68.2	61.3	67.6	95.9	68.3
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

Source: DET Statistical Compendium 2009 (unaudited).

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.

Although retention rates in New South Wales improved in 2009, they still fell below the national average. The State's ranking relative to other States and Territories improved slightly moving from seventh to sixth.

Full-time Participation Rates for 15 to 24 Year Olds

Years	2009 %	2008 %	2007 %	2006 %	2005 %
NSW	81.7	83.4	82.4	81.8	82.3
National	81.0	83.9	83.6	82.8	82.2

Source: Australian Bureau of Statistics, Survey of Education and Work, 2005-2009 (unaudited).

Notes: Full-time participation is defined as participation in full-time education or training or full-time work, or a combination of both part-time education or training and part-time work.

The Survey of Education and Work estimates the proportion of 15 to 24 year olds participating in full-time education or training, full-time work, or a combination of part-time education or training and part-time work. Overall, New South Wales ranked fourth relative to other States and Territories.

Nationally, and for most States and Territories, there was a fall in the full-time participation rate between 2008 and 2009 owing to the global financial crisis.

The Department is implementing a number of measures to increase participation by youth at risk to ensure they have access to education that leads to workforce participation. Legislation was introduced in 2009 to increase the school leaving age. From January 2010, all students must complete school to Year 10 and then stay on at school, go to TAFE, or get a job until they at least turn 17. Under the Learn or Earn initiative, young people up to the age of 18 who do not complete Year 12 and have not yet got a job have a guaranteed training place at TAFE NSW. The Department advised that the Government has allocated some \$3.9 million in 2011 to fund Employment Advisers to work in schools with students at risk of leaving school early.

The Apprentices Placement Service helps retrenched apprentices and trainees find a new employer and continue their apprenticeships or traineeships. The Government has a target of delivering 4,000 additional apprenticeships and 2,000 new cadetships by 2012.

The Achievement Gap for Aboriginal Students

Reading and numeracy targets set under the New South Wales State Plan for Aboriginal students are to halve the gaps in minimum and proficient standards that existed in 2008 between Aboriginal students and all students by 2012 and eliminated by 2016.

The table below details the 2009 NAPLAN Summary Results of the percentage of Aboriginal students against all student peers at or above the national minimum standard and the achievement gap between them:

Years	All students			Aboriginal students			Achievement
	NSW 2009 %	NSW Ranking	National 2009 %	NSW 2009 %	NSW Ranking	National 2009 %	Gap %
Reading							
Year 3	95.6	1	93.7	85.8	3	75.1	9.8
Year 5	93.7	3	91.7	77.9	3	66.7	15.8
Year 7	94.8	3	94.0	81.2	4	73.2	13.6
Year 9	93.6	3	92.2	78.2	3	67.0	15.4
Writing							
Year 3	97.2	1	95.7	90.8	2	79.9	6.4
Year 5	95.0	1	93.0	81.5	3	70.1	13.5
Year 7	93.7	<i>equal</i> 1	92.5	77.2	2	69.9	16.5
Year 9	89.0	3	87.8	67.1	4	59.0	21.9
Spelling							
Year 3	94.9	1	92.2	82.8	2	69.6	12.1
Year 5	94.6	1	92.4	81.7	2	71.5	12.9
Year 7	94.6	1	92.9	81.9	1	74.3	12.7
Year 9	91.5	1	89.7	74.4	2	66.1	17.1
Punctuation and Grammar							
Year 3	94.8	2	92.4	81.6	3	68.7	13.2
Year 5	93.7	3	92.0	75.0	4	64.3	18.7
Year 7	92.5	3	92.1	72.2	4	64.9	20.3
Year 9	90.9	3	90.4	69.5	4	60.8	21.4
Numeracy							
Year 3	95.5	2	94.0	84.1	3	74.0	11.4
Year 5	95.5	<i>equal</i> 1	94.2	82.5	4	74.2	13.0
Year 7	95.1	3	94.8	80.4	4	75.8	14.7
Year 9	95.5	2	95.0	80.9	4	75.0	14.6

Source: Ministerial Council for Education, Early Childhood Development and Youth Affairs (MCEECDYA) - National Assessment Program - Literacy and Numeracy Summary Report 2009 (unaudited).

Notes:

- At the time of preparing this Report the 2010 NAPLAN results by indigenous status are not available on the ACARA website
- The rankings range from one to eight (highest to lowest).

The results of the 2009 national tests for New South Wales Aboriginal students indicated similar results to 2008, in that:

- they performed consistently better than the national average for Aboriginal students
- the comparison against all students show significant gaps
- the gaps against all students are less in the early years than in the later years.

The Department has allocated 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 that of the \$11.3 million allocated in 2009-10 (\$10.7 million in 2008-09), \$9.4 million was spent (\$8.4 million).

Government Schools

New South Wales' expenditure per student was lower than the national average for both primary and secondary schools in 2008-09.

At 30 June	NSW 2008-09	NSW 2007-08	National 2008-09	NSW Ranking amongst all States and Territories (d)	NSW Ranking Previous Year (d)
Recurrent Expenditure (\$) per student on Government Schools (a)					
Primary	12,054	11,148	12,391	6	7
Secondary	14,957	13,977	15,312	4	4
Overall	13,260	12,324	13,544	4	7
Student to Teaching Staff Ratios - Government Schools (b)					
Primary	15.9	15.9	15.5	1	1
Secondary	12.4	12.4	12.3	4	5
Overall	14.2	14.3	14.0	3	2
Full-Time Student Enrolment - Government Schools as a percentage of all schools (c)					
Primary	69.6	69.6	69.4	5	5
Secondary	61.9	62.0	60.7	4	4
Overall	66.2	66.3	65.7	4	4

(a) Source: Australian Curriculum, Assessment and Reporting Authority (ACARA) - National Report on Schooling in Australia, 2009. Incorporates both salaries and non-salary costs. Includes actual or notional payroll tax and notional eight per cent user cost of capital (unaudited).

(b) Source: Australian Bureau of Statistics, Schools Australia 2009 (Table 23).

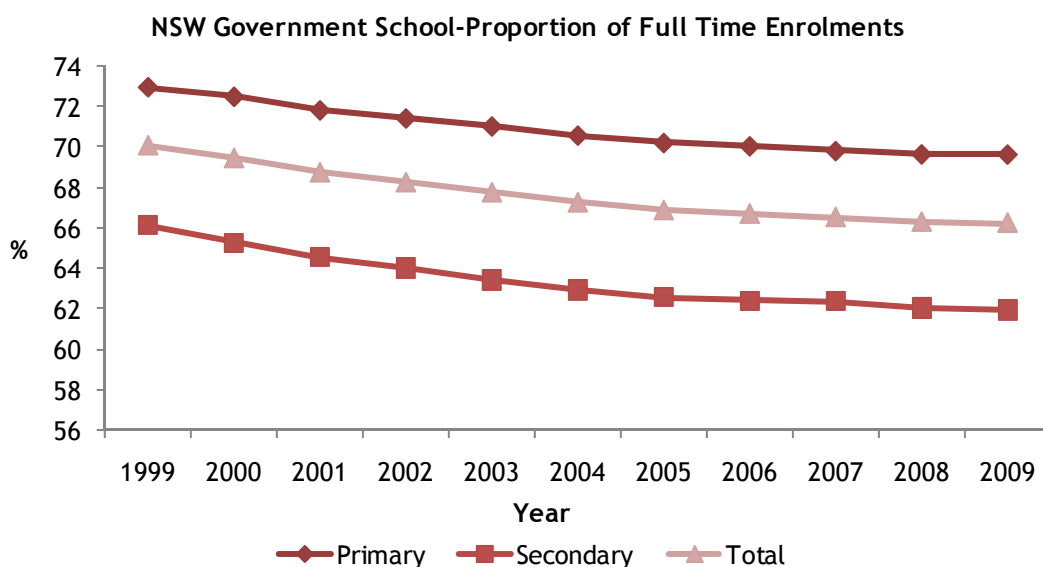
(c) Source: Australian Bureau of Statistics, Schools Australia 2009 (Table 7).

(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.

Student to teacher ratios for New South Wales were marginally higher than the national average. The overall ratio of 14.2 was higher than the New South Wales private sector ratio of 13.8 students per teacher.

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 66.1 per cent in 1999 to 61.9 per cent in 2009. The movement of students between sectors now seems to be stabilising. The chart below illustrates the decline over the last decade.



Source: Australian Bureau of Statistics, Schools Australia 2009 (Table 7) (unaudited).

Student Attendance Rates

Government school students' attendance rates have been stable in the years between 2005 and 2009. Around 92 per cent of students are present at school on an average school day.

The student attendance rates by region in the government schools are detailed below:

Region	2009 %	2008 %	2007 %	2006 %	2005 %
Hunter/Central Coast	91.0	90.9	91.0	91.1	91.0
Illawarra and South East	91.2	90.9	91.0	91.1	90.8
New England	89.1	89.6	89.6	89.5	89.7
North Coast	89.7	89.7	89.9	90.2	89.8
Northern Sydney	94.3	93.8	93.9	93.8	93.6
Riverina	90.9	90.9	91.4	91.3	91.3
South Western Sydney	92.1	92.1	92.1	92.1	91.6
Sydney	93.4	93.0	93.1	92.8	92.5
Western New South Wales	89.3	89.3	89.5	89.7	89.4
Western Sydney	91.7	91.7	91.7	91.6	91.5
State Total	91.7	91.6	91.6	91.6	91.4

Source: DET Planning and Innovation Return of Absences collection 2006 - 2009 (unaudited).

Notes:

- Attendance rates based on actual term enrolments
- Year 12 absences and enrolments during Term 4 have been excluded from calculations.

OTHER INFORMATION

Department

I identified some opportunities for improvement to the Department's accounting and internal control procedures, mainly in the areas of property, plant and equipment recording, payroll and accounts payable. These have been reported to management.

Schools

For the school financial year ended 30 November 2009, I audited financial transactions at 67 primary schools, 4 high schools and 1 central school (K-12).

I identified opportunities for schools to improve their internal controls and general compliance with Departmental guidelines, which I reported to school principals. Many of my findings were similar to those of the previous year. The Department has advised it communicates common findings to all schools and directs them to take corrective action.

Connected Classrooms Program (CCP)

The CCP commenced in 2007-08 and consists of three components with a total investment of \$158 million over four years.

- The Interactive Classroom Project (ICP) 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 will upgrade student email; provide an individual online working space for all students and teachers and online access to student reports for parents.
- The Network Bandwidth Enhancement Project, for network upgrades, will increase bandwidth speed and secure browsing and content filtering to better enable interactive learning environments.

Year ended 30 June	Total Budget Over 4 Years \$'000	2010 Actual \$'000	Total Costs to Date \$'000
Interactive Classrooms Project	65,021	18,990	53,513
Learning Tools Project	29,164	5,981	17,347
Network Bandwidth Enhancement Project	63,437	15,069	41,023
Total	157,622	40,040	111,883

Source: DET Statistics (unaudited).

At 30 June 2010, the Department advised it had installed 1,778 schools (1,003 in 2008-09) with an interactive classroom and upgraded 2,493 DET sites with bandwidth. The Core Network Infrastructure environment had been upgraded and all students across New South Wales public schools now have access to the NSW DET online collaborative Learning Tool, 'blogED'.

Digital Education Revolution (DER)

The DER program is funded through the Australian Government's National Secondary School Computer Fund to provide all secondary students with a 1:1 computer ratio by December 2011. The funding agreements to date amount to \$264 million with further funding of \$183 million (\$179 million) to be made available over five years. Additional funding of \$3.9 million was provided as a 'top-up' to New South Wales in 2010.

The Department aims to achieve this ratio by providing a wireless enabled laptop computer to all Years 9 to 12 students for their individual use.

Contracts awarded to date include:

- \$150 million to supply approximately 260,000 student laptops
- \$70.0 million for wireless network access
- on-costs of \$189 million to cover agreed additional expenditure. The on-costs agreement includes funding for wireless connectivity, professional learning and curriculum support and the employment of over 500 technology support officers, mostly school based.

Achievements to date include:

- completion of a second rollout of student laptops (130,000 laptops issued to date)
- completion of a wireless network rollout in schools
- technology support officers established in 463 schools and 57 regions as well as 50 Jumpstart ICT cadet positions across the state.

Total expenditure on the DER program to 30 June 2010 was \$177.0 million (\$11.9 million in 2008-09).

School Facilities and Building Maintenance

The Department has a 4 year enhancement program for addressing maintenance backlog. The total cost of this project, as at 2004, was identified at \$120 million. The Government allocated additional funding of \$30.0 million per annum over the four years from 2006-07 to 2009-10. The Department advised that it has now completed the program of works to reduce the maintenance backlog.

The expenditure details for each region are reflected in the table below:

Year ended 30 June	2010 \$'000	2009 \$'000
Hunter/Central Coast	4,132	3,958
Illawarra and South East	2,261	1,221
New England	1,638	1,293
North Coast	2,939	2,787
Northern Sydney	6,181	5,086
Riverina	2,143	1,480
South Western Sydney	4,769	3,772
Sydney	3,917	5,984
Western New South Wales	2,104	2,008
Western Sydney	5,103	3,734
Total	35,187	31,323

Source: DET Statistics (unaudited).

Total school maintenance expenditure increased from \$292 million in 2008-09 to \$378 million in 2009-10. Included in this amount was \$114 million in Australian Government funded school maintenance programs that were undertaken as part of the BER National School Pride Program.

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 partially fund improved facilities. In 2009-10 the Department received \$5.1 million from such sales.

Planned Computer Systems Replacement

In 2006, I reported the Department's Learning Management and Business Reform (LMBR) program will replace its finance, payroll and human resources systems and the school management system in two phases over an eight year period.

- Phase 1 will implement the SAP finance solution in to state and regional office locations, schools and TAFE NSW, as well as the SAP human resources and payroll system into TAFE NSW. Phase 1 implementation costs are estimated at \$153 million.
- Phase 2 of the program is the development of a student administration system for schools and TAFE NSW and the implementation of the SAP human resources and payroll system across State and regional office areas and schools. Phase 2 implementation costs are estimated at \$218 million.

Phase 1 of the program has been completed for the implementation of the new finance system into State and regional offices in March 2010 and TAFE NSW institutes in October 2010. The next stage of Phase 1 is the rollout of the finance system to the public schools. The software build for schools is scheduled to be completed in 2010, with a planned rolling implementation from 2011.

The Business Transformation Executive Sub Committee is the 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 its Audit and Risk Committee.

Phase 2 of the design of the SAP human resources and payroll system into state and regional office areas and schools is planned to be launched in 2012 and the student administration system for schools and TAFE NSW in 2014.

Expenditure in 2009-10 was \$45.1 million (\$43.5 million) and total costs incurred to 30 June 2010 were \$119 million (\$74.1 million). Currently LMBR projects are forecasted to exceed budget by \$47.2m due mainly to costs not initially included in the Department's business case including training of \$12.4 million, software maintenance of \$9.2 million, salaries and oncosts of \$10.6 million and computer support of \$7.2 million.

I will continue to review the program's implementation and monitor its progress.

Human Resources

I reviewed the following areas relating to human resources:

- leave recording
- management of annual leave balances in excess of threshold policies
- teacher age profiles and turnover to identify the number of permanent teachers nearing retirement age and actions taken to address any risks arising
- highly accomplished teachers
- management of flex leave
- extent of contract staff.

Leave Recording

The Department mandated the use of an online leave system called eLAPS (Electronic Leave Application Processing System) for all State and regional office staff on 1 March 2006. At 30 June 2010, 55.4 per cent (45.7 per cent in 2009) of all leave applications received from teachers and 50.5 per cent (41.2 per cent) from school administrative and support staff have been submitted electronically through eLAPS. However, around half the numbers of leave applications are still recorded on the manual system, which the Department advised largely relate to complex leave entitlements that require more analysis and manual calculation by the staff in the Employee Services Centres.

Using a range of communication channels, the Human Resources Directorate will continue to encourage staff in schools to submit electronic leave applications through eLAPS. In addition, system enhancements to enable temporary school administrative and support staff and teachers to access eLAPS have been scoped. These enhancements are on hold pending the implementation of the SAP human resources and payroll system as part of the LMBR program.

Annual Leave Balances

I recommend the Department continue to review the effectiveness of its policies for managing excessive annual leave balances.

Number of staff with more than 40 days annual leave

Entitlement (days) at 30 June 2010	No. of Employees	Total Days	Liability \$'000
>100	28	3,656	1,049
81-100	15	1,333	445
61-80	74	5,006	1,534
41-60	698	32,979	9,605
Total	815	42,974	12,633

There has been some improvement from last year. In 2009-10, 815 (898) employees had excess annual leave balances totalling 42,974 days (50,746 days) and a liability of \$12.6 million (\$14.7 million). Even though employees in this category only represented 6.5 per cent (7.9 per cent) of total employees at 30 June 2010, the liability represented 27.3 per cent (33.8 per cent) of total liabilities.

The Department advised that the Human Resources Directorate reviews leave balances annually. Employees with annual leave balances in excess of 40 days are advised that, in accordance with the Award, they must reduce their leave balance by a given date or obtain the appropriate approval under the Award to conserve their excess annual leave. In addition, business managers are provided additional advice on potential strategies to assist in reducing excessive annual leave balances and a listing of their staff with excess annual leave balances.

Teacher Age Profiles and Turnover

The Department continues to face the loss of large numbers of retiring teachers and their associated skills. While the overall impact of the ageing workforce is likely to be gradual, there is still a risk of teacher shortages.

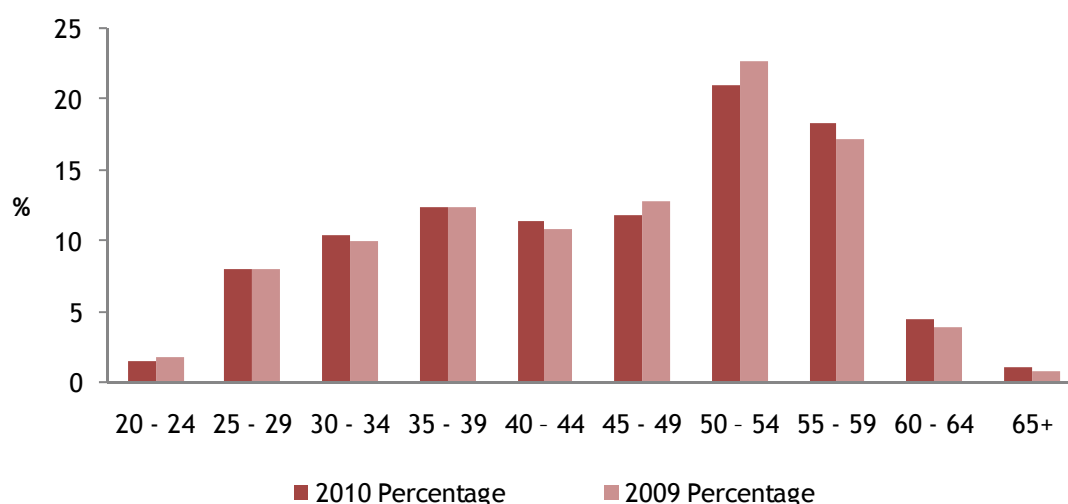
Using departmental statistics, the table below details the age profile of permanent teachers at 1 July 2010:

Age Group	2010		2009	
	No. of Teachers	Percentage	No. of Teachers	Percentage
20 - 24	735	1.5	868	1.8
25 - 29	3,863	7.9	3,924	7.9
30 - 34	5,071	10.3	4,941	10.0
35 - 39	6,031	12.3	6,077	12.3
40 - 44	5,616	11.4	5,325	10.8
45 - 49	5,799	11.8	6,290	12.7
50 - 54	10,354	21.0	11,185	22.7
55 - 59	9,016	18.3	8,439	17.1
60 - 64	2,234	4.5	1,927	3.9
65+	479	1.0	374	0.8
Total	49,198	100.0	49,350	100.0

Source: DET Personnel system (unaudited).

Statistics show that 44.8 per cent (44.5 per cent) of school teachers are aged 50 years or over and the Department advised many of these employees may retire over the next seven years.

Aging Profile of Permanent Teachers Workforce



To ensure an adequate supply of teachers, the Department continues to undertake comprehensive workforce planning to develop teacher supply and demand projections for permanent teachers over a seven-year period. The workforce plan is updated at least annually and more frequently if needed. This enables the Department to put in place strategies to avoid any projected shortfalls in workforce supply. The Department has initiatives in place to attract new teachers such as active promotion of teaching as a career and teacher education scholarships and retraining programs.

The teacher separations for each region are reflected in the table below:

Region	No of Separations 2009	2009 %	2008 %	2007 %
Hunter/Central Coast	274	4.1	5.2	4.6
Illawarra and South East	195	4.3	5.9	4.9
New England	69	4.2	5.6	4.3
North Coast	228	5.0	6.3	4.1
Northern Sydney	224	4.6	5.4	5.3
Riverina	112	4.6	5.4	4.2
South Western Sydney	227	2.6	3.5	3.4
Sydney	186	3.2	5.3	4.3
Western New South Wales	115	3.8	4.9	3.3
Western Sydney	213	3.2	4.4	3.6
Total	1,843	3.7	5.0	4.1

Source: DET Personnel system (unaudited).

Note: Separations include resignations, retirements, medical retirements, terminations and deaths.

The Department advised that overall it has a very stable workforce and the teacher separation rates are relatively low, varying between three per cent and five per cent since 1997. A number of initiatives have contributed to the retention of new and experienced teachers, including competitive teacher salaries, and comprehensive training and mentoring programs for new teachers.

Highly Accomplished Teachers

Highly accomplished teachers are appointed based on merit. They are required to meet selection criteria, including successful completion of a preliminary online application for Professional Accomplishment or Professional Leadership with the New South Wales Institute of Teachers.

The number of highly accomplished teachers appointed in 2009-10 included 13 in Centres for Excellence schools, 3 in Low Socio Economic Status (SES) National Partnership (NP) schools and 10 in Low SES NP reform extension schools.

The table below list the regions where the highly accomplished teachers were appointed in 2009-10:

Region	Centres for Excellence Schools	Low SES NP Schools	Low SES NP Reform Extension Schools
Hunter/Central Coast	2	--	1
Illawarra and South East	2	--	2
New England	1	2	--
North Coast	--	--	--
Northern Sydney	2	--	--
Riverina	1	--	2
South Western Sydney	2	1	2
Sydney	--	--	1
Western New South Wales	1	--	--
Western Sydney	2	--	2
Total	13	3	10

Source: DET Personnel system (unaudited).

The progress of teacher quality in Centres for Excellence is monitored through an increase in quality teaching practices across the school and cluster schools including:

- mentoring and support for early career teachers
- quality supervision, mentoring and support to initial teacher education students
- productive working relationships with university partners
- ongoing professional learning aligned to teaching standards
- increased support for teachers to achieve accreditation at mandatory and voluntary levels.

Flex Leave

The Department does not centrally manage flex time and could not provide detailed information relating to flex time accrued and forfeited by staff. The Department advised flex time and flex leave is managed in accordance with the flexible working hours agreement. It is the responsibility of each employee's supervisor to monitor flex time and it is not practical to be centrally monitored. To undertake central monitoring of flex time would require additional resources to be allocated to human resources. I will follow up this issue next year with the Department to determine whether it is managing flex time effectively.

Use of Contract Staff

I recommend the Department:

- create and maintain a central record of all contract employees to determine, monitor and analyse the cost of contract employees, the number of contract employees and the period of service for all contract employees
- periodically review the roles and responsibilities of all contract employees to ensure:
 - reliance on contractors is not excessive
 - use of contract employees instead of permanent employees is appropriate
 - contractors do not become de facto employees by virtue of being with the Department for an extended period of time
 - use of contract employees continues to represent value for money.

The Department uses a decentralised approach to manage contract employees.

In 2009-10, the Department paid \$76.3 million to a total of 962 contractors. Fifty nine contractors or 6.1 per cent of contract employees had been engaged for more than 12 months and 788 new contractors were employed during the year.

The table below list the top ten contractors engaged during the year:

Position Description	Term of Employment			Total \$
	From	To	Months	
Regional Program Director	1 April 2009	31 March 2011	24	550,516
Regional Program Director	1 April 2009	31 March 2011	24	492,168
Project Director	18 May 2009	31 March 2011	22	479,975
Regional Program Director	1 April 2009	31 March 2011	24	460,470
Program Director	1 February 2009	31 August 2010	19	434,201
Cost Planner	1 April 2009	31 March 2011	24	395,485
Design & Planning Engineer	1 April 2009	31 March 2011	24	384,000
Authorised Person	1 April 2009	31 March 2011	24	383,121
Authorised Person	1 April 2009	31 March 2011	24	382,445
Authorised Person	24 April 2009	20 April 2011	24	360,780
Total				4,323,161

Source: DET Accounts Payables system (unaudited).

The retention of contract employees for extended periods may result in additional costs to the Department.

The Department advised that the contractors listed in the table are all engaged in the Building Education Revolution (BER).

Of the total contractors for 2009-10, BER contractors made up 28.9 per cent (\$22.0 million) and ITD contractors 62.9 per cent (\$48.0 million). The Department advised the large number of contractors engaged in ITD is due to the specialised nature of the work involved and the inability of the Department to attract full time employees to these roles due to current market rates.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	8,350,553	8,158,551	7,379,479	7,195,480
Operating expenses	2,085,718	1,766,849	1,731,616	1,478,451
Depreciation and amortisation	406,060	405,939	329,631	327,848
Grants and subsidies	303,213	210,488	341,260	234,212
Other expenses	11,812	9,455	11,812	9,455
TOTAL EXPENSES	11,157,356	10,551,282	9,793,798	9,245,446
TOTAL REVENUE	998,609	951,554	905,260	924,290
Other gains	1,743	3,088	6,555	3,072
NET COST OF SERVICES	10,157,004	9,596,640	8,881,983	8,318,084
Less Government contributions	12,262,598	9,752,250	10,907,412	8,480,140
SURPLUS	2,105,594	155,610	2,025,429	162,056
OTHER COMPREHENSIVE (EXPENSE)/INCOME	(3,215)	(24,314)	60	--
TOTAL COMPREHENSIVE INCOME	2,102,379	131,296	2,025,489	162,056

Employee related expenses represent 75.4 per cent (77.8 per cent) of total expenditure of the Department. The \$184 million increase was primarily due to a 3.8 per cent salary increase for teachers in January 2010 and a four per cent salary increase for administrative staff effective July 2009.

The increase in government contributions of \$2.4 billion was primarily due to a \$657 million rise in recurrent appropriation for Australian Government initiatives and a \$1.8 billion increase in capital appropriation mainly due to the BER.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	932,085	851,328	745,144	689,264
Non-current assets	19,291,514	17,029,562	16,221,370	14,038,235
TOTAL ASSETS	20,223,599	17,880,890	16,966,514	14,727,499
Current liabilities	1,013,478	841,957	784,713	645,509
Non-current liabilities	302,617	199,590	301,783	198,748
TOTAL LIABILITIES	1,316,095	1,041,547	1,086,496	844,257
NET ASSETS	18,907,504	16,839,343	15,880,018	13,883,242

The increase in current assets of \$55.9 million was primarily due to an increase of \$8.6 million in the Department's cash at bank, the school bank balances of \$15.6 million, receivables of \$38.5 million and a decrease in non-current assets held for sale of \$6.8 million.

Non-current assets increased \$2.2 billion due largely to the BER program.

Current liabilities increased \$139 million due mainly to an increase in payables of \$107 million, a liability to Consolidated Fund of \$14.6 million and a rise in employee benefits and related on-costs provisions of \$15.6 million.

The increase in non-current liabilities of \$103 million was due primarily to advances from Treasury of \$85.0 million and an increase in borrowings of \$17.2 million relating to the public private partnership projects for construction, design, finance and maintenance of a number of schools.

Surplus Properties

During 2009-10, 31 school properties (29), surplus to the Department's needs, were sold for \$33.0 million (\$16.1 million). At 30 June 2010, the value of surplus properties was \$63.1 million.

Abridged Service Group Information

The Department's consolidated net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2010 Budget* \$'000	2010 Actual \$'000	2009 Actual \$'000	2010 Actual \$'000	2009 Actual \$'000
Preschool education services in government schools	26,376	28,540	27,450	(2,077)	(1,960)
Primary education services in government schools	4,469,888	4,517,076	4,249,775	8,525,917	7,419,128
Secondary education services in government schools	4,073,703	4,018,826	3,815,948	6,238,771	5,429,364
Non-government schools	21,676	12,546	10,262	(99)	(111)
TAFE NSW and community education	1,404,380	1,364,729	1,337,970	3,079,135	3,002,919
Vocational education and training	201,211	224,431	162,724	(4,266)	(3,743)
NSW Adult Migrant English Service (AMES)	--	(9,144)	(7,489)	(5,447)	(2,989)
Not Attributable**	--	--	--	1,075,570	996,735
Total all service groups	10,197,234	10,157,004	9,596,640	18,907,504	16,839,343

* Per the 2009-10 Budget Papers - net of transfer payments.

** Represents items that could not be reliably allocated to a 'service group'.

Cost of Providing Government School Education

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

Year ended 30 June	2010	2009	2008	2007
Actual enrolments(a):				
Primary students	432,884	431,447	430,885	431,618
Secondary students	316,129	314,290	307,260	307,018
Total	749,013	745,737	738,145	738,636
Service group costs(b):				
Primary \$m	4,517	4,250	3,904	3,721
Secondary \$m	4,019	3,816	3,597	3,346
Total \$m	8,536	8,066	7,501	7,067
Funding per student:				
Primary \$	10,435	9,851	9,060	8,621
Secondary \$	12,713	12,142	11,707	10,898
Average \$	11,396	10,816	10,162	9,568

Source: DET Statistics.

(a) The 2010 figures are estimated figures provided by the Human Resource Planning Unit as actual enrolment figures were not available at the time of the preparation of this Report (unaudited). The school enrolments above differ from those published in ACARA, which are sourced from ABS, Schools Australia 2009 (Table 7).

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

Average enrolments increased by 1.4 per cent over the last four years and the costs of funding per student increased by 19.1 per cent during the same period.

The table below details the number of Year 1 to 12 students currently enrolled in New South Wales government schools who were from outside the government system and the percentage of 2010 enrolments by region.

Region	2010		2009	
	Number	% Enrolments	Number	% Enrolments
Hunter/Central Coast	3,453	3.6	3,319	3.5
Illawarra and South East	3,028	4.9	2,669	4.3
New England	1,215	6.2	1,203	6.2
North Coast	3,653	6.1	3,416	5.7
Northern Sydney	4,195	5.4	4,173	5.5
Riverina	1,969	6.7	1,746	6.0
South Western Sydney	4,968	4.4	4,937	4.3
Sydney	3,644	4.6	3,631	4.7
Western New South Wales	2,037	5.9	2,001	5.9
Western Sydney	4,088	4.5	3,997	4.5
Total	32,250	4.9	31,092	4.7

Source: Data Analysis and Collections, Planning and Innovation. Data extracted from National Schools Statistics Collections (NSSC) 2009 and 2010 (Preliminary) (unaudited).

Notes:

- Even though NSSC data is still preliminary, no significant changes in numbers are expected once post census validation is completed.
- The number of students from outside the government system for 2009 was adjusted down for the maximum calculated duplicates.
- It is not possible to further differentiate whether this group of students was from the non-government sector, interstate or overseas.
- Figures reported above exclude 2010 Kindergarten students and support students.
- Figures were derived by comparing students who are currently enrolled in the government system with their whereabouts same time last year.

The table below details the number of international students in government schools and fees raised over the past four years:

Year	2009	2008	2007	2006
Number of students enrolled	4,123	3,470	2,814	2,100
Fees raised \$m	37.8	34.1	25.9	20.4

Source: Data provided by DET International and TAFE NSW National Business (unaudited).

Notes:

- Data above is for calendar years, not financial years.
- Students do not contribute equally to the revenue raised. This is due to the followings:
 - The number of students enrolled includes students enrolled for any part of the calendar year.
 - There is a different fee charged for primary school, junior secondary school, senior secondary school and intensive English provision.
- International students may enrol for more than one year. Therefore, the total number of students for the four years reported does not indicate the number of individual international students involved.

Income from international students continued to increase. In 2009 the number of international students enrolled increased by 18.8 per cent (23.3 per cent) resulting in an increase in fees of \$3.7 million (\$8.2 million) or 10.9 per cent (31.7 per cent).

Cost of Funding Non-Government School Education by the Department

In 2009-10, the New South Wales Government provided funding to 926 (930) non-government schools. Funding is mainly in the form of a per capita allowance and an interest subsidy scheme. Some broad trends of funding per student were:

Year ended 30 June	2010	2009	2008	2007
Average enrolments(a):				
Primary Students	188,499	187,406	186,537	186,005
Secondary Students	187,143	185,451	183,399	182,676
Total	375,642	372,857	369,936	368,681
Service group costs(b):				
Primary \$m	344	336	323	303
Secondary \$m	438	422	408	390
Total \$m	782	758	731	693
Funding per student:				
Primary \$	1,824	1,791	1,729	1,629
Secondary \$	2,339	2,276	2,224	2,137
Average \$	2,080	2,033	1,975	1,881

Source: Department of Education and Training (unaudited).

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

Average enrolments increased by 1.9 per cent over the last four years and the costs of funding per student increased by 10.6 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 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 Australian Government primarily funds AMES.

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

FINANCIAL INFORMATION

Year ended 30 June	2010 \$'000	2009 \$'000
Revenue	50,165	49,426
Employee related expenses	19,529	18,376
Other expenses	30,433	31,523
Surplus/(Deficit)	203	(473)
Other comprehensive expense	(3,302)	(24,344)
Total comprehensive expense	(3,099)	(24,817)
Net liabilities (at 30 June)	(5,442)	(2,343)

Other comprehensive expense decreased by \$21.0 million (increased by \$22.5 million) due to a smaller superannuation actuarial loss recognised. The large increase recognised in the previous year was due to an increase in superannuation liability from a prepaid superannuation in 2007-08 to a net superannuation liability in 2008-09 as a result of falls in superannuation reserves due to the global financial crisis.

New South Wales Technical and Further Education Commission

AUDIT OPINION

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

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

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	2006-2009 Change % Increase/ (Decrease)	2009	2008	2007	2006
Total enrolments	4.9	524,838	504,009	497,747	500,410
Annual student hours (ASH) ('000)	9.9	119,521	112,660	108,509	108,785
Net cost of services * (\$'000)	0.8	1,221,636	1,188,845	1,204,231	1,212,107
ASH per enrolment	5.1	228	224	218	217
Net cost of services/enrolment (\$)	(3.9)	2,328	2,359	2,419	2,422
Net cost of services per ASH (\$)	(8.2)	10.22	10.53	11.10	11.14

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

Source: New South Wales Technical and Further Education Commission (unaudited).

Enrolments have increased 4.9 per cent while training hours delivered have risen 9.9 per cent since 2006. The Commission advised this trend reflects a change in the student profile, with an increasing number of students undertaking studies in longer higher level qualifications. In 2009, 45.6 per cent of all enrolments were for these higher level qualifications (Certificate III and above) compared to 40 per cent in 2006.

Higher level qualifications provide better employment outcomes. Increasing the number of people with higher level qualifications has been an agreed goal of State and Australian governments for several years.

The Commission advised enrolments by unemployed students have increased 30.1 per cent since 2006. Over the same period enrolments by Aboriginal and Torres Strait Islanders and students from language backgrounds other than English have increased by 31.7 per cent, and 20.5 per cent respectively.

The Commission offers over 1,200 work related courses across a wide range of industry areas, many of which include training for a clean energy future. The State Plan contains a target of 5.0 per cent for green skills training as a percentage of total enrolments. The Commission advised green skills training now accounts for 7.3 per cent of its enrolments.

New South Wales Vocational Education and training (VET) Cost per Student Hour

The table below provides details of the volume of VET hours delivered in New South Wales from training providers in receipt of Government funding. Government expenditure per student hour has decreased by 2.4 per cent since 2008. The Commission advised the overall reduced expenditure is due to increased efficiency.

Year ended 30 June	2008-2009 Change Decrease	2009	2008
Government recurrent expenditure* (\$m)	72	1,360	1,432
Student hours (million)	3.1	109.5	112.6
Expenditure per student hour (\$/hour)	0.3	12.4	12.7

Source: National Centre for Vocational Education Research, 2005-09 Australian vocational education and training statistics – financial information. Unpublished data from NCVER. The costs noted in the table above have been adjusted to 2009 dollars to exclude the effect of inflation. (unaudited).

* 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

I recommend the Commission better manage the review and transfer of completed projects in capital works in progress.

I have reported to the Commission for the last three years the need to better manage the review and transfer of completed projects in capital works in progress to completed assets. The balance of these projects totalled \$73.5 million at 30 June 2010 (\$91.1 million in 2008-09). The Commission advised that, following the introduction of the SAP finance system, a new process is being implemented to review assets under construction which have not been transferred to the fixed asset register at month end.

Maintenance Backlog

TAFE maintenance is managed by each TAFE Institute. A nominal \$35.0 million in funding per annum has been provided over the last five financial years for maintenance as part of the global recurrent allocations to the TAFE Institutes.

TAFE Institutes determine, within their recurrent allocations, the amount expended on maintenance based on services priorities for each financial year. At 30 June 2010, the maintenance backlog was estimated by management to be \$8.0 million (\$37.6 million). The backlog is not considered significant in the context of the estimated replacement value of TAFE NSW buildings of \$4.8 billion.

Human Resources

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

- employee age profile to identify the number of permanent teachers nearing retirement age and actions taken to address any risks arising
- extent of contract staff
- management of flex leave
- management of annual leave balances in excess of threshold policies
- extent of overtime.

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

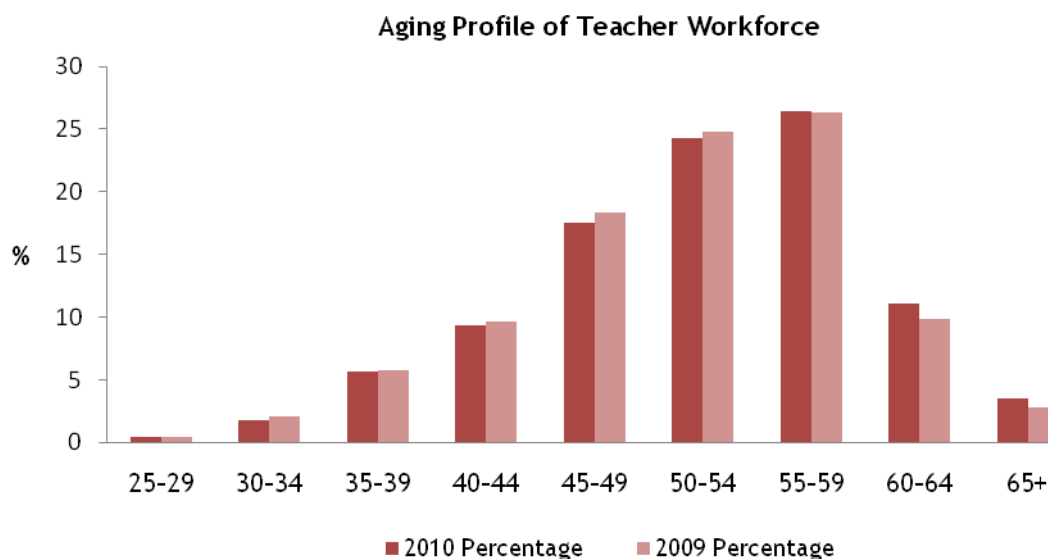
Workforce Ageing

The Commission has 41.0 per cent of its permanent teachers over 55 and 65.3 per cent are over 50. A large number of permanent teachers are likely to retire over the next five to ten years increasing the risk and significant loss of knowledge and skills for the Commission. The Commission advises strategies are in place to manage this risk including knowledge transfer strategies, phased retirement and the provision of flexible work options.

The age profile of the Commission's permanent teachers is shown below:

Age-group	2010		2009	
	No of Teachers	%	No of Teachers	%
25-29	19	0.4	20	0.4
30-34	79	1.8	91	2.0
35-39	250	5.7	260	5.8
40-44	411	9.3	433	9.6
45-49	770	17.5	822	18.3
50-54	1,071	24.3	1,114	24.8
55-59	1,163	26.4	1,184	26.4
60-64	487	11.1	441	9.8
65 +	154	3.5	125	2.8
Total	4,404	100	4,490	100

Source: Information provided by the Commission (unaudited).



To ensure an adequate supply of teachers, the Commission undertakes regular workforce planning to ensure it has the appropriate skilled teaching workforce to meet its needs. The Commission also has initiatives in place to attract new teachers such as developing targeted recruitment campaigns retention of younger teachers and promoting TAFE teaching as a career.

Extent of Contract Staff

I recommend the Commission:

- create and maintain a central record of all contract employees to determine, monitor and analyse the cost of contract employees, the number of contract employees and the period of service for all contract employees
- periodically review the roles and responsibilities of all contract employees to ensure:
 - reliance on contractors is not excessive
 - use of contract employees instead of permanent employees is appropriate
 - contractors do not become de facto employees by virtue of being with the Commission for an extended period of time
 - use of contract employees continues to represent value for money.

In 2009-10 the Commission paid \$18.1 million to contractors representing 1.4 per cent of total employee related costs. The highest amounts paid to an individual contractor and an employment agency for the year were \$164,000 and \$983,000 respectively.

The Commission uses a decentralised approach to engage and record contractors and does not maintain a central register of contractors. As a result the Commission was unable to provide the following information as at 30 June 2010:

- the number of contractors engaged
- the number of contractors engaged through employment agencies
- the period of service of contractors engaged.

The engagement of contract employees for extended periods may result in additional costs to the Commission. The Commission should review its practices relating to contract employees to ensure they are appropriate to achieve desired outcomes and comply with employment related legislation.

The Commission advised TAFE NSW requires a mix of permanent and casual staff to ensure education and training reflects current industry standards. Recruitment is undertaken at the Institute level.

Flex time

The Commission does not centrally manage flex time and could not provide detailed information relating to flex time accrued and forfeited by staff. The Commission advised flex time and flex leave is managed in accordance with the Department of Education and Training's flexible working hours agreement. It is the responsibility of each employee's supervisor to monitor flex time and it is not practical to be centrally monitored. To undertake central monitoring of flex time would require additional resources to be allocated to human resources. I will follow this issue up next year with the Commission to determine whether flex time is being effectively managed.

Annual Leave Balances

The Commission has actively managed employees with excessive annual leave balances in recent years. The number of employees with annual leave balances in excess of 40 days has declined from 759 employees at 30 June 2009 to 650 employees at 30 June 2010. At this level the employees in this category represent 5.8 per cent (6.8 per cent) of total employees. Total annual leave liability to 30 June 2010 was \$9.8 million (\$9.9 million).

Overtime

Overtime costs decreased by 11 per cent in 2009-10.

Year ended 30 June	2010	2009	2008
Overtime (\$m)	25.6	28.8	29.4
Salaries (\$m)	1,050.7	1009.7	1,002.1
Overtime as % of salary	2.4	2.9	3.0

As shown in the table below, 144 (157) non-teaching TAFE NSW employees earn 20 per cent or more of their base salary in overtime.

Overtime to Base Salary %	Number of Non-Teaching Employees		
	2010	2009	2008
71 - 100	--	--	1
61 - 70	--	--	1
51 - 60	3	4	8
41 - 50	22	22	29
31 - 40	39	54	92
21 - 30	80	77	107
10 - 20	158	169	169
0 > - 10	1,773	1,856	1,915
Nil	4,357	4,384	4,573
Total	6,432	6,566	6,895

For three (four) employees overtime was more than 50 per cent of their base salary. 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	23,834	41,252	69,445	57.8
Employee 2	24,066	44,007	57,366	54.7
Employee 3	21,165	41,252	58,510	51.3

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

- it was the cheapest alternative for providing the required services
- 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.

Workers Compensation Claims

Year Ended 30 June	2010	2009*	2008*	2007*
Number of claims incurring cost	632	627	699	639
Number of stress claims incurring cost	76	66	101	82
Estimated cost for all workers compensation claims (\$m)	7.3	6.8	9.1	8.5
Estimated cost for stress claims (\$m)	2.2	1.9	3.6	2.2
Days lost - all injuries	5,285**	5,669	6,993	14,269
Days lost - stress claims	1,323**	1,515	2,707	4,263

* 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.

** Data for the Days lost is lower as a result of delays experienced in processing time lost by the Fund Manager following the transition to the DET case management system. As a result lost time data is not comparable to previous years.

Source: New South Wales Technical and Further Education Commission (unaudited).

In 2009-10, the Commission had 15,844 (15,062) full time equivalent employees and 76 (66) stress claims were made, a 15.2 per cent increase compared to 2008-09. The average cost per stress claim in 2009-10 was \$29,471 (\$28,971) compared to \$11,696 (\$10,766) for all types of injuries. The number of workers' compensation claims has remained relatively stable compared to 2008-09.

Workers Compensation Premiums Benchmark

For the year to 30 June	2011	2010	2009	2008	2007
Equivalent full time employees (EFT)***	15,844	15,844	15,962	16,231	16,037
Premium cost (\$m)	16.3	15.2	16.2	16.8	18.2
Benchmark* (\$m)	14.8	14.4	15.0	14.5	14.8
Excess** (\$m)	1.5	0.8	1.2	2.3	3.4

* 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 Treasury funding. If an agency's premiums exceed the benchmark, the agency needs to fund the excess. This offers a financial incentive for agencies to actively manage their workers' compensation costs and minimise workplace injuries.

The Commission's workers compensation deposit premium has risen by \$1.1 million (7.3 per cent) for 2010-11, marginally offset by an increase in Treasury funding. At this level the premium is 90 per cent (95 per cent) funded by Treasury. Management advised the increase in the deposit premium is largely due to an increase in the cost of weekly benefits on claims.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	954,767	944,255	--	--
Personnel services	338,132	343,344	1,242,514	1,232,114
Other operating expenses	376,090	307,779	376,090	307,779
Depreciation and amortisation	76,409	78,072	76,409	78,072
TOTAL EXPENSES	1,745,398	1,673,450	1,695,013	1,617,965
TOTAL REVENUE	471,046	396,026	471,046	396,313
Other gains/(losses)	(4,812)	16	(4,812)	16
NET COST OF SERVICES	1,279,164	1,277,408	1,228,779	1,221,636
Government contributions	1,355,186	1,272,110	1,304,801	1,216,626
SURPLUS/(DEFICIT)	76,022	(5,298)	76,022	(5,010)
OTHER COMPREHENSIVE INCOME	27	--	27	--
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	76,049	(5,298)	76,049	(5,010)

The increase in other operating expenses was predominately due to an increase in expenditure for maintenance of \$37.2 million and minor stores, provisions, plant and computing of \$12.6 million as a result of funding from the Better TAFE Facilities Program.

Australian Government contributions of \$35.6 million for investment in infrastructure were the significant cause of the rise in revenue. The remaining increase is attributable to the increase in student enrolment numbers, referred to previously.

The movement in other gains/(losses) was due to asset write offs.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	204,870	181,321	204,870	181,321
Non-current assets	3,070,095	2,991,280	3,070,095	2,991,280
TOTAL ASSETS	3,274,965	3,172,601	3,274,965	3,172,601
Current liabilities	241,196	212,669	242,030	213,511
Non-current liabilities	834	842	--	--
TOTAL LIABILITIES	242,030	213,511	242,030	213,511
NET ASSETS	3,032,935	2,959,090	3,032,935	2,959,090

Current assets increased due primarily to a rise in cash and cash equivalents of \$14.8 million.

The increase in current liabilities was largely due to an increase in unearned revenue of \$27.0 million as a result of new programs and increased commercial activity.

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

New South Wales Technical and Further Education Commission Division

The Division provides personnel services to the Commission.

Office of the Board of Studies

AUDIT OPINION

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

OTHER INFORMATION

Human Resources

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

- management of annual leave balances in excess of threshold policies
- extent of overtime.

Annual Leave Balances

The Office has actively managed employees with excessive annual leave balances in recent years. The number of employees with annual leave balances in excess of 40 days has declined from 29 employees at 30 June 2009 to 24 employees at 30 June 2010. At 30 June 2010 employees in this category represent 9.8 per cent (11.0 per cent at 30 June 2009) of total employees.

Overtime

Overtime payments in 2009-10 totalled \$700,000 (\$600,000) or 3.7 per cent (3.3 per cent) of base salary expense for the year. For two employees, overtime was more than 50.0 per cent of their base salary while 14 employees earned 20.0 per cent or more of their base salary in overtime.

The Office advised this is due to the combined impact of the annual examination program requirement for after-hours, usually weekend work at peak periods and the impact of the staffing freeze.

Australian Curriculum

In 2009-10, the Office continued to support the work of the Australian Curriculum, Assessment and Reporting Authority (ACARA) and has worked collaboratively with all States and Territories, and the education sectors in NSW to develop an Australian curriculum. NSW Treasury has provided an initial allocation of \$6.0 million over two years to support the development and implementation of the Australian curriculum.

Subject to Federal, State and Territory Ministers of Education endorsement, ACARA advises substantial implementation of phase 1 subjects (English, Mathematics, Science and History) is expected by the end of 2013 for Kindergarten to Year 10.

FINANCIAL INFORMATION**Abridged Statement of Comprehensive Income**

Year ended 30 June	2010 \$'000	2009 \$'000
Employee Related expenses	80,686	80,208
Other operating expenses	23,957	23,781
Depreciation and amortisation	1,930	1,954
TOTAL EXPENSES	106,573	105,943
Sales of goods and services	7,718	6,209
Grant and contributions	937	955
Other	551	488
TOTAL REVENUES	9,206	7,652
Loss on Disposal	(1)	(43)
NET COST OF SERVICES	97,368	98,334
Government contributions	97,666	98,351
SURPLUS	298	17
OTHER COMPREHENSIVE INCOME	--	--
TOTAL COMPREHENSIVE INCOME	298	17

The increase in sales of goods and services is primarily due to a bi-annual receipt of copyright fees from Copyright Agency Limited. There was also a general rise in fees for examinations.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	7,699	6,873
Non-current assets	7,499	8,141
TOTAL ASSETS	15,198	15,014
Current liabilities	5,595	5,710
Non-current liabilities	248	247
TOTAL LIABILITIES	5,843	5,957
NET ASSETS	9,355	9,057

Current assets increased due to a rise in cash and cash equivalents offset by a decrease in receivables and inventories.

Abridged Service Group Information

Office of the Board of Studies net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2010 Budget *	2010 Actual	2009 Actual	2010 Actual	2009 Actual
	\$'000	\$'000	\$'000	\$'000	\$'000
Curriculum Development and Support	9,128	7,736	8,322	766	1,251
Examinations Assessments and Credentialing	87,733	86,448	86,755	3,811	4,376
Registration and Accreditation	3,588	3,361	3,513	(200)	(127)
Not Attributable **	0	(177)	(256)	4,978	3,557
Total all service groups	100,449	97,368	98,334	9,355	9,057

* Per the New South Wales 2009-10 Budget Papers

** Represents items that could not be reliably allocated to a 'service group'

OFFICE ACTIVITIES

The Office is responsible for developing and delivering professional and administrative services to the Minister for Education and Training, the Board of Studies and its committees. This includes developing and supporting New South Wales curriculum, registering and accrediting non-government schools, registering home schooling, and assessing and examining students for the New South Wales School Certificate and Higher School Certificate (HSC). The Office carries out functions delegated to it by the Board of Studies, including employing staff to run the HSC. The Office bears the cost of carrying out those functions and does not charge the Board for those services.

The Office also includes the Australian Music Examinations Board (NSW) and the Aboriginal Education Consultative Group. The Office is a department under the *Public Sector Employment and Management Act 2002*.

For further information on the Office of the Board of Studies, refer to www.boardofstudies.nsw.edu.au.

Minister for Gaming and Racing

Refer to Appendix 1 for:

Casino, Liquor and Gaming Control Authority

Responsible Gambling Fund

Minister for Lands

Wentworth Park Sporting Complex Trust

Wentworth Park Sporting Complex Trust

AUDIT OPINION

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

KEY ISSUES

Unresolved Loan Repayment - Repeat Issue

I have previously recommended that the Trust endeavour to reach agreement with Greyhound Racing NSW regarding the treatment of monies provided in 1985-87 by the former Racecourse Development Fund.

The Trust records a loan of \$6.5 million payable to Greyhound Racing NSW. The money was provided in the period 1985-87 by the former Racecourse Development Fund (the Fund) to finalise construction of the main grandstand. At that time, grant status was not attached to the loan. The loan was transferred to Greyhound Racing NSW following privatisation of the TAB and winding up of the Fund.

The Trust's Board advised that it does not have the capacity to repay the loan and believes that, in respect of the original arrangements, there is no obligation for repayment. The Trust and Greyhound Racing NSW have met during the course of the year to discuss the status of the loan. To date there has been no consensus as to its status and the Trust has referred the matter to the Land and Property Management Authority.

FINANCIAL INFORMATION

Year ended 30 June	2010 \$'000	2009 \$'000
Revenue	1,598	674
Expenses	2,398	2,853
Deficit	800	2,179
Net assets (at 30 June)	39,018	39,468

The increase in revenue in 2009-10 was largely due to assets with a value of \$879,000 being received free of charge. The assets mostly comprised land used for parking during race meetings that was previously under the control of the Council of the City of Sydney.

The Trust earns revenue through office rental, licence fees and interest income. Office rental is limited to level two of the Sporting Complex, due to the exclusive access rights of the Greyhound Breeders, Owners and Trainers Association (GBOTA) under their licence agreement. The Trust also receives licence revenue from telecommunication providers who use the Grandstand roof for their networks.

A summary of the major revenue streams is provided in the following table:

Year ended 30 June	2010 \$'000	2009 \$'000
Rental revenue	442	403
Licence revenue from racing associations	143	141
Licence revenue from telecommunications providers	103	97
Interest income	12	12

Expenditure decreased by \$455,000 in 2009-10 compared to the previous year due to one-off expenses being incurred in 2008-09, including a \$332,000 decrement on the revaluation of Trust buildings, increases in repairs and maintenance costs of \$199,000, and \$66,000 in demolition costs.

Despite the Trust's positive net cash flows, the continuing deficit is due to depreciation of the grandstand, which totalled \$1.8 million (\$1.7 million). The conditions under the licence agreement with the GBOTA, while only attracting a small portion of the Trust's income, secure funding for major capital works and maintenance of the sporting complex infrastructure.

TRUST ACTIVITIES

The Trust is established under the *Crown Lands Act 1989*. Its main function is the care, control and management of the Reserve (Wentworth Park Sporting Complex). It is under the control of the Minister for Lands.

The Trust is empowered to grant leases, subject to Ministerial approval, and licences for the use of the Wentworth Park Sporting Complex for prescribed purposes.

For further information on the Trust refer to www.wentworthparksport.com.au.

Minister for Planning

Sydney Olympic Park Authority

Sydney Olympic Park Authority

AUDIT OPINION

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

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

OTHER INFORMATION

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

Human Resources

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

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

A summary of the results of my review follows.

Employment of Contractors

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

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

Year end 30 June 2010	Number of contract employees
Duration since contract start date	
2-5 years	3
1-2 years	1
Less than 1 year	43
Total	48

Source: the Authority (unaudited).

Total payments to contractors in 2009-10 amounted to \$560,000. The retention of contract employees for extended periods may result in additional costs to the Authority. The Authority has advised it uses contractors where it is appropriate and cost effective to do so. It maintains and monitors a register of contractors.

Annual Leave Balances

The number of employees with annual leave balances in excess of 40 days has increased slightly from 21 employees as at 30 June 2009 to 22 employees at 30 June 2010. This represents 11.3 per cent of total permanent employees at 30 June 2010. The annual leave liability as at 30 June 2010 was \$1.5 million (\$1.3 million at 30 June 2009).

Overtime

Overtime payments in 2009-10 amounted to \$410,000 (\$320,000) or 2.3 per cent (2.1 per cent) of base salary expense for the year. Four employees were paid overtime of between 20.0 per cent and 40.0 per cent of their base salary. These levels of overtime indicate the Authority is managing overtime effectively.

Master Plan 2030

The Authority has adopted Master Plan 2030. The Master Plan is aimed at providing a comprehensive blueprint for the sustainable development of the Park over the next 20 years. The Authority anticipates construction of new high-grade commercial office space, medium to high density housing, education campus facilities and retail outlets will support an expected daily population of up to 50,000 people by 2030.

Major Projects at the Park

Stage 1 of the \$190 million residential development is underway. Contracts have been exchanged on 80.0 per cent of stage 1 units. The project will be completed in three stages, with stage 1 scheduled for occupancy in early 2012.

Other developments planned or underway include:

- \$90 million office and retail development
- \$60 million commercial development
- \$20 million serviced apartment complex.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	400	19,824	--	--
Personnel services	22,836	565	22,836	19,755
Operating expenses	48,689	53,014	48,550	52,367
Depreciation and amortisation	50,124	50,706	50,124	50,706
Grants and subsidies	469	800	1,189	1,520
TOTAL EXPENSES	122,518	124,909	122,699	124,348
TOTAL REVENUE	53,804	44,762	53,944	45,464
Loss on sale of non-current assets	(20)	(129)	(20)	(129)
Other gains	23,146	21,946	23,146	21,946
NET COST OF SERVICES	45,588	58,330	45,629	57,067
Government contributions	39,160	34,914	39,160	34,106
DEFICIT	6,428	23,416	6,469	22,961
OTHER COMPREHENSIVE INCOME				
Revaluation of property plant and equipment	7,691	79,346	7,691	79,346
TOTAL OTHER COMPREHENSIVE INCOME	7,691	79,346	7,691	79,346
TOTAL COMPREHENSIVE INCOME	1,263	55,930	1,222	56,385

Staff are now employed by Communities NSW due to the abolishment of the Authority's employment divisions under the 'Public Sector Employment and Management (Departmental Amalgamations) Order 2009'. The overall increase in employee related/personnel services expense is due largely to the administrative restructure of the former State Sports Centre Trust operations, which were incorporated into the Authority from 31 November 2009.

Total revenue increased mainly due to the receipt of the stage 1 instalment of \$5.6 million for the sale of site 3 residential development. The remaining increase is due to a rise in revenue from estate levies, car parking fees and revenue from the Aquatic and Athletic Centres and State Sports Centre.

Other gains primarily represent the emerging value of the right to receive assets over the concession period.

The increase in Government contributions is mainly due to lower asset sales transferred to the Crown Entity.

The decrease in other comprehensive income was due to the revaluation of infrastructure in the prior year.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	61,649	52,112	60,063	50,522
Non-current assets	1,769,809	1,768,636	1,769,809	1,768,636
TOTAL ASSETS	1,831,458	1,820,748	1,829,872	1,819,158
Current liabilities	12,156	15,621	12,150	15,569
Non-current Liabilities	55,994	55,345	55,994	55,345
TOTAL LIABILITIES	68,150	70,966	68,144	70,914
NET ASSETS	1,763,308	1,749,782	1,761,728	1,748,244

The rise in current assets includes an increase in receivables of \$7.9 million and cash and cash equivalents of \$1.6 million.

The decrease in current liabilities was largely as a result of settling the liability for rectification works at the Sydney Showground.

AUTHORITY'S ACTIVITIES

The Authority was established in July 2001 by the *Sydney Olympic Park Authority Act 2001*, as a statutory body. It assumed certain assets and rights of the Olympic Coordination Authority, Bicentennial Park Trust and the State Sports Centre.

Under the Act, the Authority:

- promotes, coordinates and manages the orderly and economic development and use of Sydney Olympic Park, including the provision and management of infrastructure
- conducts cultural, sporting, educational, commercial, tourist, recreational, entertainment, and transport activities and facilities
- protects and enhances the natural and cultural heritage of Sydney Olympic Park, including the Millennium Parklands
- provides, operates, and maintains public transport facilities within Sydney Olympic Park
- liaises with and maintains arrangements with Olympic organisations, such as the International Olympic Committee and the Australian Olympic Committee Incorporated.

For further information on the Authority, refer to www.sydneypark.com.au.

CONTROLLED ENTITIES

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.

For further financial and other information on the entity we have listed the entity's website.

Entity Name	Website
Parklands Foundation Limited	*

* This entity does not have a website.

On 10 September 2009, the Authority as the sole member of Parklands Foundation Limited, resolved to wind down the Foundation. Any existing programs will be consolidated into the Authority.

Minister for Sport and Recreation

Centennial Parklands Foundation

Centennial Park Trust

Sydney Cricket and Sports Ground Trust

Illawarra Venues Authority

Refer to Appendix 1 for:

Combat Sports Authority of NSW

*Hunter Region Sporting Venues Authority (2009)

*Hunter Region Sporting Venues Authority (2010)

New South Wales Institute of Sport

Parramatta Park Trust

State Sports Centre Trust

Sydney 2009 World Masters Games Organising Committee

*The audit was incomplete at the time of compiling this Volume

The comment will be included in a later Volume

Centennial Parklands Foundation

AUDIT OPINION

The audit of the Foundation's financial statements for the year ended 30 June 2010 resulted in a qualified Independent Auditor's Report.

It is impractical for the Foundation to maintain an effective system of internal control over donations it receives until their initial entry into the financial records. Accordingly, I was unable to express an opinion as to whether all donation revenues received by the Foundation were recorded. Last year's Independent Auditor's Report was similarly qualified.

OTHER INFORMATION

Establishment of Centennial Parklands Foundation Limited

I recommend the Foundation determine whether it controls Centennial Parklands Foundation Limited for financial reporting purposes.

During the year, the Foundation established a company limited by guarantee, Centennial Parklands Foundation Limited. The company was registered on 30 March 2010, but was not consolidated into the Foundation's financial statements for the year ended 30 June 2010. Due to the governance structure of the new company, the Foundation was uncertain whether it controlled the company for financial reporting purposes. I concluded the non-consolidation of the company's transactions and balances did not have had a material impact on the Foundation's financial statements for the year ended 30 June 2010. The Foundation needs to determine whether the company is controlled for financial reporting purposes.

FINANCIAL INFORMATION

Year ended 30 June	2010 \$'000	2009 \$'000
Revenue	980	1,026
Expenses	817	801
Surplus	163	225
Net assets (at 30 June)	859	696

Revenue in 2009-10 included grants and donations of \$409,000 (\$378,000 in 2008-09) and goods and services received free of charge from the Centennial Park and Moore Park Trust of \$178,000 (\$197,000).

Expenses included grants and donations to the Centennial Park and Moore Park Trust of \$486,000 (\$390,000). This amount included: \$180,000 towards the Centennial Parklands tree replacement program with 198 young trees planted in 2009-10; and \$160,000 towards the establishment of the Centennial Parklands Education Precinct, which was formally launched on 30 September 2009.

The Foundation successfully raised \$88,000 from the Evergreen fund raising dinner held on 29 October 2009. The money will be used to plant a new circle of semi-mature trees to replace aging trees inside Centennial Park's 3.6 km Grand Drive. In 2009-10, the first stage of planting was completed, comprising 15 semi-mature trees.

At 30 June 2010, the Foundation had 344 members (393).

FOUNDATION ACTIVITIES

The Foundation was established as an independent charitable organisation by the Centennial Park and Moore Park Trust under the 'Centennial Parklands Foundation Deed' in July 1998. It is subject to the control and direction of the Minister for Sport and Recreation. Its principal objectives are to:

- preserve the natural environmental value of Centennial Parklands
- encourage and promote enjoyment of recreation and activity within natural surroundings
- recognise and appreciate the natural and historical significance of Centennial Parklands
- enhance and promote all other aspects of the environmental benefits provided by Centennial Parklands to be enjoyed by all members of the public, and
- provide information, education and research about the natural environment.

For further information on the Foundation, refer to www.yourparklands.org.au.

Centennial Park Trust

AUDIT OPINION

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

PERFORMANCE INFORMATION

Park Visits

The table below shows visits have increased steadily over the past five years.

The net cost to government per visit has decreased over the last four years, indicating the Trust has been able to generate revenues, control costs and reduce reliance on government funding over this period. The Trust continues to focus on enhancing existing revenue streams through its marketing and business development strategies.

Year ended 30 June	2010	2009	2008	2007	2006
Annual number and costs per visit					
Annual number of visits ('000s)	6,146	5,967	5,790	5,620	5,460
Cost per visit including depreciation (\$)	4.06	4.40	4.21	4.10	3.90
Cost per visit – maintenance (\$)	0.49	0.57	0.53	0.56	0.47
Net cost to government per visit – recurrent funding (\$)	0.27	0.30	0.32	0.39	0.50

Source: Centennial Park and Moore Park Trust Annual Report (unaudited).

OTHER INFORMATION

Following an administrative restructure, effective from 1 July 2009, the Trust now receives some corporate services support from Communities NSW. The Trust continues to operate under its enabling legislation.

The main achievements in 2009-2010 were:

- delivering 20 capital works projects valued at \$3.8 million across the Parklands
- securing additional funding of \$2.1 million from the New South Wales Government for the Trust's Capital Investment Program (CIP) 2010-2011. Total funding expected for the four years 2009-13 has now increased from \$17.2 million to \$19.3 million
- launching the new Education Precinct, which includes a discovery garden and community plant nursery
- obtaining a contribution, through the Centennial Parklands Foundation, of \$350,000 towards environmental and education projects.

FINANCIAL INFORMATION**Abridged Statement of Comprehensive Income**

Year ended 30 June	2010 \$'000	2009 \$'000
Sale of goods and services	9,116	9,177
Investment revenue	9,151	8,614
Grants	5,154	7,388
Other revenue	973	1,594
TOTAL REVENUE	24,394	26,773
Personnel services	5,554	5,659
Other expenses	19,389	20,589
TOTAL EXPENSES	24,943	26,248
(DEFICIT)/SURPLUS	(549)	525
OTHER COMPREHENSIVE INCOME		
Gain on revaluation of property, plant and equipment	37,978	7,819
TOTAL OTHER COMPREHENSIVE INCOME	37,978	7,819
TOTAL COMPREHENSIVE INCOME	37,429	8,344

The Trust's revenue decreased by \$2.4 million compared to the previous year. This was largely attributable to a decrease of \$1.6 million in government grants and a decrease of \$766,000 in contributed assets, which were recorded as 'Other revenue' in 2008-09.

Total expenses decreased by \$1.3 million due to reductions of \$508,000 in depreciation expenses and \$354,000 in maintenance expenses, primarily reflecting a lower incidence of damage to assets.

At 30 June 2010, the Trust revalued land, buildings and infrastructure (including trees) resulting in a gain in value of \$38.0 million.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	11,239	10,695
Non-current assets	777,015	740,651
TOTAL ASSETS	788,254	751,346
Current liabilities	4,926	4,736
Non-current liabilities	5,395	6,106
TOTAL LIABILITIES	10,321	10,842
NET ASSETS	777,933	740,504

Non-current assets increased by \$36.4 million primarily due to the revaluation of land, building and infrastructure assets.

TRUST ACTIVITIES

The Trust is constituted under the *Centennial Park and Moore Park Trust Act 1983*. It is subject to the control and direction of the Minister for Sport and Recreation. Its principal objectives are to:

- maintain and improve Trust lands
- encourage the use and enjoyment of Trust lands by promoting and increasing the recreational, historical, scientific, educational, cultural and environmental value of those lands
- maintain the right of the public to the use of Trust lands
- ensure the protection of the environment within Trust lands.

For further information on the Trust, refer to www.cp.nsw.gov.au.

Sydney Cricket and Sports Ground Trust

AUDIT OPINION

The audits of the Trust and its controlled entity's financial statements for the year ended 28 February 2010 resulted in unqualified Independent Auditor's Reports.

OTHER INFORMATION

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

Human Resources

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

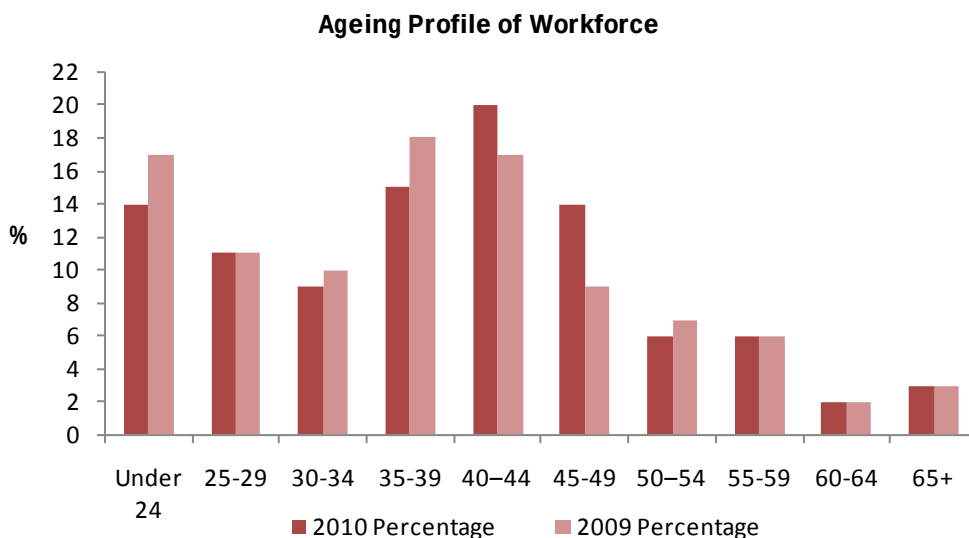
- employee age profile
- trend in long service leave liabilities
- extent of overtime.

A summary of the results of my review follows.

Workforce Ageing

Eleven per cent of the Trust's employees (10.0 per cent in 2008-09) are over 55 years of age and 17.0 (17.0) per cent over 50. Based on the age profile of its employees the Trust does not appear to have a significant risk from an ageing workforce.

The age profile of the Trust's employees is shown below:



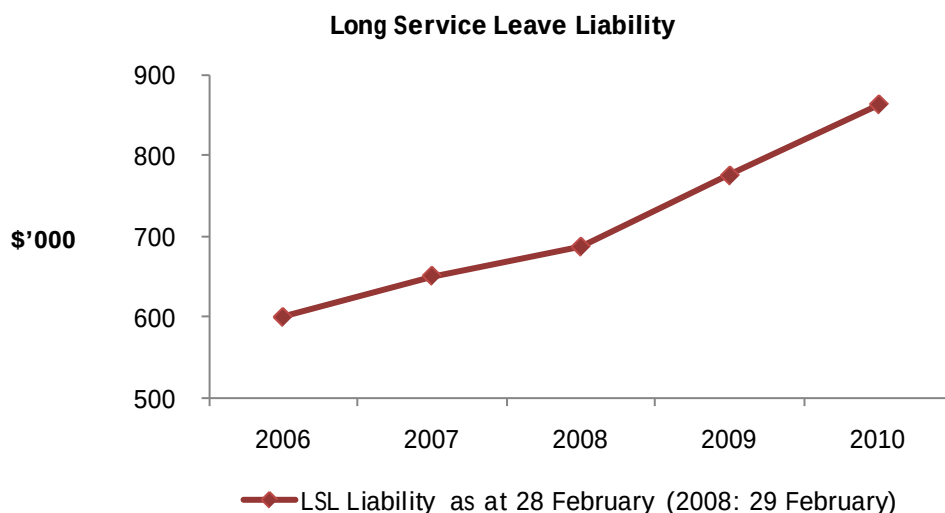
At 28 February	2010		2009	
	No. of Employees*	%	No. of Employees*	%
Age Group				
Up to 34	34	34.0	41	38.7
35-39	15	15.0	19	17.9
40-44	20	20.0	18	17.0
45-49	14	14.0	10	9.4
50-54	6	6.0	7	6.6
55-59	6	6.0	6	5.7
60-64	2	2.0	2	1.9
65+	3	3.0	3	2.8
Total	100	100	106	100

Source: Information provided by the Trust (unaudited)

* Number of employees based on full time equivalents

Long Service Leave Liability

The Trust's liability for long service leave entitlements at 28 February 2010 amounted to \$863,000 (\$775,000). This liability has increased by 43.8 per cent over the last five years.



The Trust will need to ensure it has an adequate plan to fund this liability in the future, because long service leave liabilities continue to increase over time with increases in employee remuneration.

Overtime

Overtime payments in 2009-10 were \$215,000 (\$275,000), 3.2 per cent (4.1 per cent) of base salary expenses for the year. Thirty per cent (38.9 per cent) of employees received a payment for working overtime, receiving on average, \$5,800 (\$4,750) each in overtime payments.

FINANCIAL INFORMATION**Abridged Statements of Comprehensive Income**

Year ended 28 February	2010 \$'000	2009 \$'000
Government grants	-	25,000
Membership	15,795	16,866
Hire fees	17,885	7,346
Catering	12,269	13,525
Other revenue	25,003	24,069
TOTAL REVENUE	70,952	86,806
Operating costs	40,661	34,657
Employee related expenses	13,001	13,471
Other expenditure	13,896	11,584
TOTAL EXPENDITURE	67,558	59,712
Gain/(Loss) on disposal of non-current assets	2	(166)
SURPLUS	3,396	26,928
OTHER COMPREHENSIVE INCOME		
Net increase in asset revaluation reserve	14,439	--
Superannuation actuarial gains/(losses)	209	(713)
TOTAL COMPREHENSIVE INCOME/(EXPENSES)	14,648	(713)
TOTAL COMPREHENSIVE INCOME	18,044	26,215

The Trust received an Australian Government grant of \$25.0 million for the Victor Trumper Stand project in 2008-09. This project was completed in the previous year and no further government grants were received.

Hire fees and operating costs increased by \$10.5 million and \$6.0 million respectively, largely due to the Trust staging and promoting the Edinburgh Military Tattoo. Other events contributing to the increase included three concerts, four West Tigers home games and one soccer international.

Abridged Statements of Financial Position

At 28 February	2010 \$'000	2009 \$'000
Current assets	21,298	12,845
Non-current assets	568,091	559,236
TOTAL ASSETS	589,389	572,081
Current liabilities	39,103	33,144
Non-current liabilities	35,160	41,855
TOTAL LIABILITIES	74,263	74,999
NET ASSETS	515,126	497,082

The Trust revalued its land and buildings this year based on an independent assessment. This resulted in a \$14.4 million increase in the value of non-current assets. The previous revaluation was performed in 2006-07.

Current assets increased by \$8.5 million in 2009-10 largely due to a \$9.6 million increase in cash and cash equivalents. Cash and cash equivalents increased due to receipts from major events held in February 2010. Current liabilities increased by \$6.0 million as expenses associated with these events were paid in the next financial year in line with creditor trade terms.

Non-current liabilities decreased by \$6.7 million primarily due to a \$5.9 million repayment of borrowings during 2009-10.

TRUST ACTIVITIES

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

The Trust consists of 15 members, 13 appointed by the Governor and two elected by members. Each Trustee is appointed for a term of up to four years.

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	Website
Sydney Cricket and Sports Ground Trust Division	*

* This entity does not have a website

Illawarra Venues Authority

AUDIT OPINION

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

KEY ISSUES

Dissolution of Wollongong Sportsground Trust

The *Sporting Venues Authorities Act 2008* dissolved the Wollongong Sportsground Trust (the Trust) on 30 November 2009 and established the Illawarra Venues Authority (the Authority). The change did not impact operations. The Board members of the former Trust were immediately appointed as Board members of the Authority and there were no changes to business plans, budgets, staffing, functions, objectives or rights. The Trust's liabilities and assets were transferred to the Authority on 30 November 2009.

As the Authority only came into existence on 30 November 2009, it was required to prepare financial statements for the period from that date to 30 June 2010, a seven month period. Trust operations for the period 1 July 2009 to 30 November 2009 were included in the notes to the Authority's financial statements.

New Grandstand

The Authority's goal is to become financially self sufficient and provide effectively for the maintenance and replenishment of its key assets, the WIN Entertainment Centre and WIN Stadium.

On 16 October 2009, the New South Wales Government announced it would provide \$28.9 million for the replacement of the Western Grandstand. This will allow WIN Stadium to meet national and international standards, and remain competitive in attracting significant future sporting events. Work on the new grandstand commenced in 2010 and is expected to be completed in 2012.

PERFORMANCE INFORMATION

The Authority provided the following information regarding its performance.

WIN Entertainment Centre

Year ended 30 June	2010	2009	2008
Number of events	52	55	61
Event days	54	68	85
Attendance	143,800	128,712	158,555
Average attendance per event day	2,663	1,893	1,865

Average attendance at the WIN Entertainment Centre increased by 40 per cent in 2009-10 due to a number of major music events including two concerts by PINK, and concerts by Lady GaGa, Keith Urban, Tom Jones and John Mayer.

WIN Stadium

Year ended 30 June	2010	2009	2008
Number of events	35	28	29
Event days	35	30	29
Attendance	128,294	128,974	127,082
Average attendance per event day	3,666	4,299	4,382

While the number of events increased in 2009-10, the average attendance at WIN Stadium fell by 14.7 per cent. This reflects an increase in the number of small events. Average attendance at St George Illawarra Dragons home games increased from 11,172 to 12,604 per game.

FINANCIAL INFORMATION

	IVA	WSGT
	Period 30/11/2009 to 30/6/2010 \$'000	Period 1/7/2009 to 30/11/2009 \$'000
Revenue	3,823	1,357
Personnel services expense	946	678
Other expenses	1,547	1,079
Profit / (Loss)	1,330	(400)
Net assets (at 30 June/November)	59,581	56,261

Revenues in the first half of 2010 were bolstered by the fact that six of the seven Dragon's games were held in this period to allow construction of the new Western Grandstand to begin later in the year.

Net assets increased primarily as a result of a revaluation of land and buildings, comprising both the Stadium and the Entertainment Centre, by \$2.0 million.

AUTHORITY ACTIVITIES

The Authority is constituted by the *Sporting Venues Authorities Act 2008*. The Authority's major objectives are to:

- maintain and improve the Authority's land
- establish and manage sporting grounds, sporting facilities and recreational facilities (whether or not on the Authority's land)
- establish and manage facilities for the purposes of sporting competitions, sports training and sports education (whether or not on the Authority's land)
- permit the use of the whole or any part of the Authority's land for activities of a sporting, recreational or community nature, including the use of that land for events and general community access
- encourage the use and enjoyment of the Authority's land by the public and clubs, associations or other bodies, where appropriate
- undertake, provide or facilitate the undertaking or provision of, commercial and retail activities and facilities on the Authority's land
- make all reasonable attempts to ensure that any new development carried out on the Authority's land accords with best practice environmental and planning standards.

The Authority is subject to the control and direction of the Minister for Sport and Recreation. For further information on the Authority refer to www.wec.org.au.

Minister for Western Sydney

Western Sydney Parklands Trust

Western Sydney Parklands Trust

AUDIT OPINION

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

OTHER INFORMATION

I identified opportunities to improve the accounting and internal control procedures and reported them to management.

FINANCIAL INFORMATION

The following information relates to the Trust's finances.

Period ended 30 June	2010 \$'000	2009 \$'000
Revenue	13,324	11,937
Expenditure	11,409	4,151
Surplus	1,915	7,786
Net assets (at 30 June)	498,287	422,957

Expenses increased largely due to a grant of \$3.0 million to Blacktown City Council for improvements to the Nurragingy Reserve and a decrease of \$4.0 million in the valuation of land subject to a long term lease to Blacktown City Council.

At 30 June 2009, the park was valued at \$492 million (\$418 million in 2008). The increase in values is largely due to a revaluation increment of \$51.5 million and a transfer of properties from the Corporation Sole 'Minister Administering The *Environmental Planning And Assessment Act, 1979*' with a value of \$20.1 million.

TRUST ACTIVITIES

The Trust, established by the *Western Sydney Parklands Act 2006*, is subject to the control and direction of the Minister. Its principal function is to develop the parklands, stretching 27 kilometres from Mount Druitt to Hoxton Park, into multiuse urban parkland for the region of Western Sydney. Also, the Trust is to conserve, restore and enhance the natural environment and cultural and historical heritage of the parklands.

For further information on the Trust, refer to www.westernsydneyparklands.com.au.

Minister for Youth

Refer to Appendix 1 for:

NSW Commission For Children and Young People

Premier

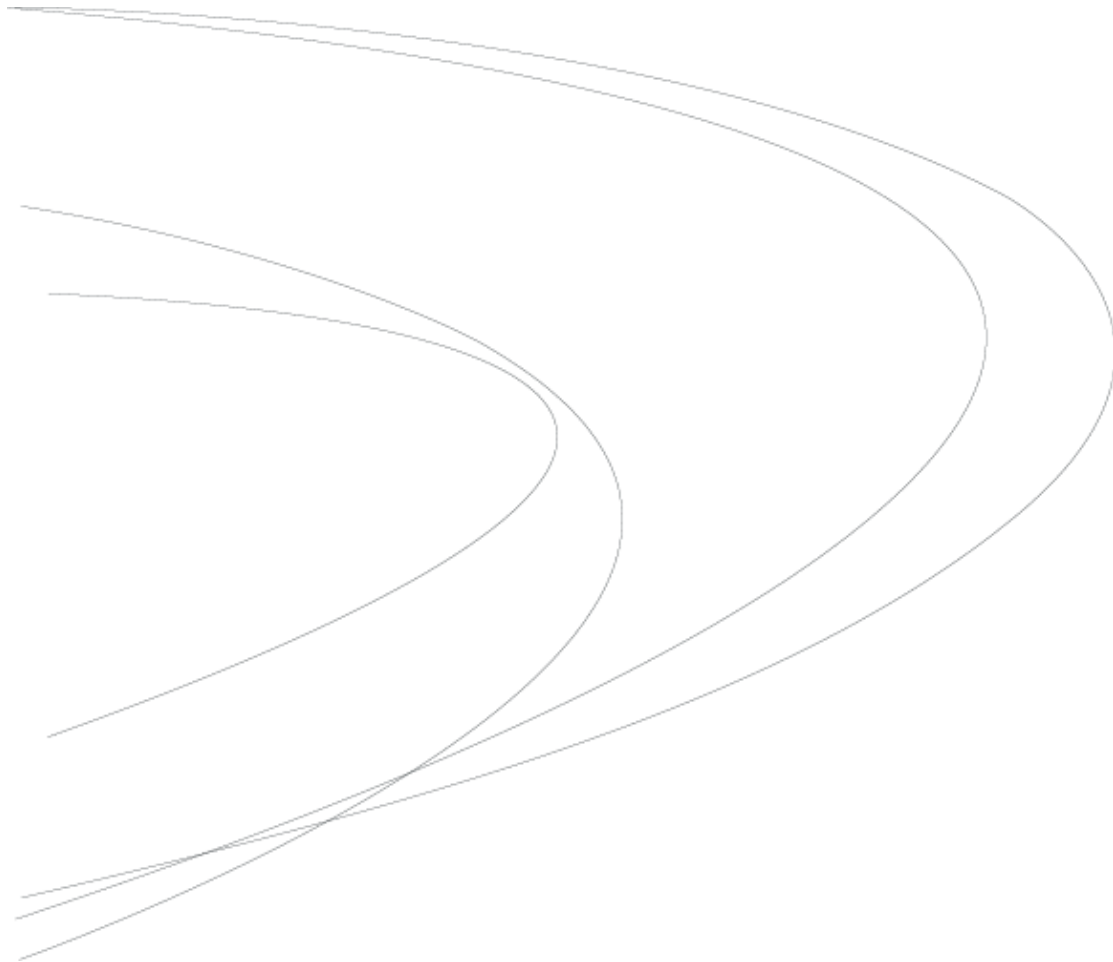
Refer to Appendix 1 for:

Cowra Japanese Garden Maintenance Foundation Limited

Cowra Japanese Garden Trust

Appendix

Appendix 1 Agencies not reported elsewhere in this Volume



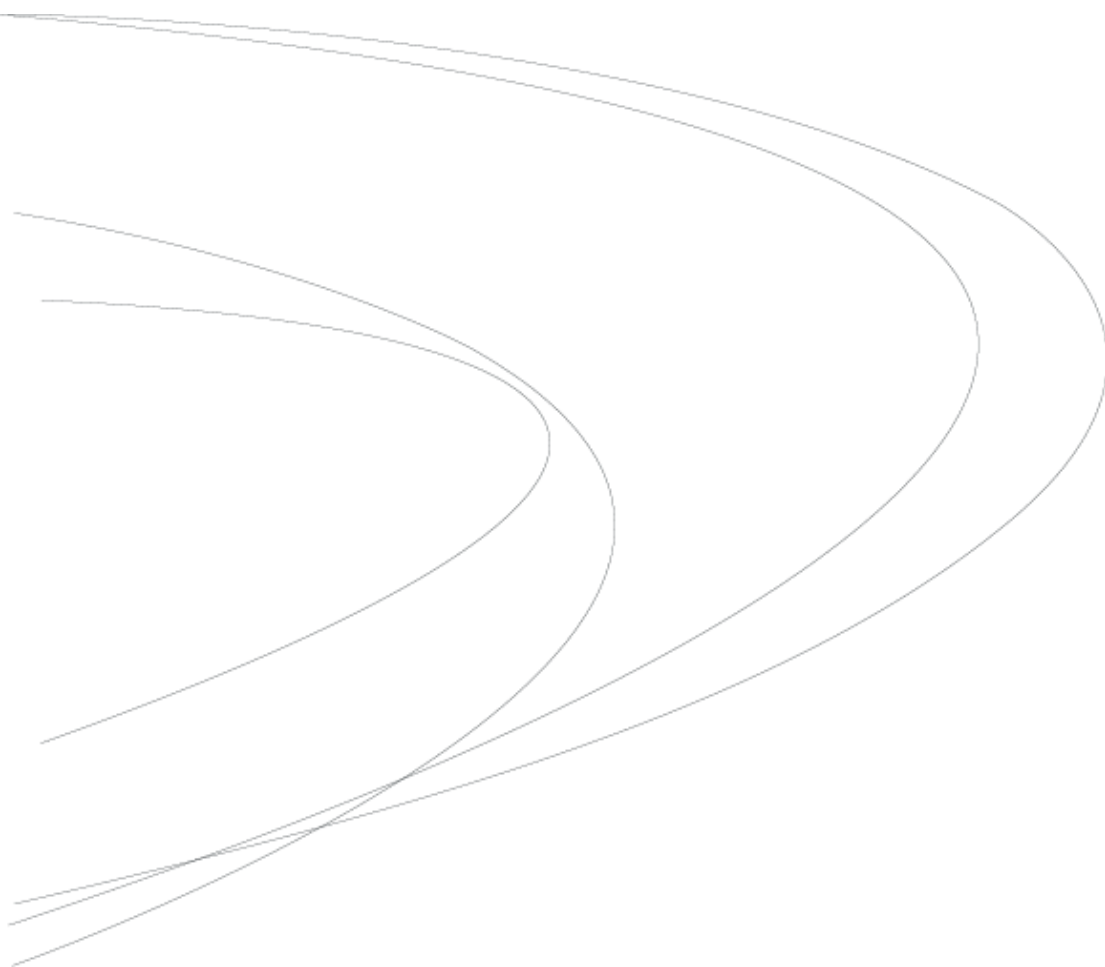
Appendix 1 - Agencies not reported elsewhere in this Volume

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

Entity Name	Website	Period/Year Ended
Art Gallery of New South Wales Foundation	www.artgallery.nsw.gov.au/support-us/join-the-gallery-foundation	30 June 2010
Casino, Liquor and Gaming Control Authority	www.clgca.nsw.gov.au	30 June 2010
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* This entity does not have a website

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

Peter Achterstraat
Auditor-General

Sydney
December 2010

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Significant Items

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Significant internal control weaknesses exist at Health Support Services' service centres. Health Support Services and Area Health Services cannot agree on who is responsible for some controls.	23
Since 2007, I have reported concerns over the use of fully depreciated items of plant and equipment. Addressing the concerns has been complex and slow.	23
The time taken to pay creditors has improved, but needs to be improved further. Total creditors fell to \$406 million at 30 June 2010 from \$447 million at 30 June 2009.	24
Difficulties were again experienced in obtaining timely data to analyse the extent contractors are used, indicating shortcomings in management controls over their use.	26
36,434 employees are aged 50 years or older increasing the risk of a significant loss of knowledge and skills over the next 5 to 10 years as these employees retire.	31
Managing excess annual leave balances remains a challenge with 23,833 employees (or 25.5 per cent of all staff) holding more than 40 days in annual leave entitlements.	32
Employee long service leave liabilities were \$1,668 million at 30 June 2010, an increase of 47.7 per cent over the last five years. The Department expects to transfer these liabilities to the Crown Entity with effect from 31 December 2010.	33
All Area Health Services met the emergency department benchmark of 100 per cent for treating immediately life threatening situations. Three did not meet it for imminently life threatening situations, and seven did not meet it for potentially life threatening situations.	35-37
Metropolitan Area Health Services typically record lower emergency admission performance than rural services. Sydney West recorded the lowest performance at 66 per cent, while Hunter New England recorded the highest at 83 per cent.	39
There was a significant increase in the median waiting time for Category Three elective surgery patients, increasing from 134 to 205 days in the April to June quarters of 2009 and 2010 respectively.	40
The median waiting time for Category Two patients improved slightly from 51 to 49 days, while Category One patients waited an average of 11 days compared to 10 days.	40
Patients on the surgical waiting list increased to 66,817 at 30 June 2010 from 64,512 at 30 June 2009.	41
WorkCover Authority of New South Wales	
The Authority's 'Be Aware, Take Care' advertising campaign was approved by the Treasurer instead of the Chief Executive Officer, had no cost benefit analysis of the advertising budget and failed to substantiate some statements in the advertisements.	49

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Worker's Compensation (Dust Diseases) Board	
Investment income was \$52.8 million compared with a loss of \$59.3 million in the prior year.	59
Liabilities for compensation claims were \$1.6 billion at 30 June 2010.	60
Workers Compensation Nominal Insurer	
The Scheme's net asset deficiency, incurred during the global financial crisis, increased by a further \$101 million to \$1.6 billion at 30 June 2010.	61
By 30 June 2018, the Scheme is expected to be fully funded without an increase in premium rates or reduced compensation benefits.	61
Greater Southern Area Health Service	
The Victorian Government now manages the provision of acute services at Albury Base Hospital.	73
Sydney West Area Health Service	
An independent audit of waiting lists found the Service had not effectively managed its waiting lists, and noted weaknesses in people, processes and systems.	140
The Service incorrectly used \$12.8 million of the Westmead Millennium Institute's funds for general operating purposes, which it has had to repay with borrowings from the Department of Health.	142
Health Care Complaints Commission	
The Commission received 3,515 complaints compared to 3,360 in 2008-09 continuing the upward trend of the last three years. Complaints have increased by 29.1 per cent since 2006-07.	169
Complaints about public hospitals fell to 614 from 620 in 2008-09. Overall there has been a 20.9 per cent increase in complaints since 2006-07.	170
Port Kembla Port Corporation	
Total trade tonnes through the port increased by 17.6 per cent mainly due to the improving economic climate and strong demand for coal from China and India.	201

Recommendations

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Health Overview	
I recommend:	
▪ the Department of Health ensures it meets the set timeframes for implementation of the Garling Inquiry recommendations.	19
▪ Health Support Services agree the respective responsibilities for implementing effective standardised internal controls with its customers and the Department. Control deficiencies have increased the risk that irregularities are not prevented or detected. The standardised internal controls should be implemented at Health Support Services and its customers as soon as practicable.	22
I recommend the Department:	
▪ finalise its review of the continued use of fully depreciated plant and equipment. Actions emanating from the completed review should be implemented in a timely manner.	23
▪ again ensures Area Health Services pay creditors within agreed payment terms. Area Health Services (AHS) need to improve cash flow management, ensure purchases are supported by authorised orders, and follow up disputed invoices in a timely manner.	24
▪ develop a system to monitor the number of contractors who provide personal or professional services and the length of time they have done so. The review should identify contractors whose services are no longer required. Internal controls over the use of contractors need to be strengthened. A similar exercise should be performed at AHS for non-medical contractors.	26
▪ finalise the implementation of recommendations from the NSW Health Independent Financial Management Review of its budget setting and monitoring processes.	27
▪ ensure AHS policies agree with all requirements of the Treasurer's Directions.	27
▪ in conjunction with the AHS, finalise the review of all special purpose and trust funds to confirm the nature and intended purpose of each fund. Where appropriate, approvals should be sought to move funds into the Public Contributions Trust Fund account, to assist in the delivery of health services.	27
▪ reinforce compliance with its policies and procedures for plant and equipment stock takes, to ensure all AHS perform effective stock takes each year. Accountability for non-compliance with the Department's policies should be made clearer to senior AHS officers.	28
▪ establish and monitor appropriate targets for ensuring asset maintenance levels are adequate. This should be done in conjunction with the reviews being performed on fully depreciated plant and equipment referred to earlier.	29
▪ develop and implement effective policies to address and manage its ageing workforce.	31
I recommend:	
▪ each health entity review the effectiveness of its policies for managing excessive annual leave balances.	32

WorkCover Authority of New South Wales

I recommend the entities within the WorkCover Group:

- create and maintain a single record of all contractors engaged by them. 54

should also periodically review the roles and responsibilities of all their contractors to ensure:

- reliance on contractors is not excessive
- use of contractors instead of permanent employees is appropriate
- contractors do not become de facto employees by virtue of being with an entity for an extended period of time
- use of contractors continues to represent value for money. 54

Department of Health

I recommend:

- the Department, in conjunction with Area Health Services, confirm all intra health agency balances regularly during the year, and in particular at year end to ensure eliminations are accurate. 67

Greater Southern Area Health Service

I recommend the Service:

- ensures all purchases are supported by authorised orders, creditors are paid within agreed payment terms, and it follows up disputed invoices in a timely manner. 73
- again improve its budget monitoring processes to ensure any potential budget overruns are addressed in a timely manner. 74
- again liaise with the Department of Health to ensure it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment. 75
- review the effectiveness of its policies for managing its ageing workforce. 77
- continue its efforts in managing excessive leave balances and continuously reassess the effectiveness of its policies. 79

Greater Western Area Health Service

I recommend the Service:

- again pays its creditors within agreed payment terms and follows up disputed invoices in a timely manner. 83
- again improve its budget monitoring processes to ensure any potential budget overruns are addressed in a timely manner. 84
- again should continue to liaise with the Department of Health to ensure it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment. 84

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Greater Western Area Health Service (continued)	
I recommend the Service:	
▪ continues to strengthen its policies and procedures in relation to plant and equipment stock takes.	84
▪ continues reviewing all special purpose and trust funds to confirm each fund's intended purpose. Where appropriate, approvals should be sought to move funds into the general purpose account where they can then be used for health services.	85
▪ review the effectiveness of its policies for managing its ageing workforce.	86
▪ review the effectiveness of its policies for managing excess annual leave.	88
Hunter New England Area Health Service	
I recommend the Service:	
▪ again liaise with the Department of Health to ensure it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment.	93
▪ review the effectiveness of its policies for managing its ageing workforce.	94
▪ review the effectiveness of its policies for managing excess annual leave.	96
North Coast Area Health Service	
I recommend the Service:	
▪ ensures all purchases are supported by authorised orders, creditors are paid within agreed payment terms, and it follows up disputed invoices in a timely manner.	100
▪ again liaise with the Department of Health to ensure it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment.	101
▪ review the effectiveness of its policies for managing excessive leave balances.	105
Northern Sydney and Central Coast Area Health Service	
I recommend the Service:	
▪ again pays its creditors within agreed payment terms and follows up disputed invoices in a timely manner.	110
▪ continue to improve its budget monitoring processes to ensure any potential budget overruns are addressed in a timely manner.	111
▪ continue to liaise with the Department of Health to ensure it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment.	111
▪ continue to institute a process to locate the source documentation for a number of trust funds.	112

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Northern Sydney and Central Coast Area Health Service (continued)	
I recommend the Service:	
▪ strengthen its policies and procedures in relation to missing items identified from plant and equipment stock takes.	113
▪ review the effectiveness of its policies for managing its ageing workforce.	114
▪ review the effectiveness of its policies for managing excess annual leave.	115
South Eastern Sydney and Illawarra Area Health Service	
I recommend the Service:	
▪ again ensures all purchases are supported by authorised orders, creditors are paid within agreed payment terms, and disputed invoices are followed up in a timely manner.	119
▪ again improve its budget monitoring processes to ensure any potential budget overruns are addressed in a timely manner.	120
▪ again liaise with the Department to ensure it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment.	120
▪ again review all special purpose and trust funds to confirm each fund's intended purpose. Where appropriate, approvals should be sought to move funds into the public contributions trust fund account where they can then be used to assist in the delivery of health services.	121
▪ again strengthen its policies and procedures in relation to plant and equipment stock takes.	122
▪ review the effectiveness of its policies for managing its ageing workforce.	123
▪ review the effectiveness of its policies for managing excess annual leave.	124
Sydney South West Area Health Service	
I recommend the Service:	
▪ ensures all purchases are supported by authorised orders, creditors are paid within agreed payment terms, and disputed invoices are followed up in a timely manner.	129
▪ continue its review of all special purpose and trust funds to confirm their intended purpose. Where appropriate, approvals should be sought to move funds into the public contributions trust fund where they can then be used for health services.	130
▪ again liaise with the Department of Health to ensure it implements recommendations from a pilot review the Department is conducting into whole of life cycle management of medical equipment.	131
▪ further strengthen its policies and procedures in relation to plant and equipment management.	131
▪ review the effectiveness of its policies for managing excess annual leave.	134

	Page
Sydney South West Area Health Service (continued)	
I again recommend:	
▪ the ANZAC Health and Medical Research Foundation obtain approval for its loan.	139
Sydney West Area Health Service	
I recommend the Service:	
▪ again ensures all purchases are supported by authorised orders, creditors are paid within agreed payment terms, and disputed invoices are followed up in a timely manner.	140
▪ again should liaise with the Department of Health to ensure it implements recommendations from a pilot review the Department conducted into whole of lifecycle management of medical equipment.	141
▪ finalise its review of all special purpose and trust funds to confirm each fund's intended purpose. Where appropriate, approvals should be sought to move funds into the public contribution trust fund account where they can then be used to assist in the delivery of health services.	142
Health Administration Corporation	
I recommend:	
▪ Health Support Services (HSS), a division of the Corporation, agree with the Department of Health and its customers the respective responsibilities for implementing effective internal controls. In the absence of this, there is an elevated risk that irregularities may not be prevented or detected. Standardised internal controls should be implemented at HSS to prevent errors and irregularities from occurring.	159
▪ again HSS further develop its Key Performance Indicators (KPIs) for its service centres to ensure they include more qualitative indicators as well as quantitative indicators. It needs to measure these indicators against appropriate targets.	160
▪ again that HSS finalise the Service Partnership Agreements (SPAs) with its customers under its newly established framework as soon as possible.	161
▪ again that HSS implement a systematic process to confirm its intra health receivables with its customers at year end.	161
▪ the control deficiencies I have reported to the Corporation for the past two years, which have not been addressed, be actioned as a matter of priority.	161
▪ to ensure sufficient availability of experienced staff in the future, the Corporation actively monitor its workforce age profile and develop and implement appropriate strategies to attract and retain staff whose skills are aligned with the strategic direction of the Corporation.	164

Royal Alexandra Hospital for Children

I recommend the Network:

- again ensures all purchases are supported by authorised orders, creditors are paid within agreed payment terms, and it follows up disputed invoices in a timely manner. 179
- again should liaise with the Department to ensure it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment. 180
- complete its review of Governance arrangements over Special Purpose and Trust Funds. 181
- review its practices so that Special Purpose Trust Funds are not overdrawn at any point during the year. 181
- considers whether any lessons learnt from the implementation of the fundraising system can be applied to any future system implementations. 182

Newcastle Port Corporation

- I recommend the Corporation review the effectiveness of its policies for managing its ageing workforce. 197

Port Kembla Port Corporation

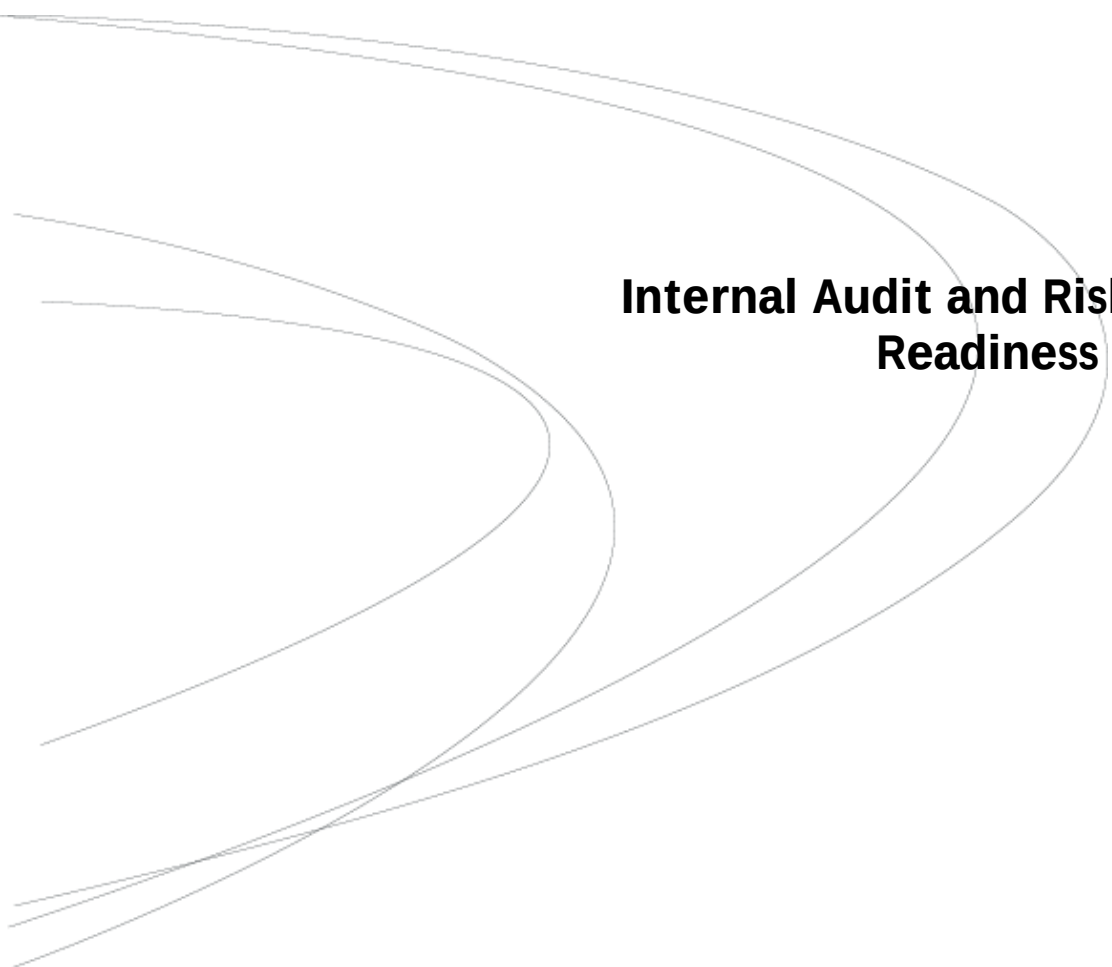
- I recommend the Corporation review the effectiveness of its policies for managing its ageing workforce. 203

Sydney Ports Corporation

I recommend the Corporation:

- identify appropriate cash generating units within its business. 206
- review the effectiveness of its policies in managing its ageing workforce. 208
- continues with its individual staff plans to reduce excessive annual leave balances within an acceptable timeframe. 210

Section One



Internal Audit and Risk Management Readiness Survey Report

Internal Audit and Risk Management Readiness Survey Report

The Treasury issued [TPP09-05](#), *Internal Audit and Risk Management Policy for the New South Wales Public Sector* in August 2009. Treasury Circular [TC09/08](#) implemented the Internal Audit and Risk Management Policy on 24 August 2009. It applies to years ending on or after 30 June 2010.

The Policy requires Departments and Statutory Bodies to implement core requirements to meet Internal Audit and Risk Management standards. Department Heads and Governing Boards of Statutory Bodies are required to attest to compliance with the core requirements annually.

To assess the readiness of Departments and Statutory Bodies to attest compliance with the Policy, I conducted a survey of 137 agencies. This survey was conducted with the collaboration of The Treasury, which shares my interest in implementing, refining and promoting a policy that reflects best practice. This report presents the findings from the survey and includes The Treasury's comments on the first attestation statements received from agencies for 30 June 2010.

The policy mandates core requirements agencies must implement unless an agency has obtained an exception by the relevant Minister before the dates designated in TC09/08. The core requirements are:

Core Requirement 1	An Internal Audit function has been established and maintained
Core Requirement 2	An Audit & Risk Committee has been established
Core Requirement 3	An Audit & Risk Committee has an independent chair and a majority of independent members. The Audit & Risk committee has at least three members, and no more than five members
Core Requirement 4	The Audit & Risk Committee has a Charter that is consistent with the content of the 'model charter'
Core Requirement 5	An enterprise risk management process that is appropriate to the department or statutory body has been established and maintained. The enterprise risk management process is consistent the current Australian/New Zealand (AS/NZS) on risk management
Core Requirement 6	The operation of the Internal Audit function is consistent with IIA <i>International Standards for the Professional Practice of Internal Auditing</i> . There are additional practice requirements set by the Policy.

CONCLUSION

Generally, I found most agencies had implemented policies and procedures to address the core requirements. Larger agencies appear to have been better prepared to make a positive attestation than smaller agencies.

Agency responses indicate that because some governance processes were newly implemented at 30 June 2010, some gaps, fundamental to good governance, existed at that time.

KEY ISSUES

I recommend agencies continue to take steps necessary to ensure they fully and effectively comply with all core requirements by 30 June 2011.

In complying with the policy, agencies may:

- consider holding an internal risk assessment session for their agency and, where applicable, for other agencies for which they have governance responsibilities
- to the extent any Charter for the Audit & Risk Committee is inconsistent with the policy, redraft the Charter
- develop a risk management plan, outlining the structural, operational and maintenance elements of their respective risk management frameworks. (Note the Risk Management standard referred to in the policy has been superseded by AS/NZS ISO 31000 Risk Management)
- consider holding an internal audit planning session for their agency and, where applicable, for other agencies for which they hold governance responsibilities
- develop an internal audit plan, outlining the structural, operational and maintenance elements of their respective internal audit frameworks
- keep up to date with changes in internal audit standards, guidance and best practice.

I recommend The Treasury uses the findings outlined in this report to:

- update the Policy and the Annexure documents in TPP09-05 so they are consistent
- include guidance on arrangements for agency 'clusters' in the policy
- include guidance on secrecy and confidentiality standards in the policy
- remove or provide some context to references to materiality in the attestation statement.

I recommend The Treasury considers any implications (and possible outcomes) of ongoing discussions between my Office, the Crown Solicitor's Office and various agencies to determine the appropriate course of action in relation to:

- the requirement for agencies to comply with Section 11 of the *Public Finance and Audit Act 1983* (PF&A Act)
- the issues raised by an agency in relation to the operation of Audit & Risk Committee (as outlined in the Crown Solicitor's opinion dated May 28, 2010)
- the ability or otherwise of my Office to comply with S.38 of the PF&A Act in context of the point bulleted above.

I recommend The Treasury consults with agencies to:

- discuss issues arising from implementing the new policy
- provide guidance, where necessary
- develop a consistent understanding of The Treasury's expectations.

I recommend The Treasury considers mechanisms to monitor the effectiveness of the internal audit and risk management policy, including:

- monitoring and tracking of the number of positive, exceptions and absent attestation statements
- periodically requesting the Auditor-General to conduct a compliance review of agencies' compliance with the policy, since the attestation statements do not form part of the audited financial statements and are therefore not otherwise subject to independent scrutiny
- identifying areas of weakness and opportunities for improvement.

FINDINGS

I received 125 responses (91.0 per cent) from the agencies I surveyed. Twelve agencies did not respond and are listed in Appendix A. On average, 58.0 per cent of respondents believe they have implemented effective measures that meet the core requirements.

The nature of the survey required agencies to:

- make an overall self assessment of compliance with the policy for each core requirement
- answer specific questions on detailed aspects of the policy.

While most agencies appear to have completed the survey diligently, because the survey was a self assessment, some responses appeared to lack objectivity. In some cases, overall assessments were contradicted by the underlying detailed responses to specific questions. Some agencies rated themselves as 'Fair', despite specifically stating documents and policies were still draft and had not been implemented or rolled out. Other agencies rated themselves as 'Highly Effective' for having simply arranged for another entity to discharge all responsibilities associated with the core requirements. Consequently the results are not readily comparable across all respondents.

For some agencies, the annual review and monitoring processes (required by the policy) were newly implemented and because anniversary dates had not been reached, they responded that some survey questions were 'not applicable'.

Pre-existing arrangements at some agencies appear to have met some policy requirements on its commencement. However, some of the issues identified below may have arisen because those arrangements did not meet the policy requirements and had not been revised to ensure compliance with the policy.

It may take some time for specific new processes to be implemented and become operationally effective.

For each core requirement, I assessed the detailed responses against the requirements specified in the policy. The statistical results are detailed later in this report, but the issues arising can be summarised as follows:

- some inconsistencies exist in the policy and its annexures that need to be addressed by The Treasury
- some Audit & Risk Committees did not review the survey responses. Twenty six per cent of completed surveys were not reviewed by the Chair of the Audit & Risk Committee, 13.0 per cent were not reviewed by senior management and seven per cent did not have evidence of review by either the Audit & Risk Committee or senior management
- Audit & Risk Committee minutes do not evidence sufficient review of resourcing internal audit functions (core requirement 1)
- Audit & Risk Committee charters are inconsistent with the model provided in the policy and are not reviewed annually (core requirement 1)
- Audit & Risk Committee performance is not formally monitored (core requirement 1)
- Audit & Risk Committee consultation is not sought for key staff appointments (core requirement 1)
- non-independent members of Audit and Risk Committees may not meet eligibility or competency requirements (core requirement 3)
- agencies have not adopted model documents in some cases (core requirements 1 and 4)
- Audit & Risk Committees do not meet with the internal audit and risk management staff independently of the operational staff (core requirement 4)
- formal review procedures have not been implemented by the Audit & Risk Committee (e.g. review of the internal audit plan) (core requirement 6).
- some critical components of an effective governance structure have not been implemented:
 - enterprise risk management processes are not effectively implemented or regularly monitored (core requirement 5)
 - the internal audit plan is not always reviewed by the Audit & Risk Committee (core requirement 6)
 - results of the internal audit program are not followed up to ensure recommendations are implemented (core requirement 6)
 - outsourced internal audit arrangements have not been documented or contracted fully (core requirement 6)
 - document control procedures over the retention, storage and management of internal audit documentation appear insufficient (core requirement 6).

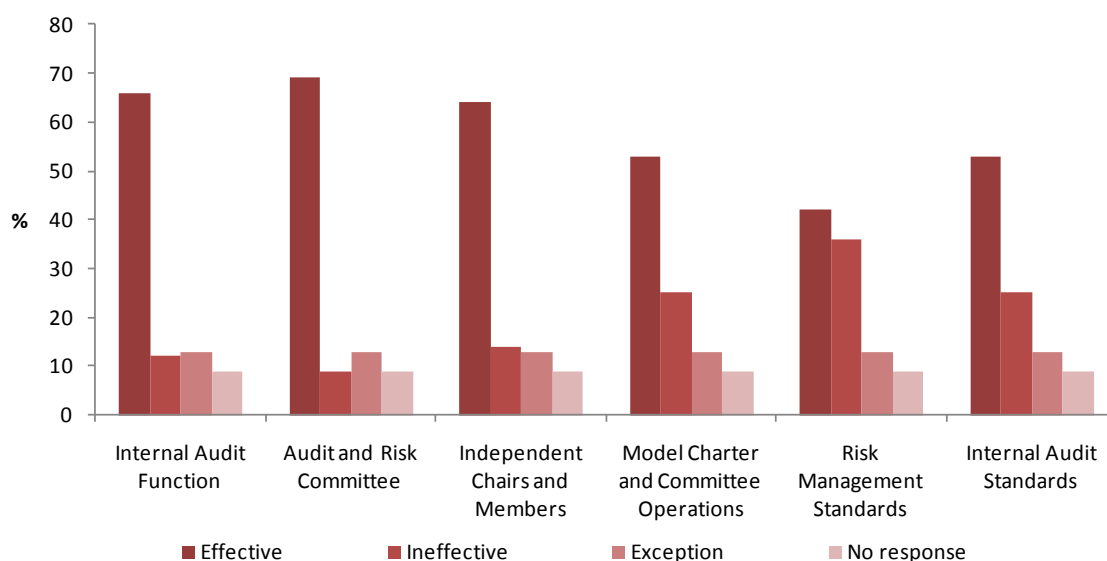
OTHER FINDINGS

On average, 58.0 per cent of respondents believe their agency has implemented effective processes that meet the policy requirements, 20 per cent believe they are non-compliant, and 13.0 per cent claim to have obtained a Ministerial Exception.

The responses indicate stronger compliance with core requirements 1 to 3 than for core requirements 4 to 6. This is consistent with my observations and analysis. The responses indicate much work has been completed in establishing committees and frameworks. Many agencies, however, have not fully implemented effective internal audit and risk management processes. Agencies will need to develop and implement these processes during what should be the first year of operation under the policy.

Some agencies' Audit & Risk Committees are new and appear to be experiencing some teething problems. Implementing effective internal audit and risk management processes may help address the deficiencies these committees currently face.

The respondents' self assessment data are summarised below:



In 2009, the Government announced a comprehensive reform of the public sector, amalgamating 160 government agencies and offices into 13 new departments, some of which have established 'cluster' arrangements incorporating other agencies.

The Agency amalgamations were not envisaged when The Treasury drafted the original policy. This event appears to have significantly confused and hindered agencies' progress to attestation. Some agencies believed they were automatically exempt from the policy by virtue of the new amalgamation arrangements. Agencies belatedly joined available clustered governance arrangements and only applied for Ministerial Exceptions after the cut off date for granting such Exceptions.

The confusion impacted the survey results because affected agencies were not sure how to respond. Consequently, some agencies may have gaps in governance processes, simply because of the uncertainty around responsibility and accountability created by the amalgamations. It appears some agencies still need to:

- determine the appropriate degree of governance oversight required for the agency, including the number and timing of Audit & Risk Committee meetings
- implement processes that will ensure sufficient, timely and effective interactions between committee members and the internal and external auditors.

Where agencies have taken responsibility for implementing the core requirements on behalf of smaller agencies in clustered arrangements, the lead agency must take responsibility for ensuring these arrangements operate effectively for all agencies. Cluster arrangements do not, however, relieve individual agencies within the cluster of their responsibilities. In fact, cluster arrangements create additional governance and oversight issues, such as the risk of governance processes becoming too diluted and distant to be effective for the smaller agencies. Some arrangements may result in the loss of local accountability, ineffective control at the agency level and/or failure by the lead agency to be effective in its oversight role.

The opportunity for external and internal auditors to voice concerns to those charged with governance may be limited if cluster arrangements do not adequately cater for the needs of multiple agencies under these umbrella type arrangements.

The survey indicates some agencies made positive attestations despite process gaps, partially implemented policies and procedures, and Ministerial exceptions requested after the cut off date. This is contrary to the intention of the attestation, which is to confirm the agency has internal audit and risk management processes in place that comply in all material respects with the core requirements.

In an earlier report to Parliament, I recommended The Treasury and Department of Premier and Cabinet clarify the intention of TPP 09-05 Internal Audit and Risk Management Policy. If the intention is for agencies within a cluster to use the audit and risk committee of another agency in the same cluster, the central agencies should seek amendments to Section 11(2) of the PF&A Act and the TPP 09-05 to clearly authorise this (refer to my Volume Three of 2010 Report to Parliament).

TREASURY COMMENTS

The Treasury is currently reviewing the attestation statements it has received and is undertaking stakeholder consultations regarding issues arising from the first implementation cycle of the new Internal Audit and Risk Management Policy. An appropriate policy response to any issues identified will be developed over the course of 2011. Where material issues have come to its attention during the review of attestation statements, The Treasury is writing to the individual agencies concerned.

The policy has been generally well accepted and considered a significant step forward in establishing organisational arrangements that provide additional assurance, independent from operational management, on internal audit and risk management. In particular, relatively few Ministerial exceptions have been sought by the larger agencies.

However, feedback from smaller agencies indicates difficulty in complying with the policy due to lack of both financial and administrative resources. The Treasury is considering an appropriate response to address this issue.

To assist agencies with their obligations pursuant to core requirement 5 of the policy (Risk Management Standards), The Treasury will develop guidance for agencies in the form of an enterprise risk management toolkit to help agencies progressively build risk management capabilities.

DETAILED RESULTS

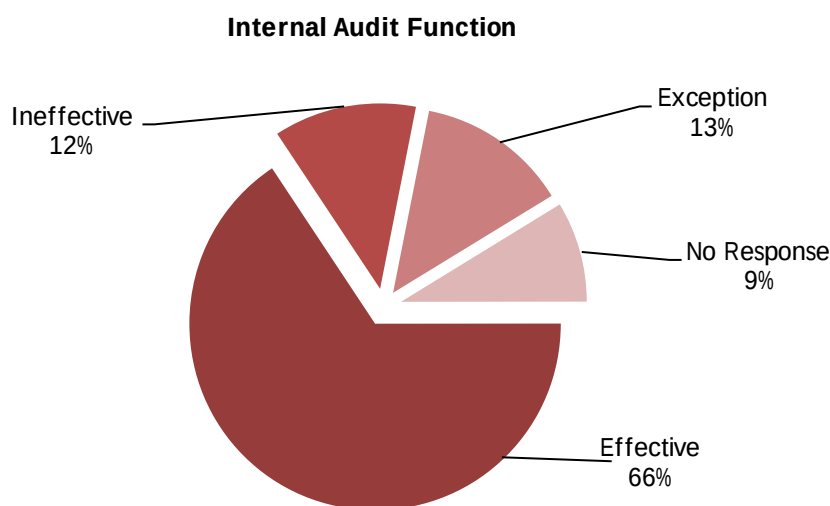
The average self assessment results are summarised below. These results relate to the overall assessment. As stated earlier, I found some overall assessments contradicted the conclusion I drew from the underlying responses to detailed questions. The following tables highlight those components of the core requirements with the highest incidence of non-compliance.

Criteria	Effective %	Ineffective %	Exception %	No response %
Internal Audit Function	66	12	13	9
Audit and Risk Committee	69	9	13	9
Independent Chairs and Members	64	14	13	9
Model Charter and Committee Operations	53	25	13	9
Risk Management Standards	42	36	13	9
Internal Audit Standards	53	25	13	9
Average	58	20	13	9

Thirteen per cent of respondents indicated they had received Exceptions from their respective Minister – these Exceptions indicate either:

- the Agency complies with the core requirements because the policy deems an agency with a Minister's Exception is compliant (this appears contradictory to the intention of the policy)
- the Agency is not ready and has effectively sought more time to implement the core requirements.

Core Requirement 1 - An Internal Audit Function has been established and maintained.



Significant non-compliance Elements of Core Requirement	Policy Reference	Result
The core requirements define an internal audit function as one of four available models. Where the chosen model is an in-house internal audit delivery service model, the policy requires that a documented and operational quality assurance and improvement program be implemented.	Section 1.7.1	45% indicated this was not yet in place.
The policy requires department heads and CEOs of statutory bodies involve or consult with the Audit & Risk Committee in making the chief audit executive appointment.	Section 1.3.4	52% indicated they did not involve or consult the Audit & Risk Committee when appointing the chief audit executive.
The policy provides a Model Internal Audit Charter.	Section 1.4.1	36% had an internal audit charter that was inconsistent with the model charter.
Key decisions regarding allocation of resources by the Audit & Risk Committee must be minuted.	Section 1.6.2	38% did not minute key decisions regarding allocation of resources by the Audit and Risk Committee.
Agencies must have a review plan to ensure that the internal audit program is assessed against relevant professional standards at least every five years.	Section 1.7.2	45% did not have a review plan.

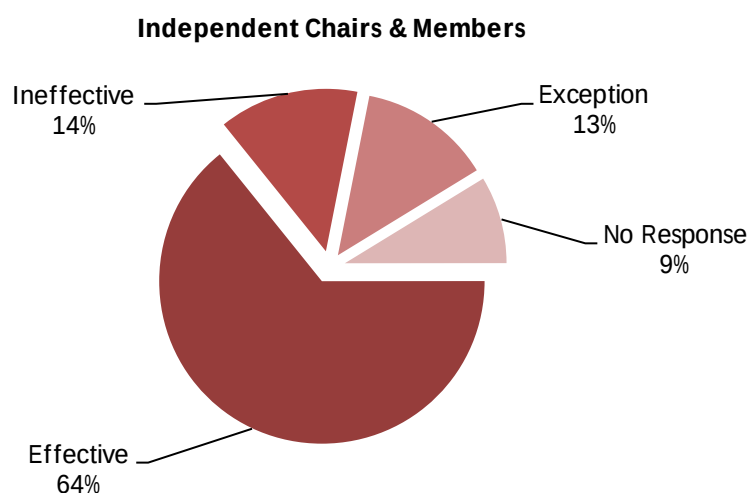
Agencies indicated reasonable compliance with the other elements of this core requirement.

Core requirement 2 - An Audit & Risk Committee has been established.



Core Requirement	Policy Reference	Result
Has the department head or governing board of the statutory body established an Audit & Risk Committee?	Section 2.1	9% indicated they had not established an Audit & Risk Committee.
If prior to the release of TPP 09-05 these responsibilities were separated, the responsibilities of the Risk Committee must be transferred to the Audit & Risk Committee.		13% indicated they had received a Ministerial Exception. 9% did not respond.

Core requirement 3 - The Audit & Risk Committee has an independent chair and a majority of independent members. The Audit & Risk Committee has at least three members, and no more than five members.

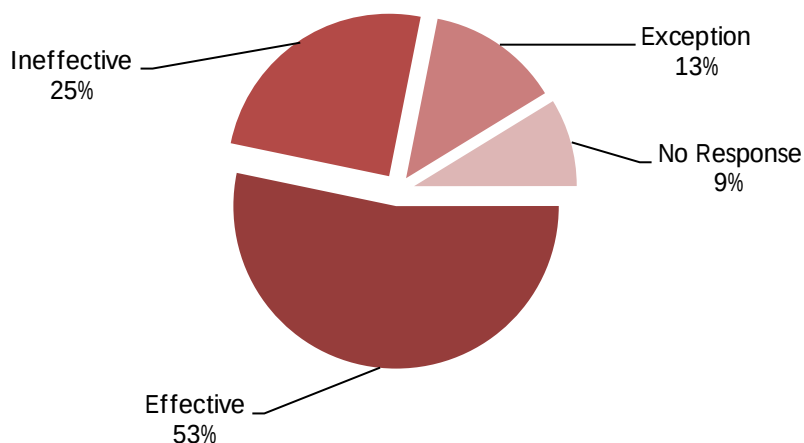


Significant non-compliance Elements of Core Requirement	Policy Reference	Result
The policy requires that agencies appoint an independent chair from policy-specified sources.	Section 3.2.1	42% had not appointed an independent chair from policy-specified sources.
The policy requires appointment of the chair of the Audit & Risk Committee subject to a minimum and maximum term.	Section 3.2.4	50% have not appointed the chair of the Audit & Risk Committee subject to a minimum and maximum term.
The policy requires the appointment of only eligible non-independent members.	Section 3.4.1	45% have not ensured non-independent members are eligible to serve.
The policy requires non-independent members collectively possess the required skills and competencies.	Section 3.4.3	44% have not assessed the skills and competencies of non-independent members.
The policy requires that agencies use the panel of pre-qualified individuals to appoint members of the Audit & Risk Committee.	Section 3.3.2	50% did not use the panel of pre-qualified individuals to appoint members of the Audit & Risk Committee.
The policy requires that agencies stagger Audit & Risk Committee membership renewal dates.	Section 3.5.3	50% did not stagger Audit & Risk Committee membership renewal dates.

Agencies indicated reasonable compliance with the other elements of this core requirement.

Core requirement 4 - The Audit & Risk Committee has a Charter that is consistent with the content of the 'model charter'.

Model Charter & Committee Operations



Significant non-compliance Elements of Core Requirement	Policy Reference	Result
The policy requires that agencies use an Audit & Risk Committee charter consistent with the model charter.	Section 4.1.1	36% did not use an Audit & Risk Committee charter consistent with the model charter.
Agencies must implement an annual review procedure for the Audit & Risk Committee charter.	Section 4.1.4	39% did not have an annual review procedure for the Audit & Risk Committee charter.
The policy requires that Audit & Risk Committees meet with the internal and external audit teams independently of the operational staff.	Section 4.2.7	43% of committees do not meet with the internal and external audit teams independently of the operational staff.
The policy requires that agencies implement an annual performance review procedure for assessment of the Audit & Risk Committee.	Section 4.5.1	51% admitted to inadequate performance review procedures for assessing the Committee's performance.

Agencies indicated reasonable compliance with the other elements of this core requirement.

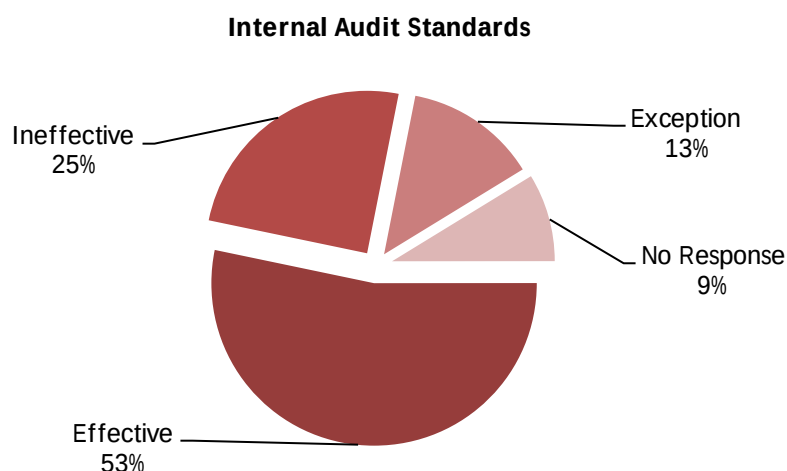
Core requirement 5 - An enterprise risk management process that is appropriate to the department or statutory body has been established and maintained. The enterprise risk management process is consistent with the current risk management standard.



Significant non-compliance Elements of Core Requirement	Policy Reference	Result
The Enterprise Risk Management ('ERM') process must give regard to specified risk management review and revaluation requirements.	Section 5.6.1	50% indicated the ERM process did not give regard to specified risk management review and revaluation requirements.
The ERM process must give regard to specified risk management culture requirements.	Section 5.7.1	49% indicated the ERM process implemented did not give regard to specified risk management culture requirements.

Agencies indicated reasonable compliance with the other elements of this core requirement.

Core requirement 6 - The operation of the internal audit function is consistent with IIA International Standards for the Professional Practice of Internal Auditing and additional practice requirements as set in the policy.



Significant non-compliance Elements of Core Requirement	Policy Reference	Result
The policy requires that the department head or governing board of a statutory body must ensure that all agreed actions are implemented within agreed timeframes.	Section 6.6.1	35% indicated there is limited focus on implementation of agreed action plans for issues and recommendations identified during the conduct of the internal audit program.
The policy requires the development, implementation and maintenance of Internal audit manuals.	Section 6.7.1	54% had not developed, implemented or maintained internal audit manuals.
The policy requires that outsourced arrangements be contracted.	Section 6.7.2	58% had not drafted contracts for outsourced arrangements to ensure agency obligations are accepted by the service provider.
The policy requires that Internal audit manuals be approved by the Audit & Risk Committee.	Section 6.7.3	80% had not sought approval of the internal audit manual by the Audit & Risk Committee.
The policy requires that Internal audit manuals are consistent with IIA Professional Standards.	Section 6.7.4	48% of internal audit manuals are not consistent with IIA Professional Standards.
The policy requires that appropriate document storage and retention procedures be implemented by agencies.	Section 6.7.5	31% did not have sufficient document storage and retention procedures.

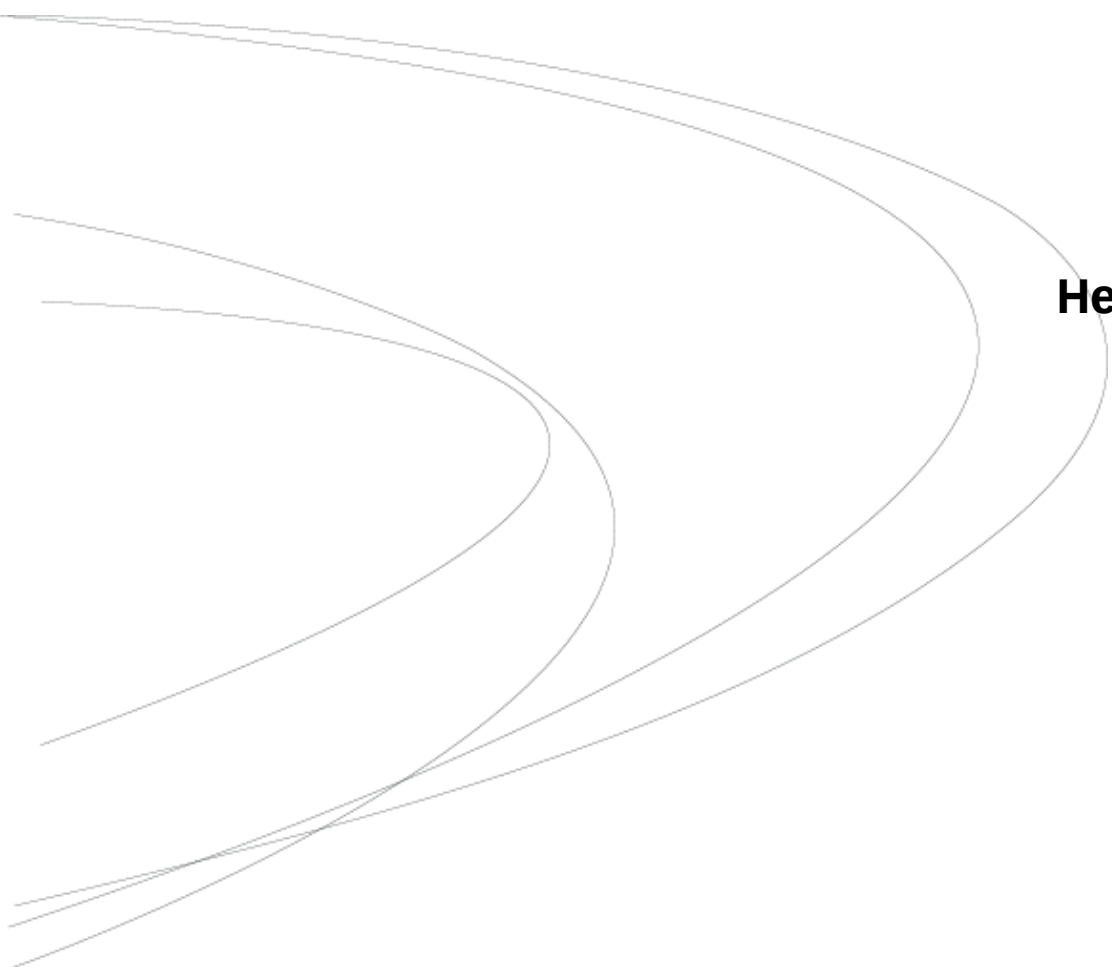
Agencies indicated reasonable compliance with the other elements of this core requirement.

APPENDIX A - AGENCIES THAT DID NOT RESPOND TO THE SURVEY

- Aboriginal Housing Office
- Building Professionals Board
- Cobar Water Board
- Hunter Region Sporting Venues Authority
- Jenolan Caves Reserve Trust
- Mine Subsidence Board
- New South Wales Institute of Sport
- State Management Council of Livestock Health and Pest Authorities constituted under the Rural Lands Protection Act 1998
- Statutory Trustees or a Statutory Trustee of a Fund within the meaning of the Technical Education Trust Funds Act 1967
- Sydney Cricket and Sports Ground Trust
- Upper Parramatta River Catchment Trust
- Wild Dog Destruction Board

Section Two

Health Overview

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Health Overview

THE HEALTH GROUP AND AUDIT OPINIONS

This commentary covers the Department of Health (the Department) and the entities it controls, which are listed below.

Area Health Services (AHS)	Other Entities
Greater Southern (GSAHS)	Clinical Excellence Commission
Greater Western (GWAHS)	Justice Health
Hunter New England (HNEAHS)	Royal Alexandra Hospital for Children (CHW)
North Coast (NCAHS)	Bureau of Health Information
Northern Sydney and Central Coast (NSCCAHS)	Albury Base Hospital
South Eastern Sydney and Illawarra (SESAHS)	Albury Wodonga Health Special Purpose Service Entity
Sydney South West (SSWAHS)	The Graythwaite Trust
Sydney West (SWAHS)	Agency for Clinical Innovation
	Health Administration Corporation (HAC) comprising:
	- Ambulance Service of New South Wales
	- Health Support Services
	- Health Infrastructure
	- NSW Institute of Medical Education and Training

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

The abridged financial statements for the Department and consolidated entity are included under the Department of Health comments elsewhere in this Volume. Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Caring Together: The NSW Government's response to the Special Commission of Inquiry into Acute Care Services in NSW Public Hospitals (Garling Inquiry)

I recommend the Department ensures it meets the set timeframes for implementation of the Garling Inquiry recommendations.

The Department advises it is in varying stages of implementing the recommendations made by the Garling Inquiry. Contrary to last year's advice that it had completed Stage One of Caring Together at 30 June 2009, the Department now advises it had completed only 80.0 per cent of Stage One and 75.0 per cent of Stage Two at 30 June 2010.

The Garling Report was released in November 2008. The report included 139 recommendations for improvement in areas such as emergency departments, surgery, doctors, nurses, workplace reform, communication, patient safety, funding and administration and management. Caring Together was released in March 2009 and outlined the Government's response to the recommendations.

The Department has provided the following information about progress.

In March 2009, the New South Wales Government committed to implementing 137 of the 139 recommendations.

The recommendations not supported were:

- refunding the net cost for medication to patients for the treatment of hospital acquired infections after the patient has been discharged from the hospital
- NSW Health develop a new category of employee in the Ambulance Service responsible for performing non-treatment duties, which presently a two person team attends to, such as driving and attending to radio transmissions and paperwork.

Since signing up to the Australian Health and Hospitals Network Agreement, the Government has begun major structural reform with the creation of 18 Local Health Networks, to be managed by a Governing Council. The new structure will be implemented from 1 January 2011. This has resulted in two additional Garling recommendations no longer being supported, namely:

- '....but for the institution of NSW Kids, there be no other alterations to the current area health service governance structure
- there be reinstituted boards of directors whose task it is to govern the various area health services as board governed health corporations within the meaning of the *Health Services Act 1997*'.

Further commentary on Local Health Networks is included later in this Overview.

The Government has set up a three stage response to the Report supported by additional funding of \$485 million over four years. An Independent Panel of clinicians as well as experts in cultural change systems information, trend analysis and governance administration will report to the Minister for Health every six months on the progress of implementation, for a period of three years.

Most responses to the recommendations (the Health Action Plan), are driven locally through Area Health Advisory Councils by local expert implementation teams/councils. These are supported by state-wide, theme based implementation groups where required, the Caring Together Implementation Leadership Group and the NSW Community and Clinicians Expert Advisory Council (CCEAC).

The Independent Panel has the authority to review, audit and report directly to the Minister regarding the delivery of Caring Together commitments. As part of this process, the Independent Panel has released two, six-monthly progress reports, and its third report was released in November 2010.

The Stage One progress report, released in November 2009, noted that for the most part AHS were quick to recognise the importance of Caring Together and change was happening. The audit was also to assess the completeness and accuracy of the reporting system for the Health Action Plan. However, the early view of the Panel was that while implementation was occurring, the Plan initially focused on process and lacked a central strategic vision.

Following the Stage One report, the monitoring and reporting on Caring Together was improved with definitions written for each progress milestone for each of the 134 recommendations, with the aim of improving the consistency of reporting across AHS.

The second progress report, released in July 2010, reviewed data and the reporting framework. It noted that significant progress had been made since the first report, and commented favourably on the strategic approach being taken to monitoring progress, including the greater consistency of reporting following introduction of milestone definitions.

Since my 2009 Report to Parliament, the Department has noted the following with respect to stages one and two:

Stage One

- There are 316 hospital wards in New South Wales participating in the *Essentials of Care* program which provides clinicians with a method to explore and understand current clinical practice and practice environments, and to develop ways to further enhance them. Nursing/Midwifery Unit Managers in *Essentials of Care* sites have reported significant improvements in hand washing, team work, staff participation in decision-making and documentation (R38).
- Auditing of Discharge Summaries is included in internal audit plans and undertaken in some AHS (R58).
- 45,000 clinicians have been provided with an awareness program which aims to improve the way clinicians identify and respond to patients when their clinical condition begins to deteriorate. A further 20,000 clinicians have completed targeted training in the new system. Paediatric and maternity observation charts are also being developed (R91).
- Forty two Executive Clinical Directors have been appointed across the AHS to improve communication between clinicians and managers, and to strengthen adoption of improved models of care (R137).
- Over 500 Clinical Support Officers have been appointed across all AHS. These positions assist in freeing up clinical staff to spend more time with patients (R40).
- A Performance Audit Tool to monitor complaints regarding bullying has been sent to AHS to implement and data is being reported in the NSW Health Annual Report (R44a&b). The Anti-Bullying Advice Line is a toll free advice line and became operational in April 2010 to provide confidential advice to staff on managing and overcoming bullying and harassment. Some 12 full time equivalent Anti-Bullying Management Advisors have also been appointed (R43e&g).
- A Clinical Handover Toolkit, Principles and Policy Directive was released in September 2009. This helps ensure effective, concise and complete communication in clinical handover. The Acute Care Taskforce has undertaken implementation-monitoring site visits during 2010, and all Health Services have submitted Implementation Plans for assessment (R56a&c).
- Appointments were made to the Bureau of Health Information in October 2009. The Bureau released its first report, *Insights into Care: Patients' Perspectives on NSW Public Hospitals* in May 2010. The first quarterly report on hospital performance for the period April to June 2010 was published in September 2010, with a particular focus on emergency department waiting times (R75&76).
- Progress with the *Severe Chronic Disease Management* program included work undertaken in partnership with General Practice to develop Regional Implementation Plans. The program provides support to older people with chronic conditions to coordinate care and reduce admissions to hospital. At June 2010, over 1,600 people had enrolled in the program. At the current rate of enrolment approximately 12,000 clients will be enrolled by June 2011 (R3).
- *Caring Together, Working Together: Workplace Culture Framework* was released in September 2010 and sets out a state wide framework of shared, positive workplace characteristics. The Framework is both state-wide and flexible, in recognition that different health services are at different stages of workplace change. A survey to assess the current workplace culture within the New South Wales Health System is being developed and will establish the baseline for evaluating the success of the planned culture change program, and support measures to improve workplace culture and prevent bullying (R42).

Stage Two

- The Agency for Clinical Innovation (ACI) was established in December 2009. The Agency will develop new models of care in consultation with clinicians and members of Health Priority Taskforces. In August 2010, ACI launched a new model of care for managing orthopaedic procedures for older people (R67).
- A central register has been established to assist in filling vacancies for doctors and casual medical staff for AHS (R19a&b).
- The Clinical Education and Training Institute (CETI) commenced operations on 1 July 2010 and will support innovative multi-disciplinary training, and provide leadership in addressing the workforce challenges faced by AHS.
- An Education and Training Review, currently being conducted by KPMG, will establish the baseline level of delivery of postgraduate clinical education and training which will assist in identifying areas of future focus for CETI. The review was anticipated to be released in November/December 2010.

The implementation of Local Health Networks and Governing Councils from 1 January 2011 will impact the monitoring and reporting of Caring Together. The Department advised it is putting a framework in place to maintain focus on those recommendations yet to be completed and those requiring ongoing monitoring to ensure they are embedded into standard practice, and maintain a focus on patient care.

Local Health Networks

In April 2010, the New South Wales Government entered into the National Health and Hospitals Network Agreement (the NHHN Agreement) with the Australian Government, having agreed on national health reforms to establish Local Health Networks in New South Wales, and to introduce national standards for timely access to emergency care and elective surgery.

Under the Agreement, the New South Wales Government will remain responsible for system-wide planning, performance and purchasing of public hospital services. The New South Wales Government will also support the transition process for the Australian Government to assume full funding and policy responsibility for general practice, primary health care and the national aged care system.

This agreement will result in structural and corporate changes, including the establishment of Local Health Networks in 2010-11. A professional Governing Council will be constituted for each Local Health Networks and will result in significant changes to the current establishment and operations of AHS.

This is a significant restructure creating challenges for the Department and its stakeholders.

Internal Control Deficiencies across the Health Sector

I recommend Health Support Services agree the respective responsibilities for implementing effective standardised internal controls with its customers and the Department. Control deficiencies have increased the risk that irregularities are not prevented or detected. The standardised internal controls should be implemented at Health Support Services and its customers as soon as practicable.

Health Support Services (HSS), amongst other things provides financial and payroll support to AHS and other health entities. HSS began processing transactions for health entities in 2007, and now provides the financial transaction processing and payroll functions for the majority of AHS.

I found a significant number of weaknesses in internal controls in our audit of the HSS service centres. In some cases, HSS has advised that the deficiencies in its processes are an AHS or other health entity responsibility, while the customers consider them to be an HSS responsibility. As a result, certain controls are often not operating at either HSS, the AHS or other health entities.

Further information on this issue is included in the Health Administration Corporation comment later in this Volume.

Fully Depreciated Plant and Equipment (Repeat Issue)

I recommend the Department finalise its review of the continued use of fully depreciated plant and equipment. Actions emanating from the completed review should be implemented in a timely manner.

Plant and equipment at AHS contain significant numbers of fully depreciated items:

Plant and Equipment	2010	2009	2008	2007
Total plant and equipment-at cost (\$'000)	1,508,274	1,556,089	1,538,513	1,603,510
Fully depreciated plant and equipment-at cost (\$'000)	453,015	562,742	579,226	668,210
Fully depreciated plant and equipment as a percentage of total (%)	30.0	36.2	37.6	41.7

In my 2007 report to Parliament, I recommended the Department review the useful lives of fully depreciated assets, which continue to be used. This was to ensure not only the accounting assessment of the useful lives was appropriate, but more importantly to determine if they need to be replaced, particularly where continued use might affect the efficient and effective provision of health services. The Department advised it was developing a medical equipment strategic framework for the procurement and management of such equipment at hospitals.

I again reported this matter in 2008 and 2009 and recommended the Department commission an independent expert to help review the useful lives, particularly for critical plant and equipment. I had expected conclusive action would have been taken on this important issue by now. The Department has advised this is a complex and far-reaching matter. Although progress on some of these actions has been made, there is still some way to go. The two programs referred to below need to be completed in a timely manner and associated actions need to be effectively implemented across AHS.

Medical Equipment Asset Management Program

The Department advised a consulting firm was engaged in 2009 to review its approach to equipment management. As a result the Department established a Business Unit to manage assets on a whole-of-life-cycle basis. In late 2010, HSS developed a proposal to expand its medical equipment purchasing section to incorporate a centralised, state-wide asset management system involving improved aggregated purchasing, management, maintenance, and reporting of assets.

At the same time, the Department is investigating the use of a private sector service provider, targeted at improving the whole-of-life-cycle management of medical equipment. Meetings are currently being held with shortlisted medical equipment service providers and a clinician user group to determine the commercial and service feasibility of the pilot proceeding.

Health Asset Management and Maintenance System

The Department advised various versions of an Asset Management and Maintenance System (AMMS) exist across the health sector, predominantly designed and focussed on supporting the management of built assets, rather than equipment. Equipment asset registers are largely related to the finance systems and/or specific segments (e.g. biomedical equipment). The various asset systems: are not integrated; reporting capacities are limited; cannot be used as a planning, benchmarking or management tool; and are becoming progressively obsolete.

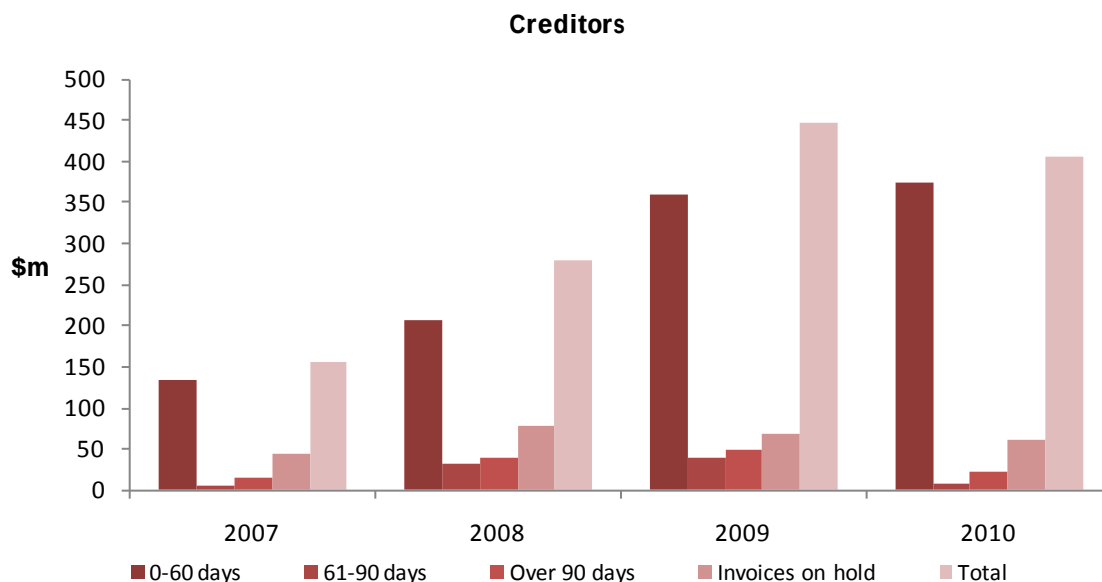
The Department has a long term project in place to update and standardise its asset management reporting systems, and to comprehensively extend their application to all equipment assets. The Department considers the AMMS investment will provide the essential tool for supporting the efficient use of assets, and maximise opportunities for savings on procurement, maintenance and disposal. The initial stage of reviewing product options for implementation has been completed and this has confirmed the new generation systems now available are likely to better fit Health's needs. A tender for the replacement system, with an initial phase being the equipment asset register is proposed to be issued in early December 2010.

Accounts Payable (Repeat Issue)

I again recommend the Department ensures Area Health Services pay creditors within agreed payment terms. Area Health Services need to improve cash flow management, ensure purchases are supported by authorised orders, and follow up disputed invoices in a timely manner.

Some improvement has been made by the Department and AHS to improve the level of long outstanding creditors at year end. Total creditors amounted to \$406 million at 30 June 2010 (\$447 million in 2008-09) for all eight AHS, a 9.2 per cent decrease.

The following chart shows the ageing of creditors for the past four years, and amounts on hold or in dispute.



Note: Total column is comprised of the 3 ageing columns, as they include the amounts for invoices on hold or in dispute. The 0-60 day columns for 2010 and 2009 include accruals (not included for 2008 and 2007)

Commentary on individual AHS' creditor levels and ageing is included elsewhere in this Volume. Some capital works creditors and non-trade creditors are not included in the graph as no ageing analysis was available. The total of these creditors for 2010 was \$40 million (\$42 million).

Total creditors (excluding capital works and non-trade creditors) decreased during the year for four of the eight AHS. SWAHS had the highest level of creditors (SESAHS in 2008-09) and NCAHS had the lowest (GSAHS).

Ageing of Trade Creditors

A review of creditors' ageing at 30 June 2010 showed that seven AHS had a lower level of creditors over 90 days compared to the prior year. SWAHS increased slightly over the prior year.

The Department requires creditors to be paid within contract terms and it monitors performance against a benchmark target of 45 days for invoices ready for payment. The performance statistics are for general trade creditors and do not include liabilities to visiting medical officers or certain government agencies. According to information provided by the Department, all AHS (two) achieved this target for 2009-10. However, this benchmark does not include creditors on hold or in dispute.

Although most AHS showed a decrease in creditors at year end, creditor balances were consistently higher throughout the year. The benchmark target of 45 days for creditor payments was not met by any AHS in the 11 months prior to 30 June 2010. The Department advised that during 2009-10 (as part of the normal budget management processes) it provided funding to AHS, which specifically targeted the payment of creditor invoices within contract terms. An example was SESAHS, where \$41.7 million was provided by the Department for creditor payments. The Department also advised that AHS are substantially achieving the benchmark in 2010-11.

Disputed or On Hold Invoices

For several AHS, I found the value of disputed or on hold creditors of \$61.6 million (\$67.5 million) made up a significant proportion of the total value of creditors at 30 June 2010. SESAHS had the largest amount at \$15.8 million. The AHS with the largest proportion of its total creditors on hold or in dispute was SSWAHS at 27.0 per cent, or \$14.1 million.

More than 40.0 per cent of invoices were on hold because purchase orders were not raised for the invoices. This is significant and the Department, in consultation with AHS, needs to address this issue urgently.

The Department reminded AHS in 2008-09 of the need to ensure purchases were supported by valid orders. The Department also wrote to its major suppliers advising that AHS requests should not be filled without a valid purchase order. These actions do not seem to have been effective for some AHS. The use of purchase orders is an important internal control designed to ensure expenditure is approved before it is incurred and to prevent waste of public funds.

Contract Staff (Repeat Issue)

I recommend the Department develop a system to monitor the number of contractors who provide personal or professional services and the length of time they have done so. The review should identify contractors whose services are no longer required. Internal controls over the use of contractors need to be strengthened. A similar exercise should be performed at AHS for non-medical contractors.

For the last two years, I reported the Department was unable to provide information on the number of contractors it engaged compared to established staffing positions and the length of time they had been with the Department. I formally requested from the Department in June this year, for the parent entity and one sample AHS (SSWAHS), contractor statistics at 30 April 2010.

The Department provided this information in November, just prior to finalising this report. These statistics are included in the Department and SSWAHS comments later in this Volume. However, due to the late receipt of this information, I was unable to finalise my analysis of the data to ensure accuracy and to consider whether the information identified any issues.

The information had to be manually compiled, and I understand it was a difficult process. Without such information being monitored periodically, it is unclear how the Department is able to effectively manage its contract staff.

The Department advised it believes it complies with Premier's Memorandum 2009-15 relating to the engagement and retention of agency and contract staff. As mentioned above, I have not been able to confirm this.

The Department undertook several internal audits of the use of contract staff in various branches at its head office during the year. The Department advised some of the findings were interim, and included instances of:

- lack of evidence to confirm payments to contractors were for services actually provided
- lack of evidence of evaluation of contractor performance
- overcharging by agencies rounding up work hours
- contract staff being provided with pay increases without appropriate approval, and not supported by a business case
- inappropriate approval for exemption from a tender process for the engagement of contractors
- engagement of contractors not being in accordance with the Department's contract management guidelines.

The Department advised it is considering the findings, including appropriate action in respect of interim findings.

OTHER INFORMATION

Budget to Actual Comparison

I recommend the Department finalise the implementation of recommendations from the NSW Health Independent Financial Management Review of its budget setting and monitoring processes.

The Department has made significant improvements to its budget monitoring processes and performance over the past two years.

As previously reported a consultant was engaged to review the Department's budget setting and monitoring processes. The review led to 37 recommendations being made to address activity pressure, control issues and financial discipline. Significant progress has been made in implementing these recommendations, and as advised by the Department:

- 30 recommendations have been implemented, substantially implemented or deemed to require no further action
- 6 are partially implemented, but are behind original schedule
- one is behind schedule and is being reassessed as part of the National Health and Hospital Reforms.

The recommendations not fully implemented generally relate to improvements required in IT systems to enable more timely production of financial management information.

Compliance with Treasurer's Directions (Repeat Issue)

I recommend the Department ensure AHS policies agree with all requirements of the Treasurer's Directions.

In prior years, I reported apparent non-compliance by AHS with the Public Finance and Audit Regulation 2005, Treasurer's Directions and annual reporting legislation. Several years ago, the Department came to a view that Treasurer's Directions did not apply to AHS, and at the time, undertook to obtain legal advice to clarify the matter.

This year, the Department sought advice from The Treasury, which concluded that Treasurer's Directions do apply to AHS. The Department advised that AHS policies comply with the majority of Treasurer's directions and only a few minor variations have been identified. The Department is currently liaising with The Treasury to determine whether any amendments need to be made to its policies for those variations.

Special Purpose and Trust Funds (Repeat Issue)

I recommend the Department, in conjunction with the AHS, finalise the review of all special purpose and trust funds to confirm the nature and intended purpose of each fund. Where appropriate, approvals should be sought to move funds into the Public Contributions Trust Fund account, to assist in the delivery of health services.

In my 2008 report I first recommended the Department, in conjunction with AHS, review all special purpose and trust funds to confirm their nature and intended purpose, as this was not apparent for some funds.

In May 2009, the Department requested a report from each AHS confirming:

- whether documentation was on hand to support the current classification of trust accounts, and that moneys were only being applied in accordance with the terms of the donation. To the extent documentation could not be located, details were to be provided of actions proposed by the AHS
- no account was overdrawn (any exceptions and the circumstances to be reported) as the Department considered this a serious breach of trust requirements
- interest had been duly apportioned to each account
- conditions attached to donations, which could not be reasonably satisfied, and the actions proposed by the AHS.

In May 2010, the Department followed up its request as only three AHS had completed the review. Further progress has since been made, with four AHS having now completed the review. The remaining four (SWAHS, SESIAHS, SSWAHS and GWAHS) were in the process of performing the review at 30 June 2010.

The results from the reviews varied. Only a few trust funds had been dormant for a number of years. One AHS was unable to locate the source documents for a number of its trust funds. I found some funds were being overdrawn throughout the year, with monies only recouped at year end in most cases.

My other findings are included in individual AHS comments.

The value of Special Purpose and Trust funds at 30 June 2010, for the eight AHS, was \$508 million (\$468 million).

Asset Stock Takes (Repeat Issue)

I recommend the Department reinforce compliance with its policies and procedures for plant and equipment stock takes, to ensure all AHS perform effective stock takes each year. Accountability for non-compliance with the Department's policies should be made clearer to senior AHS officers.

Last year, I reported AHS had not completed full stock takes of plant and equipment and recommended policies and procedures be improved for these stock takes. I reviewed the results of stock takes across all AHS this year and found:

- five AHS performed complete stock takes
- the remaining three have completed partial stock takes during the year.

This is a significant improvement over the previous year. The risk of theft or misappropriation of assets increases significantly if appropriate controls, including asset stock takes, are not in place to safeguard assets. The Department's policy is for AHS to complete stock takes of plant and equipment each year. It should ensure AHS that do not comply with this policy can adequately explain their non-compliance. Greater accountability for effective stock takes should reside with relevant senior AHS officers.

Long-term maintenance benchmarking (Repeat Issue)

I recommend the Department establish and monitor appropriate targets for ensuring asset maintenance levels are adequate. This should be done in conjunction with the reviews being performed on fully depreciated plant and equipment referred to earlier.

Last year, I recommended the Department improve its asset maintenance so benchmark maintenance levels are met. The Department advised that the benchmark it had been using was not appropriate, as it was for equipment only rather than buildings, infrastructure and equipment.

The Department advised that state-wide maintenance expenditure, as a percentage of gross asset values, has remained constant at 1.1 per cent for the past two years. It is reviewing these levels and strategies to ensure appropriate maintenance levels are met, in conjunction with the Medical Equipment Services program discussed earlier.

Information Technology Projects

The following table outlines major information technology projects in progress and which are in excess of \$50.0 million.

Project Description	Original Budgeted Cost (\$000)	Revised Budgeted Cost (\$000)	Original Estimated Completion Year	Revised Completion Year (if applicable)
Patient and Clinical Systems Phase 2	115,000	115,000	2010	2011
Patient Administration System	89,719	89,719	2010	2010*
Medical Imaging Picture Archiving and Communications System and Radiology (MIPACSR)	62,867	63,103	2011	2011
Human Resources Information System (HRIS)	50,728	See below	2012	See below
Community Health Outpatient system	104,793	104,793	2015	2015
Corporate System Stage 2a	107,716	107,716	2014	2014

Source: Department information (unaudited)

*The majority of this project was completed in 2007-08. Some necessary integration with the electronic medical recording system was completed in 2010.

The HRIS project's original budgeted cost was \$50.7 million and completion was planned for 2012. A revised estimated cost to complete is in the process of being agreed with The Treasury. A revised timeframe is also being assessed. The Department has advised the reasons for the delays and changes in estimated cost stem from:

- additional work to build common integration deliverables required by other IT programs
- the complexity of testing Health employee awards, and
- work required to re-configure the system to operate for Local Health Networks.

Payments to Visiting Medical Officers and Medical Staff

The following table shows a comparison of payments to Visiting Medical Officers (VMOs) and Medical Staff for the last four years for the eight AHS.

Year ended 30 June Category	2010 \$'000	2009 \$'000	2008 \$'000	2007* \$'000
Medical staff**	1,337,962	1,245,073	1,067,381	967,860
VMOs	544,548	523,634	455,710	358,846

* 2006 and 2007 exclude the amounts for GWAHS as these were not available.

** Payments to Medical Staff include: base salary, overtime, penalties, sick and other leave, annual leave and long service leave.

VMO costs comprise a substantial part of the overall medical costs for AHS.

Over the last four years, medical staff expenses have increased by 38.2 per cent, compared to a 51.7 per cent increase in VMO costs.

VMOs are medical staff working as independent contractors for an average of six to eight hours per week in the public health system to supplement staff specialists and other medical staff employed directly by AHS. At other times they work in private practice.

Human Resources

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

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- extent of overtime
- extent of use of contract staff – see 'Key Issues' earlier in this Overview
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities.

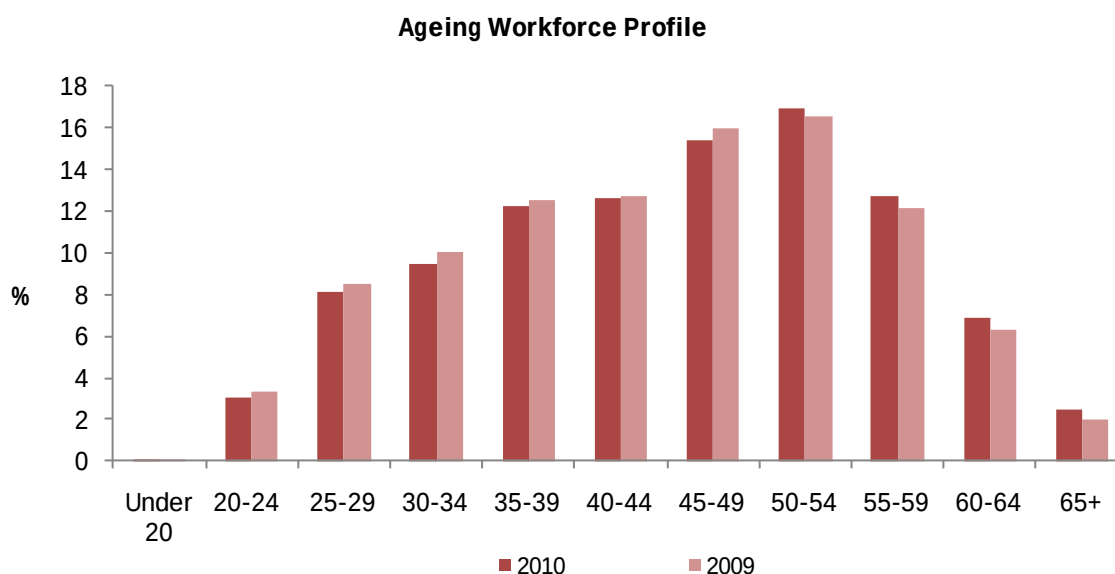
The following information is for the consolidated entity unless stated otherwise. Commentary on individual AHS and other health entity human resources are included in the individual comments elsewhere in this Volume.

Workforce Ageing

I recommend the Department develop and implement effective policies to address and manage its ageing workforce.

The Department is facing challenges from the potential loss of thousands of staff over the next few years, as indicated by the following statistics:

- 22.1 per cent of staff are aged 55 years and over
- 39.0 per cent are aged 50 years and over.



The age profile for all permanent staff of the consolidated entity is shown below:

At 30 June Age Group	2010 No. of Employees	% of total employees	2009 No. of Employees	% of total employees
Under 20	54	0.1	77	0.1
20-24	2,802	3.1	3,215	3.3
25-29	7,601	8.1	8,014	8.5
30-34	8,885	9.5	9,461	10.0
35-39	11,430	12.2	11,824	12.5
40-44	11,799	12.6	12,045	12.7
45-49	14,330	15.4	15,147	16.0
50-54	15,764	16.9	15,640	16.5
55-59	11,869	12.7	11,453	12.1
60-64	6,451	6.9	6,015	6.3
65 and above	2,350	2.5	1,940	2.0
Total	93,335	100	94,831	100

Source: Department statistics (unaudited).

To ensure an adequate supply of staff in the future, the Department should actively monitor its workforce age profile and ensure strategies are in place to develop, attract and retain staff. This is particularly important for front line staff including doctors, nurses etc. Some AHS have advised they have strategies in place to address this issue.

Annual Leave Balances

I recommend each health entity review the effectiveness of its policies for managing excessive annual leave balances.

The following table shows the number of staff with leave in excess of 40 days.

Annual Leave Days Accrued	Health Staff	
	2010	2009
41-60	12,564	12,856
61-80	5,981	6,085
81-100	2,668	2,807
Over 100	2,620	2,728
Total	23,833	24,476

Managing excessive annual leave balances remains a challenge for most Health entities. At 30 June 2010, 23,833 employees or 25.5 per cent of all staff had accrued more than the general public service benchmark of 40 days annual leave (25.8 percent at 30 June 2009). The Department advised that a significant number of staff attract award entitlements of six weeks annual leave per annum, with entitlements further increased depending on the incidence of time worked on Sundays and public holidays. The Department further advised in such instances, and using the public sector benchmark of two years' accrual as a guide, Health staff may not in fact have excess leave until the accrued value exceeds 70 days. The table above shows that many staff have accumulated leave beyond industry norms.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

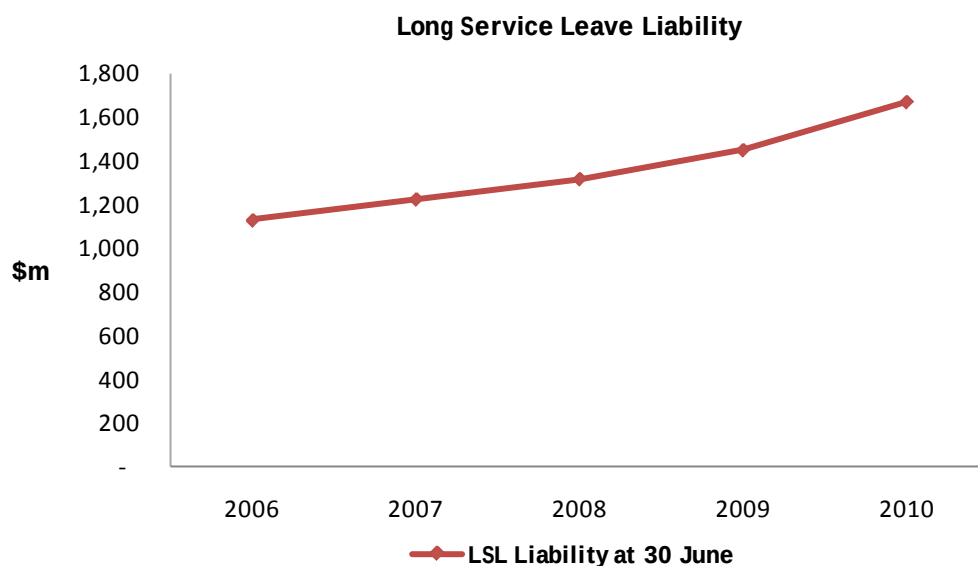
I understand the Department, including AHS, have implemented various strategies to reduce excessive annual leave. The Department should continue to monitor and implement such strategies to ensure excessive annual leave is minimised.

Overtime

Overtime payments in 2009-10 amounted to \$341 million (\$335 million in 2008-09), 4.8 per cent (5.0 per cent) of total base salary expense for the year. On average, employees received \$5,909 (\$5,610) in overtime payments and 61.8 per cent (62.9 per cent) received a payment for working overtime. The highest amount paid to a single employee in 2009-10 was \$348,686 (\$294,462).

Long Service Leave Liability

The table below shows the consolidated entity's long service leave liability for the years 2005-06 to 2009-10. Long service leave entitlements at 30 June 2010 amounted to \$1,668 million (\$1,129 million at 30 June 2006), an increase of 47.7 per cent over the last five years.



Reasons for the increase in the liability include changes in actuarial factors used to determine long service leave liabilities, including changes in the government bond rates and increases in on-costs and salary rates.

This is a significant liability. The Department will need to ensure it has an adequate plan to fund these liabilities, which generally increase over time with increases in employee remuneration levels. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

The Department has advised it is finalising arrangements for the transfer of employee long service leave entitlements to the Crown Entity in order to bring the Department into line with other New South Wales Government budget dependent agencies. The effective date of the transfer is expected to be 31 December 2010.

PERFORMANCE INFORMATION

The Director-General has entered into performance agreements with individual AHS, which incorporate performance indicators, some of which have targets. The indicators are also measured and reported for benchmarking purposes. The Department holds monthly meetings with each AHS executive team to review performance against targets, strategies to achieve targets and progress towards benchmarks.

The indicators cover different aspects of AHS performance including:

- quality and safety of services
- access to services
- activity against agreed targets (including planned surgery)
- provision of mental health services
- progress of key state wide strategic initiatives
- workforce development
- financial performance.

While the Department has established overall benchmarks and targets, the targets may vary from the benchmark. The Department reviews and evaluates the performance of AHS against these targets.

The Department provided the following information on the financial and operational performance of AHS for the year ended 30 June 2010.

	Area Health Service					
	Greater Southern		Greater Western		Hunter New England	
	2010	2009	2010	2009	2010	2009
Abridged Statements of Comprehensive Income (Year ended 30 June) - \$million						
Employee related	395.6	440.6	415.6	409.3	1,031.3	994.4
Other expenses	555.0	473.8	404.5	380.5	789.1	722.0
Total expenses	950.6	914.4	820.1	789.8	1,820.4	1,716.4
Total revenues	138.8	137.2	100.7	85.5	385.9	306.4
Other (losses)/gains	(1.3)	(1.5)	(0.5)	(1.5)	(4.2)	(0.2)
Net cost of services	813.1	778.7	719.9	705.8	1,438.7	1,410.2
Government contributions	811.5	758.6	779.4	715.4	1,421.3	1,358.3
Surplus/(deficit)	(1.6)	(20.1)	59.5	9.6	(17.4)	(51.9)
Abridged Statements of Financial Position (at 30 June) - \$million						
Total assets	486.1	620.7	622.6	574.1	1,384.4	1,291.4
Total liabilities	208.6	210.4	204.5	214.4	616.3	590.0
Net assets	277.5	410.3	418.1	359.7	768.1	701.4
Performance Indicators - unaudited						
Average available beds (June)	1,914	2,023	1,860	1,852	3,232	3,202
Bed occupancy (%) (June)	73.8	72.8	72.6	70.2	81.3	81.7
Average length of stay (days)	2.6	2.7	2.9	3.0	3.6	3.8
Staff numbers (FTE) at 30 June	4,524	4,628	4,884	4,863	11,022	11,771
Emergency triage treatment categories (a)						
T1 (benchmark 100%)	100	100	100	100	100	100
T2 (benchmark 80%)	79	81	75	83	81	85
T3 (benchmark 75%)	74	76	74	78	71	75
T4 (benchmark 70%)	77	76	78	82	75	77
T5 (benchmark 70%)	90	90	92	93	91	92
Emergency admission performance (b)	81	81	77	83	83	83
Elective surgery categories (c)						
Category 1 (%)	92	93	95	95	89	88
Category 2 (%)	80	83	89	85	89	86
Category 3 (%)	84	90	91	94	89	93

Key: Performance Indicators data provided by the Department of Health (unaudited).

(a) Percentage of patients treated within clinically appropriate timeframes

T1 Immediately life threatening – treatment required within two minutes - benchmark = 100 per cent.

T2 Imminently life threatening – treatment required within 10 minutes - benchmark = 80 per cent.

T3 Potentially life threatening – treatment required within 30 minutes - benchmark = 75 per cent.

T4 Potentially serious – treatment required within one hour - benchmark = 70 per cent.

T5 Less urgent – treatment required within two hours - benchmark = 70 per cent.

(b) Percentage of patients transferred to an inpatient bed within eight hours of treatment – target = 80 per cent.

(c) Percentage of patients admitted for booked surgery within clinically appropriate timeframes

Category 1 Admission recommended within 30 days

Category 2 Admission recommended within 90 days

Category 3 Admission recommended within 365 days

	Area Health Service					
	North Coast		Northern Sydney and Central Coast		South Eastern Sydney and Illawarra	
	2010	2009	2010	2009	2010	2009

Abridged Statements of Comprehensive Income (Year ended 30 June) - \$million

Employee related	552.0	534.4	1,082.8	1,053.8	1,380.7	1,322.9
Other expenses	501.1	467.6	746.1	696.2	1,032.0	1,004.0
Total expenses	1,053.1	1,002.0	1,828.9	1,750.0	2,412.7	2,326.9
Total revenues	155.1	132.2	357.5	342.5	641.8	566.2
Other (losses)/gains	(1.6)	(1.4)	(24.7)	(2.9)	(2.3)	(6.9)
Net cost of services	899.6	871.2	1,496.1	1,410.4	1,773.1	1,767.6
Government contributions	915.1	846.0	1,454.6	1,402.9	1,737.1	1,702.8
Surplus/(deficit)	15.5	(25.2)	(41.5)	(7.5)	(36.0)	(64.8)

Abridged Statements of Financial Position (at 30 June) - \$million

Total assets	680.1	649.2	1,674.4	1,544.3	1,701.5	1,600.8
Total liabilities	225.5	232.9	581.1	486.2	623.4	609.1
Net assets	454.6	416.3	1,093.3	1,058.1	1,078.1	991.7

Performance Indicators - unaudited

Average available beds (June)	1,652	1,625	2,737	2,771	3,524	3,501
Bed occupancy (%) (June)	85.6	83.8	89.8	88.3	93.3	93.3
Average length of stay (days)	3.7	3.7	4.3	4.4	3.6	3.6
Staff numbers (FTE) at 30 June	6,099	5,987	11,326	11,443	14,567	14,205
Emergency triage treatment categories (a)						
T1 (benchmark 100%)	100	100	100	100	100	100
T2 (benchmark 80%)	65	77	80	75	88	88
T3 (benchmark 75%)	59	61	72	67	67	72
T4 (benchmark 70%)	64	65	73	70	72	74
T5 (benchmark 70%)	87	88	85	86	90	91
Emergency admission performance (b)	71	75	71	70	74	74
Elective surgery categories (c)						
Category 1 (%)	87	84	96	99	90	91
Category 2 (%)	74	75	79	85	87	83
Category 3 (%)	81	90	89	96	91	94

Key: Performance Indicators data provided by the Department of Health (unaudited).

(a) Percentage of patients treated within clinically appropriate timeframes

T1 Immediately life threatening - treatment required within two minutes - benchmark = 100 per cent.

T2 Imminently life threatening - treatment required within 10 minutes - benchmark = 80 per cent.

T3 Potentially life threatening - treatment required within 30 minutes - benchmark = 75 per cent.

T4 Potentially serious - treatment required within one hour - benchmark = 70 per cent.

T5 Less urgent - treatment required within two hours - benchmark = 70 per cent.

(b) Percentage of patients transferred to an inpatient bed within eight hours of treatment - target = 80 per cent.

(c) Percentage of patients admitted for booked surgery within clinically appropriate timeframes

Category 1 Admission recommended within 30 days

Category 2 Admission recommended within 90 days

Category 3 Admission recommended within 365 days

	Area Health Service					
	Sydney South West		Sydney West		Total	
	2010	2009	2010	2009	2010	2009
Abridged Statements of Comprehensive Income (Year ended 30 June) - \$million						
Employee related	1,613.5	1,560.5	1,202.0	1,186.2	7,673.5	7,502.1
Other expenses	1,049.4	992.7	867.8	827.0	5,945.0	5,563.8
Total expenses	2,662.9	2,553.2	2,069.8	2,013.2	13,628.5	13,065.9
Total revenues	634.5	553.3	375.1	329.5	2,789.4	2,452.8
Other (losses)/gains	(14.5)	(5.9)	(6.8)	(16.5)	(55.9)	(36.8)
Net cost of services	2,042.9	2,005.8	1,701.5	1,700.2	10,884.9	10,649.9
Government contributions	2,140.7	2,029.2	1,676.3	1,639.7	10,936.0	10,452.9
Surplus/(deficit)	97.8	23.4	(25.2)	(60.5)	51.1	(197.0)
Abridged Statements of Financial Position (at 30 June) - \$million						
Total assets	2,183.2	2,067.9	1,688.0	1,663.4	10,420.3	10,011.8
Total liabilities	697.6	653.9	589.8	549.2	3,746.8	3,546.1
Net assets	1,485.6	1,414.0	1,098.2	1,114.2	6,673.5	6,465.7
Performance Indicators - unaudited						
Average available beds (June)	4,032	3,958	2,905	2,888	22,421^e	22,311 ^e
Bed occupancy (%) (June)	92.6	90.7	91.5	92.8	88.3^d	87.4 ^d
Average length of stay (days)	3.6	3.7	3.4	3.5	3.6^d	3.7 ^e
Staff numbers (FTE) at 30 June	17,680	17,459	12,550	13,422	82,652	83,778
Emergency triage treatment categories (a)						
T1 (benchmark 100%)	100	100	100	100	100^d	100 ^d
T2 (benchmark 80%)	88	79	80	81	81^d	81 ^d
T3 (benchmark 75%)	77	63	65	65	70^d	68 ^d
T4 (benchmark 70%)	77	72	68	70	73^d	73 ^d
T5 (benchmark 70%)	92	89	85	88	89^d	89 ^d
Emergency admission performance (b)	71	65	66	69	73^d	73 ^d
Elective surgery categories (c)						
Category 1 (%)	95	95	91	96	92^d	93 ^d
Category 2 (%)	92	90	77	91	84^d	85 ^d
Category 3 (%)	94	97	84	96	89^d	94 ^d

Key: Performance Indicators data provided by the Department of Health (unaudited).

(a) Percentage of patients treated within clinically appropriate timeframes

T1 Immediately life threatening – treatment required within two minutes - benchmark = 100 per cent.

T2 Imminently life threatening – treatment required within 10 minutes - benchmark = 80 per cent.

T3 Potentially life threatening – treatment required within 30 minutes - benchmark = 75 per cent.

T4 Potentially serious – treatment required within one hour - benchmark = 70 per cent.

T5 Less urgent – treatment required within two hours - benchmark = 70 per cent.

(b) Percentage of patients transferred to an inpatient bed within eight hours of treatment – target = 80 per cent.

(c) Percentage of patients admitted for booked surgery within clinically appropriate timeframes

Category 1 Admission recommended within 30 days

Category 2 Admission recommended within 90 days

Category 3 Admission recommended within 365 days

(d) Statistics include CHW.

(e) Statistics include CHW and Justice Health.

Financial Performance

Two of the key indicators used by the Department to monitor the financial performance of AHS are net cost of services (adjusted to exclude special purpose and specific project funds) and general creditor levels. The Department advised that SSWAHS and HNEAHS achieved both benchmarks in 2010 (SSWAHS in 2009). The general creditors benchmark was achieved by all AHS in 2010 (two AHS in 2009), a significant improvement. However, this performance indicator excludes creditors with invoices on hold or in dispute and other creditors, such as those for capital projects, certain government agencies and intra health entities. Achievement of creditors' benchmarks was discussed in detail earlier under Key Issues.

Net Cost of Services

The net cost of services for five (six) of the eight AHS were higher than the budget approved by the Department. The over-runs ranged from \$1.8 million for SWAHS to \$8.5 million for GSAHS. This was an improvement over the prior year where the overruns ranged from \$13.0 million for SESIAHS to \$40.7 million for SWAHS.

The actual to budget net cost of services results for the AHS are detailed below:

Area Health Service Year ended 30 June	Budget* 2010 \$m	Actual* 2010 \$m	(Over)/Under Budget \$m
Greater Southern	804.6	813.1	(8.5)
Greater Western	714.6	719.9	(5.3)
Hunter New England	1,452.0	1,438.7	13.3
North Coast	900.4	899.6	0.8
Northern Sydney and Central Coast	1,488.9	1,496.1	(7.2)
South Eastern Sydney and Illawarra	1,767.6	1,773.1	(5.5)
Sydney South West	2,086.8	2,042.9	43.9
Sydney West	1,699.7	1,701.5	(1.8)

*Includes Special Purpose and Trust Funds and special projects. These are not included in the Department key indicators mentioned above.

Operational Performance and Activity Levels

The Department uses other indicators to monitor operational performance and activity levels of AHS. These indicators include bed occupancy rates, average length of stay and the time taken to treat and admit emergency department patients.

Bed Occupancy Rate

The bed occupancy rate is the percentage of available beds that are occupied during the reporting period. It measures the use of hospital resources by inpatients and is based on major facilities.

The bed occupancy rate ranged from a high of 93.3 per cent (SESAHS) to a low of 72.6 per cent (GWAHS). The metropolitan bed occupancy rate is significantly higher than most rural areas.

Average Length of Stay

The State wide average length of stay for acute separations is 3.6 days, slightly lower than the prior year of 3.7 days. Generally, metropolitan areas registered a slightly higher average length of stay than rural areas.

Average Available Beds

The average number of available beds has remained constant across the majority of AHS, with only a slight increase in the overall number of available beds in June 2010 being 22,421 (22,311).

Emergency Department Patients

▪ **Triage**

Triage is a mechanism used to assess emergency department patients for urgency to be seen by a clinician. Correct triaging of patients ensures they are treated in a timely manner according to the clinical urgency of their condition.

The Department sets triage targets that align with those recommended by the Australasian College of Emergency Medicine (ACEM).

Critical care triage categories T1 to T3 relate to life threatening situations (see earlier table for explanations of T1 to T3). All AHS met the T1 benchmark. Performance in T2 remained consistent while T3 worsened this year. Three AHS did not achieve the T2 benchmark and seven AHS did not meet the other life threatening category T3 in 2009-10.

The following table indicates how many of the eight AHS achieved the individual triage benchmarks.

Triage Category Year ended 30 June	Target %	2010	2009
Triage Category 1	100	8	8
Triage Category 2	80	5	5
Triage Category 3	75	1	3
Triage Category 4	70	6	7
Triage Category 5	70	8	8

▪ **Emergency Admission Performance**

Emergency Admission Performance measures the time it takes for patients who require a hospital admission to be admitted from the emergency department to an inpatient bed. It is expressed as a percentage of patients admitted to an inpatient bed within eight hours of the commencement of treatment in the emergency department.

Metropolitan AHS typically record a lower emergency admission performance than rural services. SWAHS recorded the lowest emergency admission performance at 66.0 per cent. The highest was HNEAHS at 83.0 per cent.

Elective Surgery Waiting Times

Elective Surgery is defined by the Department as planned or scheduled, non-emergency surgical procedures generally performed in an operating theatre, by a surgeon, under some form of anaesthesia. The Department is increasingly using the term 'planned surgery' to describe this type of surgical activity.

Three categories are currently used to classify planned surgical patients according to their clinical priority.

- Category 1 – surgical procedure to occur within 30 days of booking for surgery. Condition has the potential to deteriorate quickly to the point that it may become an emergency.
- Category 2 – surgical procedure to occur within 90 days of booking for surgery. Conditions that cause some pain, dysfunction or disability, but are not likely to deteriorate quickly or become an emergency.
- Category 3 – surgical procedure to occur within 365 days of booking for surgery. Conditions that cause a lower degree of pain, dysfunction or disability, and are unlikely to deteriorate quickly or become an emergency.

In terms of performance, the Department tracks the median waiting times for each category of patients, the percentage of patients within each category who have received their treatment within the desirable timeframes, and the number of patients ready for care who have waited longer than the benchmark waiting time.

There has been a slight reduction in the percentage of patients admitted within the targets in all three categories. The Department advised that:

Category 1

- 92.0 per cent of patients in the most urgent category were admitted within the target of 30 days (93.0 per cent in 2008-09)
- the best percentage was NSCCAHS at 96.0 per cent
- the lowest percentage was NCAHS at 87.0 per cent.

Category 2

- patients admitted within the target of 90 days were 84.0 per cent (85.0 per cent)
- SSWAHS had the best percentage at 92.0 per cent
- NCAHS had the lowest percentage at 74.0 per cent.

Category 3

- patients admitted within the target of 365 days were 89.0 per cent (94.0 per cent)
- SSWAHS had the highest percentage at 94.0 per cent
- NCAHS had the lowest percentage at 81.0 per cent.

The Department advised there was a significant increase in the median waiting time for Category 3 patients, who waited an average of 205 days in the April to June 2010 quarter (134 days for April to June 2009). The median waiting time for Category 2 patients improved slightly at 49 (51) days for the April to June 2010 quarter. Category 1 patients waited an average of 11 days (10).

The Australian Government commenced a program to provide additional funding to States provided they met certain targets for elective surgery. The first target set for the six months ended 31 December 2009 was for 100,507 elective surgery admissions. The Department achieved the target. The Department advised that provisional targets for the six months to 30 June 2010 have been achieved, subject to review by the COAG Reform Council.

The Department advised:

- the number of patients on the surgical waiting list has increased from 64,512 as at 30 June 2009 to 66,817 as at 30 June 2010.
- the number of surgical urgent overdue patients reduced significantly in Category 1 to two at 30 June 2010 (74 at 30 June 2009)
- the Category 2 overdue waiting list has decreased significantly to 138 at 30 June 2010 (839)
- Category 3 overdue patients has increased to 1,057 at 30 June 2010 (674).

At 30 June	No. of patients on surgical waiting list		Number overdue	
	2010	2009	2010	2009
Surgical Waiting List				
Category One	1,983	2,210	2	74
Category Two	11,103	11,407	138	839
Category Three	53,731	50,895	1,057	674
Total	66,817	64,512	1,197	1,587

Source: Department of Health (unaudited)

An audit was recently conducted by an external consultant on SWAHS elective surgery waiting lists to examine whether SWAHS complied with waiting time and patient management policies set by the Department. This review stemmed from concerns over waiting list performance and management at SWAHS.

As a result of this review, ten recommendations were made. Further information on this is included in SWAHS comment later in this volume.

Interstate Comparisons

The following information, based on 2008-09 statistics compares performance indicators for public acute hospitals for New South Wales with other jurisdictions. Each jurisdiction has different complexities, salary structures and accounting mechanisms. The data should be considered in this context.

2008-09 Statistics		NSW*	National
Average available beds per 1,000 population		2.7	2.5
Average length of stay (including day surgery)(days)		3.9	3.5
Emergency department waiting times by Triage category (percentage of patients treated within benchmark time)	T1	100	100
	T2	80	77
	T3	68	64
	T4	73	67
	T5	90	88

Source: Australian Institute of Health and Welfare (AIHW) - Australian Hospital Statistics 2008-09.

* These statistics differ from the Department's statistics, partly because they are based on a selection of hospitals only.

The AIHW continues to maintain its belief in 'the concept of an available bed is also becoming less important, particularly in the light of increasing same-day hospitalisations and the provision of hospital-in-the-home care'. AIHW also believes different case mixes in hospitals affect the comparability of bed numbers.

Both nationally and in New South Wales there tends to be more beds per 1,000 people in rural areas than in metropolitan areas.

The New South Wales average length of stay increased to 3.9 days (3.6) while the national average increased to 3.5 days (3.3).

New South Wales triage performance is equal to or better than the national average in all of the five categories.

New South Wales Budgeted Health Expenditure - State and Commonwealth

The budgeted expenditure for the Department has increased steadily over the past five years from \$10.3 billion in 2004-05 to \$14.5 billion in 2009-10. As a percentage of total budgeted State spending, health expenditure reduced marginally from 27.0 per cent in 2004-05 to 26.4 per cent in 2009-10.

A review of Commonwealth Budget Papers showed the New South Wales proportion of the total Commonwealth Health budget in 2009-10 increased slightly to 33.1 per cent (33 per cent).

Royal North Shore Redevelopment Project

On 28 October 2008, the Government entered into a \$722 million public private partnership project to consolidate 53 outdated buildings into modern purpose built facilities for acute hospital care and community health, and construction of a new car park.

Provision of facilities maintenance commenced in October 2009. Construction of new facilities is progressing well, with completion of the community health building expected in the first quarter of 2011. The new main hospital is scheduled for completion by the end of 2012 with remaining development to be finalised in 2014.

Liverpool Hospital Redevelopment

Stage two of the Liverpool Hospital redevelopment is progressing well with completion scheduled for the end of 2011. The redeveloped Liverpool Hospital will feature 855 beds, 20 operating rooms and 3 interventional suites, 60 intensive care beds, extended cancer treatment facilities, a major new ambulatory care centre, an additional rooftop helipad, additional parking, new education facilities, and an elevated road and separate pedestrian bridge over the railway linking the eastern and western campuses.

At 30 June 2010, \$253 million of project costs had been incurred. The current forecast total cost on completion is \$397 million, which is tracking well against the current approved budget of \$396 million.

PUBLIC HEALTH SECTOR ACTIVITIES

The Department advises the Government on the strategic direction, policy and planning of the State's health system. It also monitors and evaluates health activities.

The *Health Administration Act 1982* empowers the Department's Director-General as a Corporation Sole (Health Administration Corporation) to enter into various legal contracts such as the purchase, sale or lease of property. This Act also enables the Director-General to determine that the Health Administration Corporation (HAC) may exercise any of the Director-General's functions. These functions include the provision of ambulance services to the New South Wales community and the provision of health support services to the public health system.

AHS are Public Health Organisations constituted under the *Health Services Act 1997*. They are subject to the control and direction of the Director-General. They provide health services for the residents of New South Wales within their respective geographical areas.

Justice Health, the Clinical Excellence Commission, the Bureau of Health Information (established 1 July 2009) and the Agency for Clinical Innovation (established 11 January 2010) are board governed Statutory Health Corporations (SHC), subject to the control and direction of the Minister and (by delegation) the Director-General. The CHW is a chief executive governed statutory health corporation, subject to the direction and control of the Director-General. SHC are also Public Health Organisations constituted under the *Health Services Act 1997*.

The Ambulance Service of New South Wales is an administrative unit of HAC which carries out the Director-General's functions to provide ambulance services under the *Health Services Act 1997*.

The Director-General also established other units to provide various services to the public health sector as part of HAC. These include:

- Health Support Services (HSS), formed 24 April 2007 from the merger of the HealthTechnology and HealthSupport business units. HSS provides financial, payroll, linen, food, warehousing and other health support services to public health organisations
- NSW Institute of Medical Education and Training, established on 1 September 2005 to provide medical education and educational support to the health sector
- Health Infrastructure, established 1 July 2007 to undertake major capital projects in connection with public health organisations.

The Graythwaite Trust was established 1 July 2009 to construct a rehabilitation facility to be operated by NSCCAHS on completion.

Albury Base Hospital and the Albury Wodonga Health (Employment Division) were established 1 July 2009. Albury Base Hospital was separated from GSAHS under the *Health Services Act 1997* and reports directly to the Minister for Health and (by delegation) the Director-General. Both of these entities were established to provide services to Albury Wodonga Health, an entity established under Victorian legislation.

Section Three



Commentary on Government Agencies

Minister for Finance

WorkCover Authority of New South Wales
Workers' Compensation (Dust Diseases) Board
Workers Compensation Nominal Insurer

Refer to Appendix 1 for:

Compensation Authorities Staff Division

WorkCover Authority of New South Wales

AUDIT OPINION

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

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

KEY ISSUES

'Be Aware Take Care' advertising campaign, WorkCover Authority of NSW

I received correspondence complaining that advertisements by the WorkCover Authority titled 'Be Aware Take Care' were an inappropriate use of tax payers' money. I assessed the compliance of this campaign with the Government's 2008 and 2010 advertising guidelines. My findings were:

- the campaign was approved by a Minister of the Crown, not the Chief Executive Officer of the Authority
- there was no cost benefit analysis of the advertising budget
- some statements in the advertisements were not substantiated.

One of my main concerns was that a Minister approved the campaign and made key decisions affecting the design and direction of the campaign. The involvement of a Minister reinforces findings in my 2009 report that there is an unacceptable risk that a reasonable person could judge the campaign as serving party political interests.

Background

The important role played by government advertising can be undermined by any suggestion that it serves party political interests.

Government advertising is a perennial issue for Auditors-General. Of all the things that agencies spend public funds on, advertising is one that attracts controversy and public debate.

The New South Wales Government Advertising Guidelines published in 2008 (the 2008 Guidelines) incorporated recommendations from earlier audit reports, and were a positive step towards reducing the risk that publicly funded advertising could be used inappropriately.

Nevertheless, concerns remained about whether campaigns complied with the 2008 Guidelines.

In December 2009, I published my second report on government advertising in which I reviewed four of the Government's advertising campaigns:

- the New South Wales Public Sector Cadetship (NSW Cadetship) campaign and the Investing in a Better Future (Better Future) campaign, both undertaken by the Department of Premier and Cabinet (DPC)
- the Winter 2009 (Influenza) campaign and the Tobacco legislation change (Smoking in Cars with Kids) campaign, both undertaken by NSW Health.

I found that the two New South Wales Health campaigns had followed the required approval processes and were appropriate. I had some concerns with the two DPC campaigns.

I found that there were still parts of the 2008 Guidelines that required a subjective judgement and therefore did little to help manage the risk that publicly funded advertising could be used inappropriately.

There were three reasons:

- the 2008 Guidelines did not hold department Directors General and agency Chief Executives accountable for making key decisions and ensuring that campaigns comply with the Guidelines
- the roles and responsibilities of the various parties, particularly Ministers and their staff, were not well defined
- the 2008 Guidelines were not clear about demonstrating value for money using cost benefit analysis.

In response to my 2009 report, the Government revised the New South Wales Government Advertising Guidelines in May 2010 (the 2010 Guidelines).

'Be Aware Take Care' advertising campaign

In April 2010 a series of advertisements by the WorkCover Authority titled 'Be Aware Take Care' began with the purpose of ensuring safety around school construction sites.

The Authority received \$1.3 million during 2009-10 from NSW Treasury to fund the campaign.

I received correspondence complaining that the advertisements were an inappropriate use of tax payers' money because the safety message was not delivered until the end. The advertisements began with emphasis on the Australian and State Government investments in the Building the Education Revolution (BER) program.

In light of the findings in my 2009 report, I decided to assess the compliance of this campaign with the 2008 and 2010 Guidelines.

Similar to my findings with the *Better Future* campaign, there are risks that the 'Be Aware Take Care' campaign may be seen as inappropriate. The campaign was approved by a Minister not the Chief Executive Officer of the Authority, there was no cost benefit analysis of the advertising budget, and some statements in the advertisements were not substantiated.

While these were not requirements of the 2008 Guidelines that were in effect when the campaign was initiated, these were issues that I highlighted in my 2009 report. The 2010 Guidelines now makes these explicit requirements.

One of my main concerns with this campaign is that a Minister approved the campaign and made key decisions affecting the design and direction of the campaign. The following emails between persons involved in the campaign indicate the involvement of the Minister:

'As it stands this afternoon we are still trying to finalise the script with the [Minister's] office ...'
12/3/10 15:37

'Hi there' Here's the final script from the [Minister's] office ...'
12/3/10 18:40

'... we have not included a 15 second TVC due to the fact that the 30 second has 5 messages in it (at the request of the [Minister]) and this will not work in a 15 second format.'
14/3/10 15:02

'the [Minister's] office is liaising with DET to select suitable school sites for the campaign. In addition to Newcastle/Hunter, Illawarra, Sydney and Central Coast the [Minister] also asked for a separate ad for Sutherland Shire. For Sydney the school is to be in Western Sydney.'

15/3/10 15:10

'the content of the online ads was approved by the [Minister]'

16/4/10 09:45

The involvement of a Minister reinforces findings in my 2009 report that there is an unacceptable risk that a reasonable person could judge the campaign as serving party political interests.

Ministers or their staff should not be making key decisions about campaigns. This is to ensure that publicly funded advertising campaigns do not promote party political interests, and advertising is presented in a manner free from partisan promotion of government policy or political argument.

Although the *Be Aware Take Care* campaign generally met the requirements of the 2008 Guidelines that were in place at the time it was initiated, it would not meet the new standards in the 2010 Guidelines that were implemented in response to the recommendations of my 2009 report.

The 2010 Guidelines now include more details on the role and responsibility of Ministers. However it does not refer to Ministers' staff and it does not exclude Ministers or their staff from making key decisions.

However, I believe this weakness is counteracted by another of my key recommendations that was implemented in the 2010 Guidelines. Departmental Directors General and agency Chief Executives are now required to certify that the advertising complies with the Guidelines and other policies, is accurate, and provides value for money and that the certification reflects their own views, independent of any Ministerial direction on campaign design or implementation as it relates to method, medium and volume of advertising.

In my 2009 report I stated:

There is another good reason for conducting this audit now. My earlier report highlighted an increase in the amount spent on government advertising leading up to the 2007 State election. This contributes to the perception that Government advertising may inappropriately serve the political interests of the party in Government.

This review provides an opportunity for the Government to strengthen the Guidelines to prevent the inappropriate use of publicly funded advertising in the lead-up to the next State election.

Indeed, the 2010 Guidelines implement a more transparent regime in New South Wales that should reduce the risk of publicly funded advertising inappropriately serving party political interests.

Given the ongoing public interest in this topic, I will continue to examine publicly funded advertising and related issues as part of my audit programs in the future.

PERFORMANCE INFORMATION

Workplace Injury Rates

Year ended 30 June	Workplace Injuries			
	2009	2008	2007	2006
Incidence rate ^a	10.0	10.0	9.9	11.0
Frequency rate ^b	6.0	5.8	5.8	6.4
Fatalities	75	53	69	75
Permanent disability	4,302	4,775	5,205	6,686

Source: New South Wales Workers Compensation Statistical Bulletin 2008-09 and WorkCover Authority (unaudited).

(a) incidence rate measure the number of injuries per 1,000 employees.

(b) frequency rate is the number of injuries per million hours worked.

To measure the effectiveness of its activities to minimise workplace injury, the Authority looks at changes in the incidence rates for major injuries and workplace fatalities. The Authority advised that the most recent figures available are for 2008-09 and show that work related injury rates continue to be close to their lowest levels since the workers compensation scheme commenced in 1987.

In 2009, the industries that experienced the highest rate of work related fatalities were mining (24.0 per 100,000 employees), agriculture, forestry and fishing (11.9 per 100,000 employees) and construction (11.8 per 100,000 employees). In 2008, the industries with the highest rates were agriculture, forestry and fishing (22.9 per 100,000 employees), transport and storage (12.0 per 100,000 employees) and construction (10.3 per 100,000 employees).

Male employees represented the majority of work related fatalities in 2009 with 89.0 per cent while female employees accounted for 11.00 per cent.

Enforcement Activity

Year ended 30 June	Notices Issued		
	2010	2009	2008
Penalty notices ^a	688	690	619
Prohibition notices ^b	856	769	994
Improvement notices ^c	12,161	10,863	13,109
Confirmation of advice records ^d	2,486	2,460	3,919

Source: WorkCover Authority Annual Report (unaudited).

(a) issued for offences under the *Occupational Health and Safety Act 2000*, *Occupational Health and Safety Regulation 2001* and the *Occupational Health and Safety (Clothing Factory Registration) Regulation 2001* where it appears that a person has committed an offence.

(b) issued in response to an immediate risk to the health or safety of any person and prohibits the activity until the risk is remedied. These will usually, but not always, constitute a breach of the OHS Act or OHS Regulation 2001.

(c) issued in response to apparent breaches of the OHS Act, the OHS Regulation or the OHS (Clothing Factory Registration) Regulation 2001 or for administrative breaches of legislation, to rectify systems of work or hazards which do not pose an immediate risk to the health or safety of any person.

(d) encourage employers to examine how they can make improvements to the way they are managing workplace safety.

The Authority focuses on providing information and advice to ensure employers meet their workplace safety obligations, and attributes this to the general reduction in the number of prohibition and penalty notices issued.

OTHER INFORMATION

Establishment of Compensation Authorities Staff Division (CASD) and Shared Services Model

CASD was created effective 1 July 2009 by merging the former Office of the WorkCover Authority and Office of the Motor Accidents Authority. CASD provides personnel services to the following agencies:

- WorkCover Authority of New South Wales
- Workers Compensation Commission
- Workers Compensation (Dust Diseases) Board
- Lifetime Care and Support Authority
- Building and Construction Industry Long Service Payments Corporation
- Motor Accidents Authority
- Sporting Injuries Committee.

The Authority is moving to a shared corporate services model for these agencies. This will involve the alignment of systems and restructure of back office functions.

Human Resources

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

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- extent of contract staff.

Issues identified from my review will be reported in a management letter to the Authority. A summary of the results of my review follows.

Workforce Ageing

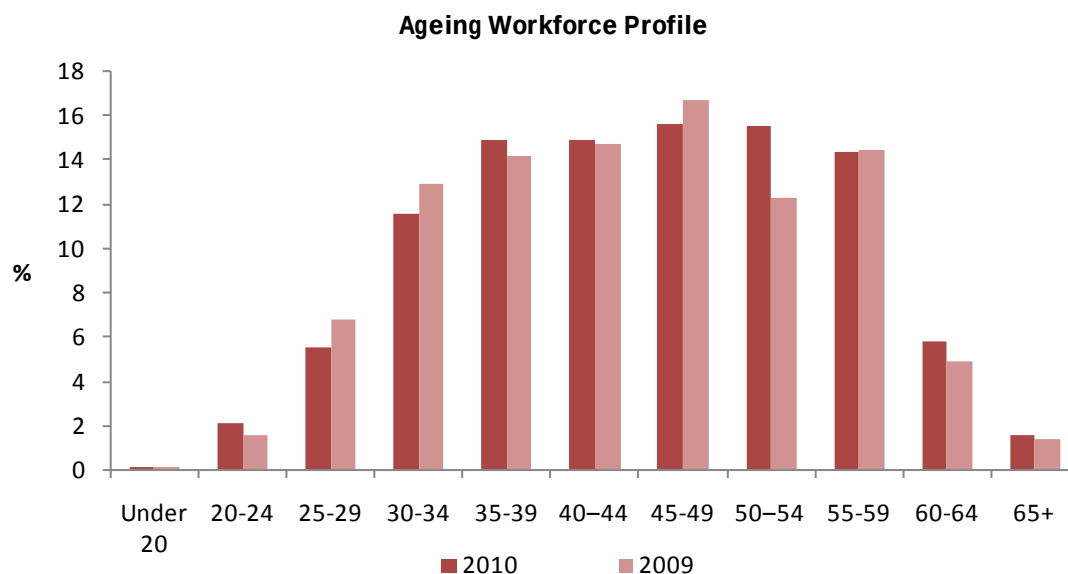
The WorkCover Group has 22.0 per cent of its employees over 55 years of age and 36.0 per cent over 50 years of age.

As at 30 June Age Group	2010		2009	
	No. Of Employees	%	No. Of Employees	%
Up to 49	841	64	886	68
50-54	176	14	163	12
55-59	187	14	191	14
60-64	76	6	65	5
65+	21	2	18	1
Total	1,301	100	1,323	100

Source: Information provided by the Authority (Unaudited).

Includes staff of the Authority's controlled entity, the Workers Compensation Commission

The graph below further demonstrates the age profile of employees.



Annual Leave Balances

There were 44 employees at 30 June 2010 (95 employees at 30 June 2009) that had annual leave balances in excess of the 40 day maximum threshold, up to a maximum of 63 days (84 days). The decrease is due to active management to reduce excess leave balances.

Employment of Contractors

I recommend the entities within the WorkCover Group create and maintain a single record of all contractors engaged by them.

The entities should also periodically review the roles and responsibilities of all their contractors to ensure:

- reliance on contractors is not excessive
- use of contractors instead of permanent employees is appropriate
- contractors do not become de facto employees by virtue of being with an entity for an extended period of time
- use of contractors continues to represent value for money.

The entities within the group do not maintain a central registry for all contractors engaged and couldn't provide the following information at 30 June 2010:

- the number of contractors engaged
- the period of service of contractors engagement
- individual contractor payments made during the year.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Contributions	199,544	259,744	199,544	259,744
Investment Revenue/(Expense)	14,130	(2,943)	14,130	(2,943)
Other	29,643	29,242	30,468	30,077
TOTAL REVENUE	243,317	286,043	244,142	286,878
TOTAL EXPENSES	269,167	339,145	269,992	339,980
DEFICIT	25,850	53,102	25,850	53,102
OTHER COMPREHENSIVE EXPENSE				
Revaluation of land and buildings - decrement	1,704	427	1,704	427
TOTAL COMPREHENSIVE EXPENSE	27,554	53,529	27,554	53,529

Contributions decreased by \$60.2 million mainly as a result of reduced contributions from the Workers Compensation Nominal Insurer of \$37.0 million, and a \$25.9 million decrease from the Insurers Guarantee Fund which is operated by the Authority.

Investment revenue improved as financial markets recovered from the global financial crisis.

Expenses decreased by \$70.0 million mainly as a result of reduced transfers of surplus funds to the Workers Compensation Nominal Insurer and reduced actuarially measured defined benefit superannuation expense.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Cash and investments	180,684	168,940	180,683	168,939
Other	92,162	89,701	90,581	87,662
TOTAL ASSETS	272,846	258,641	271,264	256,601
Outstanding claims	109,828	110,192	109,828	110,192
Other	202,284	160,161	200,702	158,121
TOTAL LIABILITIES	312,112	270,353	310,530	268,313
NET LIABILITIES	39,266	11,712	39,266	11,712

The increase in other liabilities of \$42.1 million is mainly due to an increase in trade and other payables associated with the Insurer's Guarantee Fund, a one-off \$10.5 million that was owed to the Workers Compensation Nominal Insurer, and an increase of \$12.3 million in defined benefit superannuation obligations.

Although the net liability position increased by \$27.6 million the financial statements were prepared on a going concern basis. The *Workplace Injury Management and Workers Compensation Act 1998* allows for additional funding for the Authority to be provided from the Workers Compensation Nominal Insurer, subject to Minister's approval.

AUTHORITY ACTIVITIES

The WorkCover Authority of New South Wales is constituted under the *Workplace Injury Management and Workers Compensation Act 1998*.

The Authority:

- promotes the prevention of work-related injuries and diseases and assists workplaces to become healthier and safer
- promotes prompt, efficient and effective management of injuries to persons at work
- ensures efficient operation of workers compensation insurance arrangements
- co-ordinates the administration of schemes relating to workers compensation and occupational health and safety legislation.

The Authority directs, controls and manages four active funds, namely the WorkCover Authority Fund; the Insurers' Guarantee Fund; the Emergency and Rescue Workers Compensation Fund; and the Bush Fire Fighters Compensation Fund. The Authority's financial report combines the results and financial positions of these funds. The NSW WorkCover Scheme's operations are not included in the financial report. The Chief Executive Officer of the Authority and the Board of Directors are subject to the control and direction of the Minister for Finance.

For further information on the Authority, refer to www.workcover.nsw.gov.au.

CONTROLLED ENTITY**Workers Compensation Commission of New South Wales**

Year ended 30 June	2010 \$'000	2009 \$'000
Revenue	33,098	33,138
Personnel services expenses	11,914	12,076
Other expenses	21,184	21,062
Total Comprehensive income	--	--
Net assets (at 30 June)	--	--

The Commission's operations are funded by the Authority.

The Commission is constituted under the *Workplace Injury Management and Workers Compensation Act 1998*. The Commission is an independent statutory tribunal that resolves workers' compensation disputes between injured workers and employers.

For further information on the Commission, refer to www.wcc.nsw.gov.au.

Workers' Compensation (Dust Diseases) Board

AUDIT OPINION

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

KEY ISSUES

Dust Diseases Levy paid by the NSW Self Insurance Corporation

In the prior year's report I recommended the Board liaise with the NSW Self Insurance Corporation (the Corporation) to ensure the dust diseases levy applied by the Corporation complies with the *Workers' Compensation (Dust Diseases) Act 1942* (the Act).

In previous years the Corporation was applying the lowest dust diseases levy rate to calculate the levy payable. The Act required a range of levy rates to be applied by self-insurers depending on the business classification of their employees. From 2009-10, the Corporation has commenced applying the range of levy rates set out in the Act. The issue of whether an adjustment is required for previous years remains unresolved.

PERFORMANCE INFORMATION

Year ended 30 June	Actual Performance		
	2010	2009	2008
Compensation applications received	758	808	837
Medical Authority certificates issued for dust diseases	262	336	301
Compensation awards approved (a)	475	480	406
Compensation paid (\$m)	66.5	62.8	56.8

Source: Dust Diseases Board (unaudited except for compensation paid figures).

(a) Includes awards to workers and dependants.

Investment Performance of the Board

The following table compares the returns earned on the Board's investments against similar New South Wales Treasury Corporation (TCorp) investments:

Type of Investment	TCorp	The Board's Return		
	2010 %	2010 %	2009 %	2008 %
0 - 2 years Cash Plus	4.46	4.54	5.09	6.42
2 - 7 years Bond Market	8.69	12.17	8.05	4.74
7+ years Long Term	11.28	8.27	(25.99)	(18.16)

Source: Dust Diseases Board (unaudited).

The Board's investments are held with 10 fund managers, including TCorp, across cash, bond market and long term growth facilities. The bond market facility has an investment horizon of two to seven years, while the long term growth facility has an investment horizon of seven years and over. These facilities have the potential to earn higher returns over the long term than cash based facilities, but can experience greater volatility in the short to medium term.

The performance of the long term sector improved from the prior year as equity markets started to recover from the global financial crisis. All types of investments contributed positive returns during the year.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Dust diseases levy	84,445	85,616
Investment income/(loss)	52,818	(59,293)
Contributions receivable increase/(decrease)	(59,770)	24,396
Other	627	728
TOTAL REVENUE	78,120	51,447
Outstanding claims liability decrease	(23,461)	(44,054)
Finance cost	94,360	89,128
Other	7,221	6,373
TOTAL EXPENSES	78,120	51,447
SURPLUS	--	--
OTHER COMPREHENSIVE INCOME	--	--
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	--	--

The positive investment income reflects the recovery of financial markets from the global financial crisis, as noted above.

The Board's income and expenditure are subject to large variations driven by movements in the outstanding claims liability. In 2009-10, the outstanding claims liability expense for the year was a decrease of \$23.5 million compared to a decrease of \$44.1 million in the previous year. The expense is a function of claims paid and awarded during the year, and actuarially assessed movements in the liability. Changes in economic and other actuarial assumptions can significantly change the outcome.

The cost of compensation claims and other costs of the Board are recovered from employers through the dust diseases levy. The movement in outstanding contributions represents the change in future levies required to fund these costs. The decrease in outstanding contributions of \$59.8 million largely reflects the increase in investment income and decrease in the outstanding claims liability expense compared to the prior year.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Contributions receivable	979,800	1,039,570
Investments	540,469	430,227
Other assets	100,810	158,836
TOTAL ASSETS	1,621,079	1,628,633
Outstanding claims	1,605,032	1,616,039
Other liabilities	14,421	10,968
TOTAL LIABILITIES	1,619,453	1,627,007
NET ASSETS	1,626	1,626

The Board's placement of funds in growth investments increased during the year but is still below the approved limit of 65.0 per cent.

The decrease in other assets, which includes cash and cash equivalents, and the increase in investments reflects the reallocation of cash to investments.

As noted above, contributions receivable represents the current shortfall in outstanding claims to be funded through future levies.

BOARD'S ACTIVITIES

The Board administers fortnightly compensation payments as well as medical expense payments to eligible disabled workers who contract a specified dust disease. Workers' dependants receive lump sum payments as well as fortnightly compensation payments where the worker subsequently dies as a result of a dust disease. Rates of compensation are adjusted periodically to account for increases in the cost of living.

The Board administers funds held in trust on behalf of dependant beneficiaries. The Board is also responsible for meeting the operating cost of the Dust Diseases Tribunal, which was created to expedite the common law claims of dust disease sufferers. The *Workers' Compensation (Dust Diseases) Act 1942*, gives the Board authority to impose levies each year to meet its annual operating costs.

The Board is a statutory authority established under the Act. It is subject to the direction and control of the Minister for Finance. For further information on the Workers' Compensation (Dust Diseases) Board, refer to www.ddb.nsw.gov.au.

Workers Compensation Nominal Insurer (trading as The NSW WorkCover Scheme)

AUDIT OPINION

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

KEY ISSUES

Financial Position of the Scheme

The Scheme's net asset deficiency increased by \$101 million to \$1.6 billion at 30 June 2010. The majority of the deficiency was incurred in the previous year during the global financial crisis. The global financial crisis reduced the Scheme's investment returns, while changes in assumptions applied by the Scheme's actuary (including discount and inflation rates) increased the outstanding claims liability.

The Scheme aims to maintain an asset to liability ratio greater than 100 per cent, but for the reasons stated above, this ratio decreased to 89.0 per cent at 30 June 2009 and remained at this level at 30 June 2010.

The Scheme's actuary has projected the Scheme's asset to liability ratio will improve over the next eight years as follows:

At 30 June	2011 \$m	2012 \$m	2013 \$m	2014 \$m	2015 \$m	2016 \$m	2017 \$m	2018 \$m
Total Assets	13,140	13,948	14,850	15,838	16,923	18,108	19,396	20,790
Total Liabilities	14,472	15,079	15,771	16,570	17,483	18,496	19,599	20,789
DEFICIT	1,332	1,131	922	732	560	388	203	1
Funding Ratio (%)	91	93	94	96	97	98	99	100

Source: Scheme Actuary Report 30 June 2010 (unaudited).

By 30 June 2018, the Scheme's actuary estimates the Scheme will be fully funded without having to increase premium rates or reduce compensation benefits paid. As with any actuarial estimate, there is inherent uncertainty as to whether actual investment returns and claims experience, which emerge in the future, will differ from the estimate. Last year, the Scheme's actuary estimated the Scheme would return to full funding by 30 June 2014, but this was revised based on actual experience during 2009-10.

PERFORMANCE INFORMATION

Investment Performance of the Scheme

The following table shows the Scheme's actual and benchmark investment return percentages for the last three years:

Year ended 30 June	Investment Performance per annum		
	2010 %	2009 %	2008 %
Investment return/(loss)	11.0	(7.9)	(0.5)
Benchmark return/(loss)	11.3	(8.7)	(1.5)

Source: WorkCover New South Wales Annual Report (unaudited).

The Scheme slightly underperformed against its benchmark this year. Since the Scheme's commencement, its investments have returned 4.6 per cent and outperformed the benchmark by 0.6 per cent. Investment losses incurred in previous years were consistent with the poor performance in global financial markets.

Creditworthiness of the Scheme's Investments

Indexed and interest bearing investments comprise 66.0 per cent of the Scheme's investments. An investment's credit rating is a key measure of its creditworthiness (or likelihood of default). Credit ratings of the Scheme's cash and interest bearing investments at 30 June were:

At 30 June	2010 %	2009 %
RATING:		
AAA/aaa	74	64
AA/Aa	8	13
A/A	15	20
BBB	3	3
Total	100	100

Source: WorkCover New South Wales Annual Report.

Investments rated BBB and above are considered investment grade. The Scheme increased its AAA rated securities by increasing its holdings of Australian fixed interest bonds, most of which are high quality AAA rated bonds.

Lower rated investments are more susceptible to adverse changes in issuer circumstances and economic conditions, which may impact the value of the investment.

OTHER INFORMATION

Inadequate Processes within a Scheme Agent

The Scheme operates through seven Scheme Agents who issue policies, collect premiums and process claims. Financial information from the Scheme Agents is aggregated and included in the Nominal Insurer's financial statements.

The auditors of one of the Scheme Agents were unable to confirm that exceptions identified during the prior year audit did not have a material impact on some of this Agent's current year balances.

The Scheme is continuing to monitor the corrective action taken by the Scheme Agent to address the causes of these exceptions. The exceptions were not material to the Scheme's financial statements.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$m	2009 \$m
Net earned premiums	2,395	2,572
Investment income/(loss)	1,080	(798)
Other income	26	80
TOTAL REVENUE	3,501	1,854
Net claims incurred	2,978	3,237
Management fees	328	309
Statutory levies	228	267
Other expenses	68	148
TOTAL EXPENSES	3,602	3,961
DEFICIT	101	2,107
OTHER COMPREHENSIVE INCOME	--	--
TOTAL COMPREHENSIVE EXPENSE	101	2,107

Investment returns improved as financial markets recovered from the global financial crisis. This year, within investment income, the Scheme had realised and unrealised investment gains of \$842 million compared to realised and unrealised losses of \$1.3 billion in 2008-09.

The decrease in net claims incurred of \$259 million was due to a smaller increase in the outstanding claims liability this year. This reflects changes in the assumptions used by the Scheme's actuary, including assumed discount and inflation rates.

Abridged Statement of Financial Position

At 30 June	2010 \$m	2009 \$m
Investments	10,719	9,480
Other	1,745	2,116
TOTAL ASSETS	12,464	11,596
Outstanding claims	13,152	12,002
Other	895	1,076
TOTAL LIABILITIES	14,047	13,078
NET LIABILITIES	1,583	1,482

Investments increased by \$1.2 billion due to increases in the value of the Scheme's investments as financial markets recovered from the global financial crisis.

Outstanding claims increased by \$1.1 billion largely due to changes in discount and inflation rates \$660 million and other assumptions used by the Scheme's actuary \$524 million. New claims incurred in 2010 were \$1.8 billion (\$1.7 billion in 2009), while claims payments were \$1.8 billion (\$1.6 billion).

Investments

At 30 June	2010 \$m	2009 \$m
Indexed and interest bearing securities	7,037	5,834
Australian equities	487	398
International equities	1,465	1,145
Unit trusts	1,479	2,007
Derivative assets	251	96
TOTAL INVESTMENTS	10,719	9,480
Derivative liabilities	286	103
NET INVESTMENTS	10,433	9,377

The Scheme's strategic asset allocation was changed during the year. The Scheme increased defensive asset holdings such as bonds by two per cent, with the corresponding decrease being in growth assets.

SCHEME ACTIVITIES

The Scheme was established under the *Workers Compensation Act 1987*. It comprises two entities, the Workers Compensation Nominal Insurer and the Workers Compensation Insurance Fund. The Nominal Insurer manages the Insurance Fund.

The Nominal Insurer operates as a licensed workers compensation insurer. The Insurance Fund holds premiums, investment funds and all other funds received. Effective operation of the Nominal Insurer and Insurance Fund commenced on 1 July 2005 when the assets and liabilities of the former WorkCover Scheme Statutory Funds were transferred to the Insurance Fund and the Nominal Insurer.

The WorkCover Authority does not control, but does act, for the Nominal Insurer.

The *Workplace Injury Management and Workers Compensation Act 1998* established the Workers Compensation Insurance Fund Investment Board to determine investment policies for Insurance Fund assets. The Investment Board reports to the Minister on the investment performance of the Insurance Fund.

For further information on the Scheme, refer to www.workcover.nsw.gov.au.

Minister for Health

Department of Health

Area Health Services:

Greater Southern

Greater Western

Hunter New England

North Coast

Northern Sydney and Central Coast

South Eastern Sydney and Illawarra

Sydney South West

Sydney West

Aus Health International Pty Limited

Bureau of Health Information

Cancer Institute NSW

Health Administration Corporation

Health Care Complaints Commission

Justice Health

New South Wales Health Foundation

Royal Alexandra Hospital for Children

Department of Health

AUDIT OPINION

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

Unless otherwise indicated, the commentary on the financial information is for the consolidated entity.

Controlled entities are listed in the 'Controlled Entities' section. Separate comment is included in this Volume for each entity other than the Clinical Excellence Commission, the Bureau of Health Information, the Albury Wodonga Health Special Purpose Service Entity, the Albury Base Hospital, the Agency for Clinical Innovation (ACI) and the Graythwaite Trust.

ACI obtained an exemption from The Treasury for preparing financial statements for the year ended 30 June 2010. Its first reporting period will be the 18 months ending 30 June 2011.

Comment on certain aspects of the consolidated entity's financial and operating performance is also included in the Health Overview section earlier in this Volume.

KEY ISSUES

Intra Health Receivables and Payables

I recommend the Department, in conjunction with Area Health Services, confirm all intra health agency balances regularly during the year, and in particular at year end to ensure eliminations are accurate.

Some receivable and payable balances between controlled entities, including Area Health Services could not be agreed. On consolidation, the Department eliminates intra health receivables and payables. There were unexplained variances between these balances amounting to \$23.0 million. The Department has advised balances will be reconciled regularly during the year, so problems are addressed in a timely manner.

OTHER INFORMATION

I identified other opportunities for improvement to the Department's accounting and internal control procedures and will report them to management.

Human Resources

This year I reviewed the following areas of the Department's Head Office (HO) in relation to human resources:

- age profile of HO employees to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- extent of overtime
- extent of use of contract staff.

I did not identify significant issues with the age profile or overtime trends for employees. A summary of the results of my review follows.

Annual Leave Balances

The Department has actively managed its HO employees with excessive annual leave balances in recent years. The number of employees with annual leave balances in excess of 40 days has declined from 166 employees at 30 June 2009 to 126 employees at 30 June 2010, being 20.3 per cent of total HO employees at 30 June 2010 (29.1 per cent at 30 June 2009).

The following table shows the number of HO staff with leave in excess of 40 days.

Annual Leave Entitlement (Days)	2010	2009
	No. of Staff	No. of Staff
41-60	111	108
61-80	13	38
81-100	2	13
100 +	--	7
Total	126	166

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

Use of Contract Staff at Head Office

I made recommendations on the use of contract staff earlier in the Overview section of this Report. Those recommendations are equally applicable for the Department's HO.

The information below was provided by the Department and has not been audited. It is based on the number of HO contractors at 30 April 2010. Due to delays in obtaining the information from the Department I have not been able to complete my review of the data.

The Department advised that contractor payments at 30 April 2010 amounted to \$7.5 million, being 7.7 per cent of the total HO salary expense for the year. The Department had 141 contractors at 30 April 2010, representing approximately 18.0 per cent of the total HO workforce. On average, contractors received \$53,855 in payments in 2009-10, being less than half the average salary of permanent employees. The highest amount paid to a single contractor in 2009-10 was \$216,574. The main reason for the use of contractors was for project works. There were 66 contractors at 30 April 2010 working on projects who were hired mainly through employment agencies.

The following table shows the number of HO contractors hired through agencies at 30 April 2010.

Reason for Hiring	No. of contractors
Meet urgent workload	4
Project work	66
Other	6
Position substantively vacant	38
Position temporarily vacant - annual leave	2
Position temporarily vacant - employed elsewhere	20
Position temporarily vacant - maternity leave	3
Position temporarily vacant - other leave	2
Total	141

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	8,885,670	8,546,559	124,834	127,243
Grants and subsidies	939,307	957,980	11,909,030	11,283,779
Other expenses	4,655,814	4,336,891	460,895	466,904
OPERATING EXPENSES	14,480,791	13,841,430	12,494,759	11,877,926
OPERATING REVENUE	2,180,374	1,864,206	175,736	172,239
Other losses	54,051	64,408	1,351	3,042
NET COST OF SERVICES	12,354,468	12,041,632	12,320,374	11,708,729
Government contributions	12,311,294	11,886,145	12,168,895	11,735,501
(DEFICIT)/SURPLUS	(43,174)	(155,487)	(151,479)	26,772
OTHER COMPREHENSIVE INCOME				
Increase/(decrease) in Asset Revaluation Reserves	280,948	121,585	21,498	(2,277)
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	280,948	121,585	21,498	(2,277)
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	237,774	(33,902)	(129,981)	24,495

The increase in the consolidated entity's employee related expenses is mainly due to award rate increases and increases in employee entitlements.

Government contributions increased largely in response to the increasing demand for, and rising costs of the New South Wales health care system.

For the parent entity, the increase in grants and subsidies predominantly comprises increased payments to controlled entities, mainly the Area Health Services.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	1,587,902	1,416,781	250,531	233,782
Non-current assets	10,347,042	9,991,673	194,178	209,086
TOTAL ASSETS	11,934,944	11,408,454	444,709	442,868
Current liabilities	3,760,695	3,526,185	201,536	124,582
Non-current liabilities	494,886	420,454	69,477	2,083
TOTAL LIABILITIES	4,255,581	3,946,639	271,013	126,665
NET ASSETS	7,679,363	7,461,815	173,696	316,203

The increase in non-current assets is largely the result of a reassessment of the fair value of land, buildings and infrastructure systems, as well as additions during the year.

The increase in current liabilities is largely due to an increase in employee benefit provisions.

The increase in non-current liabilities mainly reflects the recognition of \$64.0 million received for the licensing rights for future use of the Royal North Shore Hospital car park.

Abridged Service Group Information

The Department's consolidated net cost of services and net assets on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2010 Budget \$'000	2010 Actual \$'000	2009 Actual \$'000	2010 Actual \$'000	2009 Actual \$'000
Overnight acute inpatient services	5,026,957	4,857,967	4,805,199	3,442,520	3,376,585
Outpatient services	1,087,113	1,292,616	1,306,730	964,793	953,626
Rehabilitation and extended care services	914,626	910,512	923,444	626,323	528,513
Primary and community based services	1,021,990	1,056,199	852,930	449,421	432,335
Aboriginal health services	89,608	66,193	52,759	10,682	18,182
Emergency services	1,382,929	1,341,402	1,398,246	625,177	643,580
Same day acute inpatient services	765,309	695,383	683,514	474,343	482,828
Mental health services	1,096,646	1,139,551	1,058,519	658,288	491,289
Population health services	470,708	526,781	465,586	137,245	151,792
Teaching and research	446,965	467,864	494,705	290,571	383,085
Total all programs	12,302,851	12,354,468	12,041,632	7,679,363	7,461,815

The budget figures are as shown in the 2009-10 Budget Papers, and do not include additional supplementations approved throughout the year. The Department provided the following explanations for variances between budgeted and actual net cost of services for the service groups.

Outpatient Services exceeded the budget principally because some budgeted revenues were allocated to other programs, for example the recovery of Highly Specialised Drugs.

Aboriginal Health was less than budget due to lower recruitment/program expenditures and the rollover of protected funds to the following year. This was as a result of community consultation.

Same Day Acute was under budget because of significant restatement of expenditure by Area Health Services, consistent with the implementation of improved reporting processes.

Population Health Services exceeded the initial budget due to transfers within the overall Net Cost of Services performance of the Department. The transfers reflect the concerted efforts of Area Health Services and the Department to ensure that cancer grants are appropriately and consistently classified, both in terms of the revenues received from the Cancer Institute and the expenditures which have subsequently occurred.

DEPARTMENT ACTIVITIES

For further information on the Department of Health, refer to www.health.nsw.gov.au.

CONTROLLED ENTITIES

Separate comment is included in this Volume for the following controlled entities:

Area Health Services	Other Entities
Greater Southern	Health Administration Corporation (HAC) comprising:
Greater Western	- Ambulance Service of New South Wales
Hunter New England	- Health Support Services
North Coast	- Health Infrastructure
Northern Sydney and Central Coast	- NSW Institute of Medical Education and Training
South Eastern Sydney and Illawarra	Justice Health
Sydney South West	Royal Alexandra Hospital for Children (CHW)
Sydney West	
	Agency for Clinical Innovation **
	Albury Base Hospital *
	Albury Wodonga Health Special Purpose Service Entity *
	Bureau of Health Information *
	- Bureau of Health Information Special Purpose Service Entity *
	Clinical Excellence Commission *
	- Clinical Excellence Commission Special Purpose Service Entity *
	Graythwaite Trust *

* This 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.

** This entity has not yet prepared financial statements for the year ended 30 June 2010. Refer page 67 of this Volume.

For further information on these entities, refer to:

Entity Name	Website
Albury Base Hospital	*
Albury Wodonga Health Special Purpose Service Entity	*
Bureau of Health Information	www.bhi.nsw.gov.au
- Bureau of Health Information Special Purpose Service Entity	www.bhi.nsw.gov.au
Clinical Excellence Commission	www.cec.health.nsw.gov.au
- Clinical Excellence Commission Special Purpose Service Entity	*
Graythwaite Trust	www.graythwaite.org.au

* This entity does not have a website.

Greater Southern Area Health Service

AUDIT OPINION

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

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

KEY ISSUES

Management of Albury Base Hospital

The Victorian Government now manages the provision of acute services at Albury Base Hospital. This arrangement commenced on 1 July 2009 following the signing of the Inter Governmental Agreement (the Agreement) between the New South Wales and Victorian governments. The transfer is to enable integrated health services in the Albury and Wodonga areas.

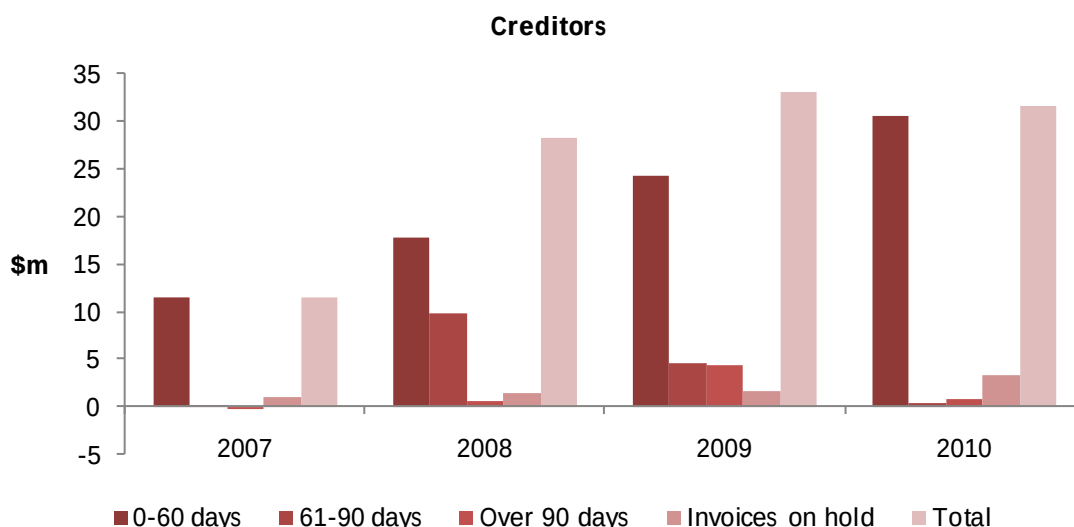
Under the Agreement, the Victorian Government will operate the hospital for eight years and both governments will work towards integrating mental health, sub acute and community health services for the period of the agreement. Albury Base Hospital employees were seconded to Albury Wodonga Health, the Victorian Government agency responsible for running the hospital.

In accordance with the Agreement, the Service provided funding of \$64.5 million to Albury Wodonga Health in 2009-10. This funding was based on the actual cost of running the hospital for 2008-09, adjusted for changes in salary awards and cost indexation applied to goods and services.

Accounts Payable (Repeat issue)

I recommend the Service ensures all purchases are supported by authorised orders, creditors are paid within agreed payment terms, and it follows up disputed invoices in a timely manner.

The following chart shows the ageing of creditors for the past four years and the amounts on hold or in dispute.



Note: Total column comprises the three ageing columns, and include invoices on hold or in dispute. The 0-60 day columns for 2010 and 2009 include accruals (not included for 2008 and 2007).

Source: Greater Southern Area Health Service (the ageing profile and invoices on hold have not been audited)

The timely payment of accounts during the year continues to be an issue for the Service. The Service's outstanding trade creditors (including accruals) had slightly improved at 30 June 2010 largely due to cash assistance provided by the Department of Health late in the financial year.

Trade creditors and accruals outstanding at 30 June 2010 totalled \$31.6 million (\$33.0 million at 30 June 2009), of which \$3.3 million (\$1.7 million) related to invoices on hold. The Service advises invoices can be placed on hold for a number of reasons, including the absence of a purchase order in support of the invoice.

Intra Health creditors (amounts owed by one Area Health Service or other Health entity to another Health Service or entity) at 30 June 2010 amounted to \$9.7 million (\$4.9 million) and are not included in the above graph, as normal credit terms are not applicable. In addition, some capital works creditors and non-trade creditors are excluded from the graph as no ageing analysis was available. The total of these creditors was \$0.4 million (nil).

Budget to Actual Comparison (Repeat Issue)

I again recommend the Service improve its budget monitoring processes to ensure any potential budget overruns are addressed in a timely manner.

The Service's result for the year exceeded the budget by \$11.1 million. In comparison, the 2009 result was \$22.3 million worse than the budget. The Service advised some of the reasons for the improved result include:

- implementation of episode funding initiatives
- better monthly cost monitoring practices including a review of site activity
- improved contract management practices
- additional short and long term revenue enhancements.

The Department of Health advised it has commenced implementing the recommendations from the Independent Financial Management Review, and an independent review of progress has been completed. Further comment is included in the Overview earlier in this Volume.

Fully Depreciated Plant and Equipment (Repeat issue)

I again recommend the Service liaise with the Department of Health to ensure it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment.

The Department advised it has established the Medical Equipment Asset Management Program (MEAM) to determine the feasibility of an external private sector partnership in the provision of a whole-of-life asset management facility. A tender document was issued by the Department in 2009-10, and it is currently assessing the tenders received.

The table below shows the extent of the Service's fully depreciated plant and equipment over the last four years.

At 30 June	2010	2009	2008	2007
Total Plant and Equipment - at cost (\$'000)	51,588	57,840	75,558	73,526
Fully depreciated Plant and Equipment - at cost (\$'000)	9,792	15,654	34,992	32,031
Fully depreciated Plant and Equipment as a percentage of total (per cent)	19.0	27.1	46.3	43.6

The Service continues to use a high proportion of fully depreciated plant and equipment, although this has reduced to 19.0 per cent (27.1 per cent) of all plant and equipment at 30 June 2010. The Service advises it conducts routine reviews to ensure the use of equipment does not pose a risk to either patient or staff safety.

Special Purpose and Trust Funds

In past years, I recommended the Service review all special purpose and trust funds (SP&T funds) to confirm each fund's intended purpose, as the nature and intended use of some funds was not apparent.

The Service advised it reviewed all SP&T funds in 2009-10 and found each had a specific, known purpose. The value of SP&T funds at 30 June 2010 was \$7.4 million (\$9.2 million). The table below shows the number and value of SP&T funds at 30 June 2010.

At 30 June 2010	Number of SP&T accounts
Overdrawn	19
\$0-\$9,999	367
\$10,000 - \$99,999	126
\$100,000 - \$499,999	12
\$500,000 - \$999,999	2
\$1,000,000 and over	--
Total	526

Source: Greater Southern Area Health Service (unaudited).

The Service advised that on limited occasions some SP&T accounts were overdrawn. At 30 June 2010, the Service had overdrawn 19 of the 526 SP&T accounts. The total amount overdrawn was \$176,000. In all cases this resulted from the Service incurring expenditure before receiving the promised donations.

Local Health Networks

In April 2010, New South Wales entered into the National Health and Hospitals Network Agreement (the NHHN Agreement) with the Australian Government. Further comment is included in the 'Health Overview' section earlier in this Volume.

PERFORMANCE INFORMATION

Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.

The average length of stay in acute hospitals in the Greater Southern area was 2.6 days (2.7 days), the lowest in the State.

The Service's bed occupancy rate was 73.8 per cent (72.8 per cent), the second lowest in the State.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in three of the five triage categories (met or exceeded in all five triage categories in 2009). However, the Service failed to meet two benchmarks, including the requirement to treat 80.0 per cent of imminently life threatening patients within ten minutes.

The Service's emergency admissions performance of 81.0 per cent exceeded the Department's benchmark of 80.0 per cent and was one of the highest in the State.

OTHER INFORMATION

Asset Stock Take

Last year I recommended the Department of Health, in consultation with the Area Health Services, improve plant and equipment stocktake policies and procedures. During 2009-10, the Service conducted a stocktake of all plant and equipment and advised it did not identify any significant discrepancies. However, the stocktake did identify the Service was no longer using plant and equipment with a gross cost of \$6.5 million. Most of these assets were fully depreciated.

Comparison of Payments to Visiting Medical Officers and Medical Staff

The following table shows a comparison of payments to Visiting Medical Officers (VMOs) and Medical Staff for the last five years.

Year ended 30 June Category	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000
Total Medical Staff*	44,024	42,959	**	**	**
VMOs	51,108	55,835	**	**	**

* Payments to Medical Staff include: base salary, overtime, penalties, sick and other leave, annual leave and long service leave.

** Figures are not readily available for 2006, 2007 and 2008 as the Service was using a number of different payroll systems during those years.

Source: Greater Southern Area Health Service (total medical staff figures unaudited)

VMO costs are a substantial portion of the overall medical costs for the Service, although they reduced by 8.5 per cent from the previous year to \$51.1 million. The Service advised the reduction in VMO costs was largely due to realigning VMO budgets and contracts with site activity targets and the Albury Base Hospital management arrangement, which commenced on 1 July 2009.

VMOs are specialist medical staff, working as independent contractors for an average of six to eight hours per week in the public health system to supplement staff specialists employed directly by the Service. At other times they work in private practice.

Human Resources

This year, I reviewed the following areas relating to human resources:

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies
- extent of overtime.

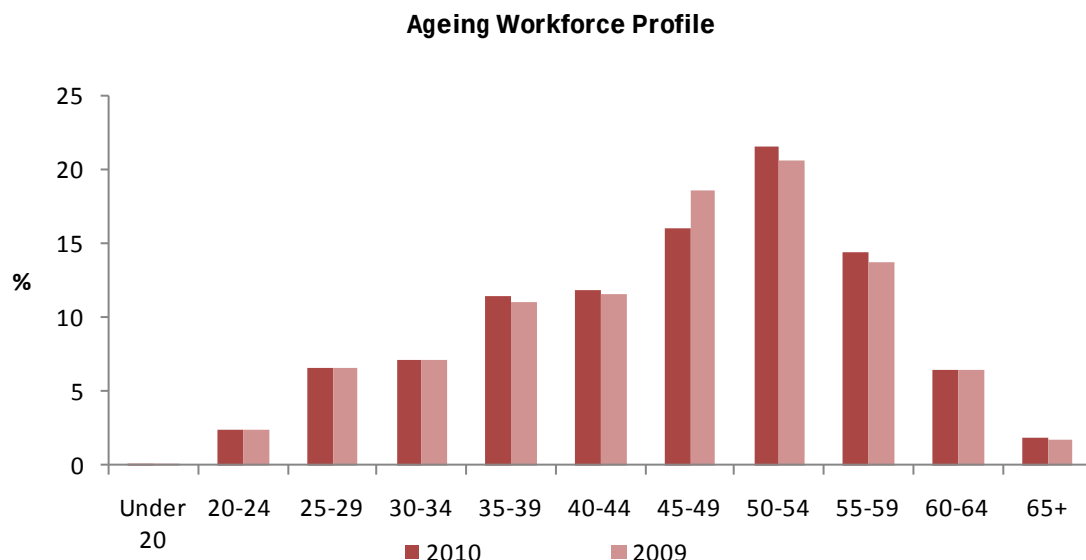
A summary of the results of my review follows.

Workforce Ageing

I recommend the Service review the effectiveness of its policies for managing its ageing workforce.

At 30 June 2010, 22.7 per cent (22.0 per cent) of the Service's employees were 55 years of age or older and 44.3 per cent (42.5 per cent) were 50 or older. A large number of these employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for the Service.

The age profile of the Service's employees is shown below. It excludes contract, temporary, casual, sessional and seasonal staff.



Source: Greater Southern Area Health Service (unaudited).

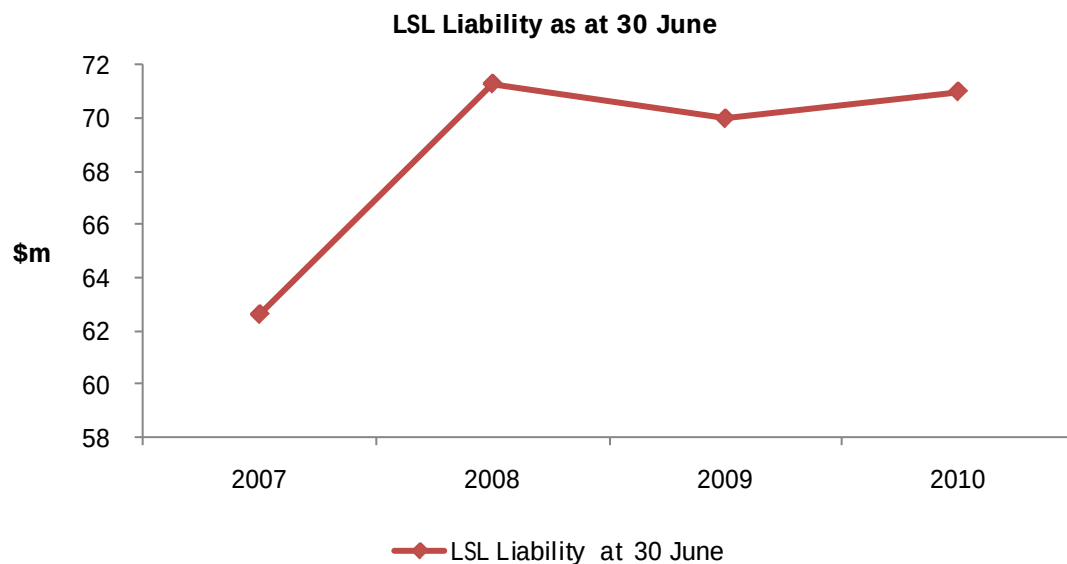
At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
Under 20	4	0.1	3	0.1
20-24	115	2.4	130	2.4
25-29	311	6.6	353	6.6
30-34	343	7.2	377	7.1
35-39	546	11.5	585	11.0
40-44	557	11.8	617	11.6
45-49	764	16.1	986	18.6
50-54	1,023	21.6	1,094	20.6
55-59	680	14.4	732	13.8
60-64	301	6.4	340	6.4
65+	89	1.9	93	1.8
Total	4,733	100	5,310	100

Source: Greater Southern Area Health Service (unaudited)

To ensure sufficient availability of experienced staff in the future, the Service should actively monitor its workforce age profile and develop and implement appropriate strategies to attract and retain staff whose skills are aligned with strategic direction of the Service.

Long Service Leave Liability

Increasing long service leave liabilities create funding challenges for the Service. The Service's long service leave liabilities increased by 13.3 per cent over the last three years to \$71.0 million at 30 June 2010. The graph below demonstrates the movement in the liability.



The Department of Health advised it is finalising arrangements to transfer employee long service leave entitlements to the Crown Entity, to bring Area Health Services into line with other New South Wales Government budget dependant agencies. The effective date of the transfer is expected to be 31 December 2010.

Annual Leave Balances

I recommend the Service should continue its efforts in managing excessive leave balances and continuously reassess the effectiveness of its policies.

Managing excessive annual leave balances remains a challenge for the Service. While the Service is actively managing this issue, there are a high number of employees who have excessive annual leave balances. At 30 June 2010, 790 employees (1,171 employees) had accrued annual leave balances in excess of 40 days, representing 16.7 per cent (22.1 per cent) of total employees. The table below shows excessive annual leave balances.

Annual Leave Entitlement (Days)	2010	2009
	No. of Staff	No. of Staff
41-45	147	169
46-50	117	159
51-60	167	229
61-80	179	294
81-100	86	145
100 +	94	175
Total	790	1,171

Source: Greater Southern Area Health Service (unaudited).

Some staff attract award entitlements of six weeks annual leave per annum, with entitlements further increased depending on the incidence of time worked on Sundays and public holidays. The Service advised that in such cases, and using the public sector benchmark of two years' accrual as a guide, its staff may not in fact have excess leave until the accrued value exceeds 70 days. As shown in the table above, some staff have accumulated leave beyond industry norms.

As leave entitlements are paid at rates applicable at the time the leave is taken, excessive leave balances place financial pressures on the Service as they will be paid at higher remuneration rates. The health and welfare of employees can also be adversely affected if they do not take sufficient leave during the year.

Overtime

The Department advised the Service's overtime payments in 2009-10 amounted to \$11.8 million (\$11.2 million), 3.7 per cent (3.5 per cent) of base salary expense for the year. On average, Service employees who worked overtime received \$3,545 (\$3,441) in overtime payments. The highest amount paid to a single employee in 2009-10 was \$163,865 (\$155,027).

Internal Controls

I identified some opportunities for improvement to accounting and internal control procedures and have reported them to management. For example the Service is not regularly reconciling intra-health balances, resulting in differences between its records and balances recorded by other entities in the health sector.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	395,619	440,582	--	--
Personnel services	--	--	395,619	440,582
Visiting medical officers	51,108	55,835	51,108	55,835
Other expenses	503,826	418,015	503,826	418,015
OPERATING EXPENSES	950,553	914,432	950,553	914,432
OPERATING REVENUE	138,750	137,195	146,024	144,746
Loss on disposal of non-current assets	1,326	1,445	1,326	1,445
NET COST OF SERVICES	813,129	778,682	805,855	771,131
Government contributions	811,476	758,617	804,202	751,066
DEFICIT	1,653	20,065	1,653	20,065
OTHER COMPREHENSIVE INCOME/(EXPENSE)				
Asset revaluation (decrement)/increment	(55,717)	43,930	(55,717)	43,930
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	(57,370)	23,865	(57,370)	23,865

The decrease in employee related expenses was primarily due employees attached to the Albury Base Hospital transferring to a newly created New South Wales Government employment division. This new employment division is controlled by the Department of Health and excluded from the Service's consolidated employee related expenses. This decrease is, however, offset by the Service funding this cost, which largely explains the increase in other expenses. The overall increase in operating expenses is primarily due to a general rise in activity, salary award rate increases and an increase in interstate patient outflows.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	34,118	29,703	34,118	29,703
Non-current assets	452,029	591,044	452,029	591,044
TOTAL ASSETS	486,147	620,747	486,147	620,747
Current liabilities	182,094	185,994	182,094	185,994
Non-current liabilities	26,503	24,429	26,503	24,429
TOTAL LIABILITIES	208,597	210,423	208,597	210,423
NET ASSETS	277,550	410,324	277,550	410,324

The decrease in non-current assets was largely due to a revaluation of land and buildings, resulting in a \$55.7 million decrement, and \$75.4 million of assets transferred to Albury Base Hospital.

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of the Greater Southern area through the following hospitals:

- Albury Base Hospital (sub acute services provided by Albury Wodonga Health)
- Albury Mercy Hospital
- Barham Koondrook Soldiers' Memorial Hospital
- Batemans Bay District Hospital
- Batlow District Hospital
- Bega District Hospital
- Berrigan War Memorial Hospital
- Bombala Hospital
- Boorowa District Hospital
- Bourke Street Health Service
- Braidwood Hospital
- Coolamon-Ganmain Health Service
- Cooma Hospital
- Cootamundra Hospital
- Corowa Hospital
- Crookwell District Hospital
- Culcairn Health Service
- Delegate Multi Purpose Service
- Deniliquin District Hospital
- Finley Hospital
- Goulburn Hospital
- Griffith Base Hospital
- Gundagai District Hospital
- Hay Hospital
- Henty District Hospital
- Hillston District Hospital
- Holbrook Hospital
- Jerilderie District Hospital
- Junee District Hospital
- Kenmore Psychiatric Hospital

- Leeton District Hospital
- Lockhart and District Hospital
- Mercy Care Hospital
- Moruya District Hospital
- Murrumburrah-Harden District Hospital
- Narrandera District Hospital
- Pambula District Hospital
- Queanbeyan Hospital
- Temora and District Hospital
- Tocumwal Hospital
- Tumbarumba Health Service
- Tumut Hospital
- Urana Health Service
- Wagga Wagga Base Hospital
- West Wyalong District Hospital
- Yass District Hospital
- Young District Hospital.

The Service also incorporates and manages the operating activities of various community health services, and is associated with several affiliated health organisations.

For further information on the Service, refer to www.gsahs.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	Website
Greater Southern Area Health Service Special Purpose Service Entity	*

* This entity does not have a website.

Greater Western Area Health Service

AUDIT OPINION

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

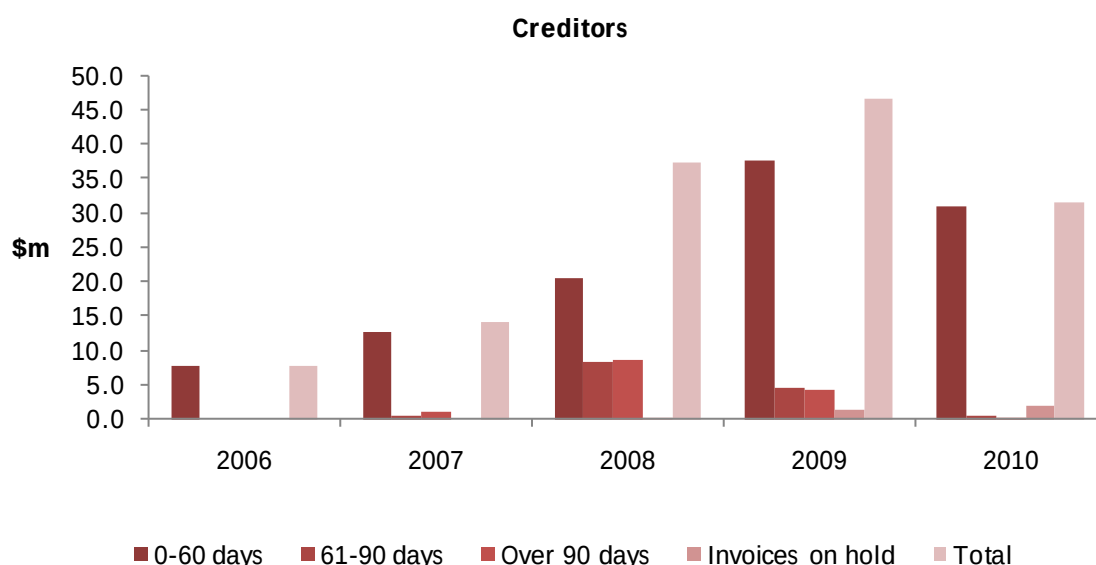
Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Accounts Payable (Repeat issue)

I again recommend the Service pays its creditors within agreed payment terms and follows up disputed invoices in a timely manner.

The following chart shows ageing of trade creditors for the past five years, and amounts on hold or in dispute:



Note: Total column is comprised of the three ageing columns, as they include the amounts for invoices on hold or in dispute. The 0-60 days column for 2010 and 2009 include accruals, which are not included in 2008, 2007 and 2006.
Source: Greater Western Area Health Service (unaudited).

Total creditors have marginally decreased to \$31.5 million from \$46.5 million in 2008-09. At 30 June 2010 \$1.9 million or six per cent of total creditors were either on hold or in dispute (\$1.2 million in 2008-09).

Intra Health creditors at 30 June 2010 amounted to \$5.1 million (\$2.9 million) and are not included in the above graph as the normal credit terms do not apply.

In addition, some capital works creditors and non-trade creditors are not included in the graph as no ageing analysis was available. The total of these creditors at 30 June 2010 was \$600,000 (nil).

Budget to Actual Comparison (Repeat Issue)

I again recommend the Service improve its budget monitoring processes to ensure any potential budget overruns are addressed in a timely manner.

The Service's surplus for the year was \$4.6 million below the budget of \$5.6 million.

The Service advised that the Department has commenced the implementation of recommendations from the Independent Financial Management Review and an independent review of progress has been completed. Further comment is included in the 'Overview' earlier in this Volume.

Fully Depreciated Plant and Equipment (Repeat Issue)

I again recommend the Service liaise with the Department to ensure it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment.

The Department advised it has engaged an independent expert to conduct a pilot review on fully depreciated assets across a selection of Health Services (refer Health Overview section of this Report).

The table below shows the extent of the Service's fully depreciated plant and equipment over the last three years.

At 30 June	2010	2009	2008
Total Plant and Equipment – at cost (\$'000)	83,840	78,113	78,336
Fully Depreciated Plant and Equipment – at cost (\$'000)	26,957	27,000	28,200
Fully depreciated Plant and Equipment as a percentage of total (%)	32.2	34.6	36.0

The Service continues to use a high proportion of fully depreciated plant and equipment. Although this reduced from 34.6 per cent in 2008-09 to 32.2 per cent in 2009-10, it is still significant.

Last year, I recommended the Service, in conjunction with the Department, implement recommendations from a pilot review the Department conducted into whole of lifecycle management of medical equipment.

The Service advised that all bio medical equipment is periodically inspected by technicians for service delivery capabilities.

Asset Stock Take (Repeat Issue)

I recommend the Service continues to strengthen its policies and procedures in relation to plant and equipment stock takes.

Last year, I recommended the Service strengthen its policies and procedures of plant and equipment stock takes. Following our recommendation, the Service commenced a stock take of all plant and equipment in 2009-10. The Service advised the stock take will be completed in 2010-11.

Special Purpose and Trust Funds (Repeat Issue)

I recommend the Service continues reviewing all special purpose and trust funds to confirm each fund's intended purpose. Where appropriate, approvals should be sought to move funds into the general purpose account where they can then be used for health services.

Last year, I recommended the Service review all special purpose and trust funds to confirm each fund's intended purpose. The Service advised it completed the review for a majority of funds in 2009-10 and aims to complete the rest in 2010-11. The total value of all these funds at 30 June 2010 was \$6.5 million (\$6.6 million).

The table below shows the dissection of Special Purpose and Trust Funds at 30 June 2010.

At 30 June 2010	Number of SP&T accounts
\$1 - \$9,999	313
\$10,000 - \$99,999	139
\$100,000 - \$499,999	9
\$500,000 - \$999,999	1
\$1,000,000 and over	--
Total	462

Source: Greater Western Area Health Service (unaudited).

Local Health Networks

In April 2010, New South Wales entered into the National Health and Hospitals Network Agreement (the NHHN Agreement) with the Australian Government. Further comment is included in the 'Overview' earlier in this Volume.

PERFORMANCE INFORMATION

Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.

The average length of stay in acute hospitals in the Greater Western area was 2.9 days (3.0 days). This is lower than the State average of 3.6 days and is the second lowest in the State.

The Service's bed occupancy rate increased to 72.6 per cent (70.2 per cent). This is the lowest in the State.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in three of the five triage categories (all five triage categories in 2009). However, the Service failed to meet two benchmarks including the requirement to treat 80.0 per cent of imminently life threatening patients within ten minutes.

The Service's emergency admission performance decreased from 83.0 per cent in 2009 to 77.0 per cent in 2010. This is lower than the Department's benchmark of 80 per cent.

OTHER INFORMATION

Payments to Visiting Medical Officers and Medical Staff

The following table shows a comparison of payments to Visiting Medical Offices (VMOs) and Medical Staff for the last four years.

Year ended 30 June Category	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000
Total medical staff*	42,559	41,677	37,818	**
VMOs	52,432	53,889	53,613	45,347

* Payments to Medical Staff include: base salary, overtime, penalties, sick and other leave, annual leave and long service leave.

** Costs for Medical Staff were not recorded separately from other staff in 2007.

Source: Greater Western Area Health Service (unaudited)

VMO costs are a substantial part of the overall medical costs for the Service. They are specialist medical staff working as independent contractors for an average of six to eight hours per week in the public health system. At other times they work in private practice. They supplement staff specialists and other staff employed directly by the Service (medical staff).

Human Resources

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

- workforce ageing profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies
- extent of overtime.

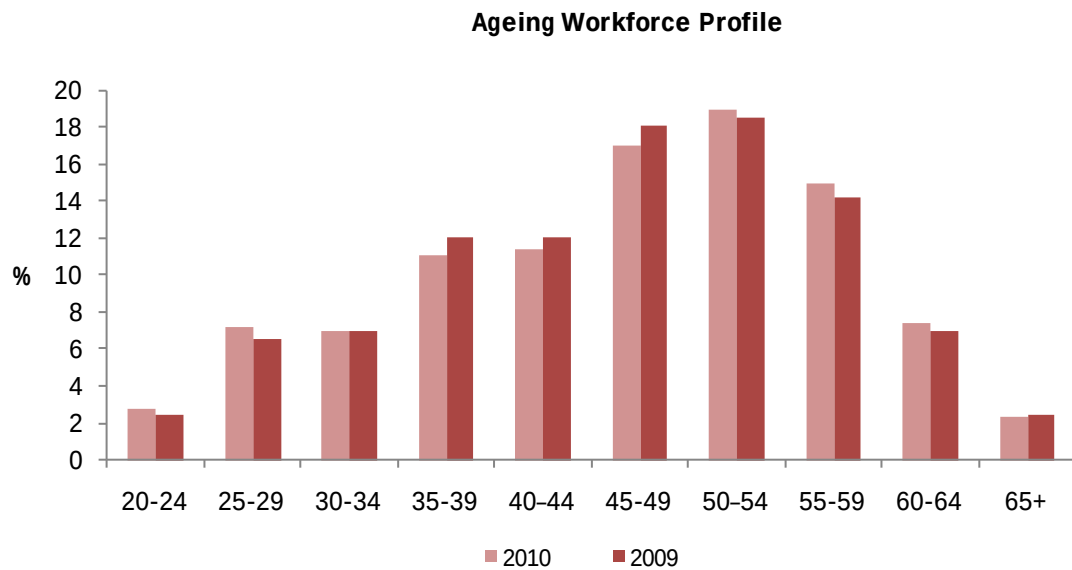
A summary of the results of my review follows.

Workforce Ageing

I recommend the Service review the effectiveness of its policies for managing its ageing workforce.

The Service has 24.5 per cent of its employees over 55 years of age and 43.4 per cent over 50. A large number of these employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for the Service.

The graph below further demonstrates the age structure of staff.



At 30 June Age Group	2010		2009	
	No. of Permanent Staff *	%	No. of Permanent Staff *	%
20 - 49	2,622	56.6	2,710	58.0
50 - 54	874	18.9	863	18.5
55 - 59	689	14.9	663	14.2
60 - 64	341	7.3	329	7.0
65+	107	2.3	110	2.3
Total	4,633	100	4,675	100

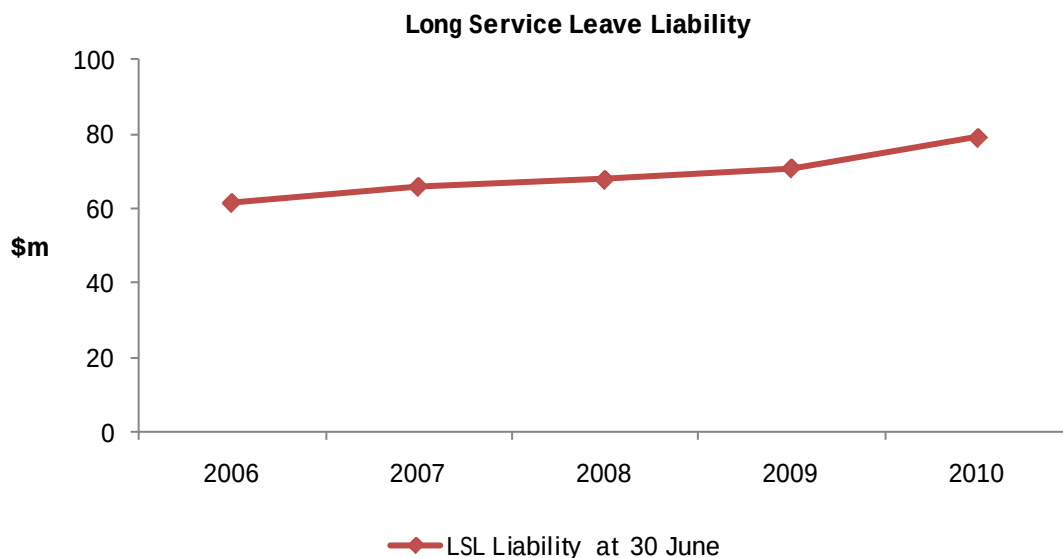
* Permanent staff includes staff employed under Crown Employee Award but excludes contract, temporary and casual staff

Source: Greater Western Area Health Service (unaudited)

To ensure sufficient availability of experienced staff in the future, the Service should actively monitor its workforce age profile and develop and implement appropriate strategies to attract and retain staff whose skills are aligned with the strategic direction of the Service.

Long Service Leave Liability

Increasing long service leave liabilities create funding challenges for the Service. Long service leave liabilities increased by 11.4 per cent to \$79.0 million in 2010 (\$70.9 million).



The Service advised that the Department of Health is finalising arrangements for the transfer of employee long service leave entitlements to the Crown Entity, to bring the Department into line with other Government budget dependent agencies. The effective date of the transfer is expected to be 31 December 2010.

Annual Leave Balances

I recommend the Service review the effectiveness of its policies for managing excess annual leave.

Managing excessive annual leave balances remains a challenge for the Service. Of the Service's total workforce of 4,633 at 30 June 2010, 1,013 employees or 21.9 per cent (23.0 percent) had accrued more than the general public service benchmark of 40 days annual leave. The highest employee annual leave balance was 164 days (169 days). The total number of staff with annual leave balances exceeding 40 days decreased by 64 employees this year.

The Department advised that a significant number of staff attract award entitlements of six weeks annual leave per annum, with entitlements further increased depending on the incidence of time worked on Sundays and public holidays. The Department advised in such instances, and using the public sector benchmark of two years' accrual as a guide, Health staff may not be in an excess leave position until the accrual exceeds 70 days.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave. The Service should continue to apply the measures it has implemented to reduce leave balances focussing on staff at the high end of the excessive leave range.

Overtime

Overtime paid to staff in 2009-10 was \$14.4 million (\$14.5 million).

During 2009-10, overtime was paid to approximately 68.0 per cent of all permanent staff, which is slightly less than in the prior year. The average overtime paid to staff who worked overtime during 2009-10 was \$4,570. There were isolated incidences of overtime payments totalling in excess of \$120,000.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	415,527	409,284	--	--
Personnel services	--	--	415,527	409,284
Visiting medical officers	52,432	53,889	52,432	53,889
Grants and subsidies	10,411	10,417	10,411	10,417
Other expenses	341,720	316,243	341,720	316,243
TOTAL EXPENSES	820,090	789,833	820,090	789,833
TOTAL REVENUE	100,672	85,525	108,685	94,032
Loss on disposal of non-current assets and other losses	446	1,510	446	1,510
NET COST OF SERVICES	719,864	705,818	711,851	697,311
Government contributions	779,322	715,438	771,309	706,931
SURPLUS FOR THE YEAR	59,458	9,620	59,458	9,620
OTHER COMPREHENSIVE INCOME				
Gain on asset revaluation	--	19,167	--	19,167
TOTAL OTHER COMPREHENSIVE INCOME	--	19,167	--	19,167
TOTAL COMPREHENSIVE INCOME	59,458	28,787	59,458	28,787

Employee related expenses have increased mainly due to increases in award rates from 1 July 2009.

Increased government contributions contributed to a larger surplus for the year.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	35,605	33,090	35,605	33,090
Non-current assets	587,004	540,996	587,004	540,996
TOTAL ASSETS	622,609	574,086	622,609	574,086
Current liabilities	185,007	192,322	185,007	192,322
Non-current liabilities	19,461	22,108	19,461	22,108
TOTAL LIABILITIES	204,468	214,430	204,468	214,430
NET ASSETS	418,141	359,656	418,141	359,656

The increase in non-current assets is mainly attributed to the construction in progress for the Orange Hospital and acquisition of plant and equipment.

The decrease in payroll and other accruals reduced the current liabilities.

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of the Greater Western area through the following hospitals:

- Balranald District Hospital
- Baradine Multi Purpose Health Service
- Bathurst Base Hospital
- Blayney Hospital & Health Service
- Bloomfield Hospital
- Bourke District Hospital & Health Service
- Brewarrina District Hospital & Health Service
- Broken Hill Base Hospital and Health Service
- Canowindra Health Service
- Cobar Health Service
- Collarenebri Hospital and Health Service
- Condobolin Health Service
- Coolah Multi Purpose Service
- Coonabarabran Health Service
- Coonamble Health Service
- Cowra Health Service
- Cudal Health Service
- Dubbo Base Hospital
- Dunedoo Health Service
- Eugowra Health Service
- Forbes Health Service
- Gilgandra Multi Purpose Health Service
- Goodooga Health Service
- Grenfell Multi Purpose Health Service
- Gulargambone Multi Purpose Health Service
- Gulgong Health Service
- Ivanhoe Health Service
- Lake Cargelligo Hospital and Health Service

- Lightning Ridge Multi Purpose Health Service
- Menindee Health Service
- Molong Health Service
- Mudgee Health Service
- Narromine Health Service
- Nyngan Health Service
- Oberon Health Service
- Orange Base Hospital
- Parkes Health Service
- Peak Hill Health Service
- Rylstone Hospital and Health Service
- Tibooburra Health Service
- Tottenham Health Service
- Trangie Multi Purpose Health Service
- Trundle Hospital and Health Service
- Tullamore Multi Purpose Service
- Walgett Health Service
- Warren Multi Purpose Health Service
- Wellington Health Service
- Wentworth Hospital and Health Service
- White Cliffs Health Service
- Wilcannia Health Service.

The Service also incorporates and manages the operating activities of various community health services, and is associated with several affiliated health organisations.

For further information on the Service, refer to www.gwahs.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	Website
Greater Western Area Health Service Special Purpose Service Entity	*

* This entity does not have a website.

Hunter New England Area Health Service

AUDIT OPINION

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

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

KEY ISSUES

Accounts Payable (Repeat Issue)

The following chart shows ageing of trade creditors for the past five years, and amounts on hold or in dispute:



Note: Total column is comprised of the three ageing columns, as they include the amounts for invoices on hold or in dispute. The 0-60 days column for 2010 and 2009 include accruals, which are not included in 2008, 2007 and 2006.

Source: Hunter New England Area Health Service (unaudited).

Total creditors at 30 June 2010, \$53.3 million, were slightly higher than the previous year's balance of \$52.2 million. The Service has investigated and resolved on hold invoices and reduced the balance significantly from \$7.6 million to \$2.2 million.

Intra Health creditors at 30 June 2010 amounted to \$3.4 million (\$10.3 million) and are not included in the above graph as the normal credit terms are not applicable.

In addition, some capital works creditors and non-trade creditors are not included in the graph as no ageing analysis was available. The total of these creditors at 30 June 2010 was \$4.2 million (\$890,000).

Budget to Actual Comparison

The Service's result for the year, a deficit of \$17.4 million, was \$11.7 million better than the budgeted deficit of \$29.1 million. In comparison, the 2009 result was \$6.7 million better than the budgeted deficit of \$58.7 million.

The Service advised that the Department has started implementing recommendations from the Independent Financial Management Review, and has completed an independent review of progress. Further comment is included in the Overview earlier in this Volume.

Fully Depreciated Plant and Equipment (Repeat issue)

I again recommend the Service liaise with the Department of Health to ensure it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment.

The Department advised it has engaged an independent expert to conduct a pilot review on fully depreciated assets across a selection of Health Services (refer Health Overview section of this Report).

The table below shows the extent of the Service's fully depreciated plant and equipment over the past three years.

At 30 June	2010	2009	2008
Total Plant and Equipment – at cost (\$'000)	234,479	212,709	201,179
Fully depreciated Plant and Equipment – at cost (\$'000)	67,800	61,400	56,700
Fully depreciated Plant and Equipment as a percentage of total (%)	28.9	28.9	28.2

Following my recommendation in 2008-09, the service conducted physical stock takes of fully depreciated plant and equipment. The cost of fully depreciated assets increased from \$61.4 million to \$67.8 million at 30 June 2010. The service advised that all bio medical equipment is periodically inspected by technicians for service delivery capabilities. The review resulted in \$2.8 million of assets being removed from the general ledger and fixed assets register.

Local Health Networks

In April 2010, New South Wales entered into the National Health and Hospitals Network Agreement (the NHHN Agreement) with the Australian Government. Further comment is included in the 'Overview' earlier in this Volume.

PERFORMANCE INFORMATION

Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.

The average length of stay in acute hospitals in the Hunter New England area decreased to 3.6 days (3.8 days in 2009). This is equal to the State average.

The Service's bed occupancy rate decreased to 81.3 per cent (81.7 per cent). This is still lower than the State average of 88.3 per cent.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in four of the five triage categories (met or exceeded all five triage categories in 2009).

The Service's emergency admission performance of 83.0 per cent exceeded the Department's benchmark of 80.0 per cent and was the highest in the State.

OTHER INFORMATION

Asset Stock Take

Last year, I recommended the Service strengthen its policies and procedures of plant and equipment stock takes. In 2009-10, the Service performed a stock take of all plant and equipment. A final summary report was provided to Health Support Services to update the Service's fixed assets register.

The stock takes resulted in a total of \$6.5 million (cost) of assets with a carrying value of \$1.0 million being removed from the general ledger and fixed assets register.

Payments to Visiting Medical Officers and Medical Staff

The following table shows a comparison of payments to Visiting Medical Offices (VMOs) and medical staff for the last four years.

Year ended 30 June Category	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000
Total medical staff*	169,696	160,900	144,038	128,052
VMOs	72,876	68,681	67,130	59,476

* Payments to Medical Staff include: base salary, overtime, penalties, sick and other leave, annual leave and long service leave.

Source: Hunter New England Area Health Service (unaudited)

VMOs are a substantial part of the overall medical costs for the Service. They are specialist medical staff working as independent contractors for an average of six to eight hours per week in the public health system. At other times they work in private practice. They supplement staff specialists and other staff employed directly by the Service (medical staff).

Human Resources

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

- workforce ageing profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies
- extent of overtime.

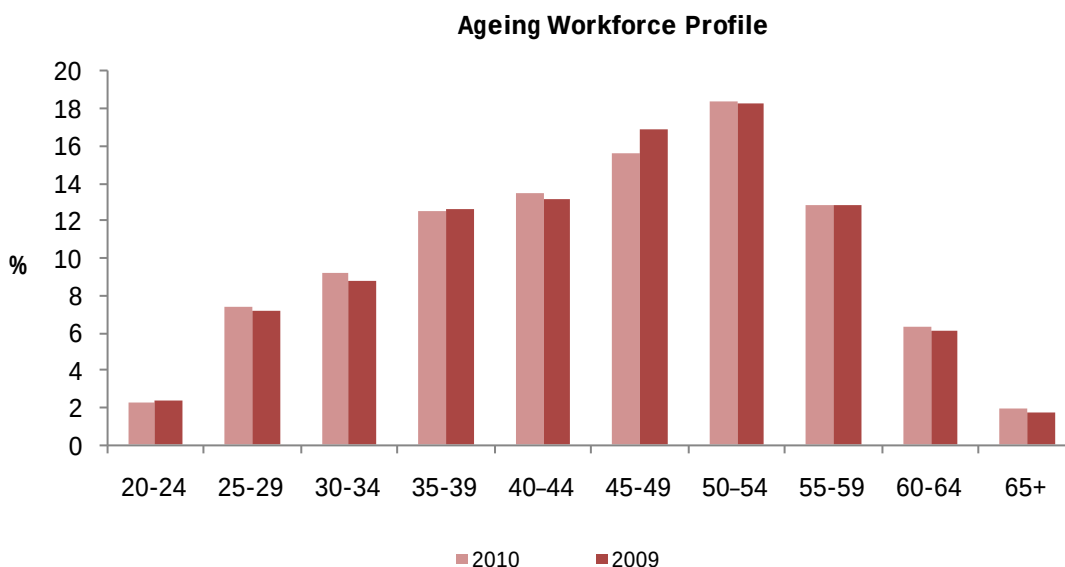
A summary of the results of my review follows.

Workforce Ageing

I recommend the Service review the effectiveness of its policies for managing its ageing workforce.

Just over 21.0 per cent of the Service's employees are over 55 years of age and 39.5 per cent are over 50. A large number of these employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for the Service.

The age profile of the Service employees is shown below:



At 30 June Age Group	2010		2009	
	No. of Permanent Staff *	%	No. of Permanent Staff *	%
20 - 49	6,320	60.5	6,825	61.1
50 - 54	1,920	18.4	2,038	18.2
55 - 59	1,333	12.8	1,424	12.8
60 - 64	663	6.3	680	6.1
65+	205	2.0	198	1.8
Total	10,441	100	11,165	100

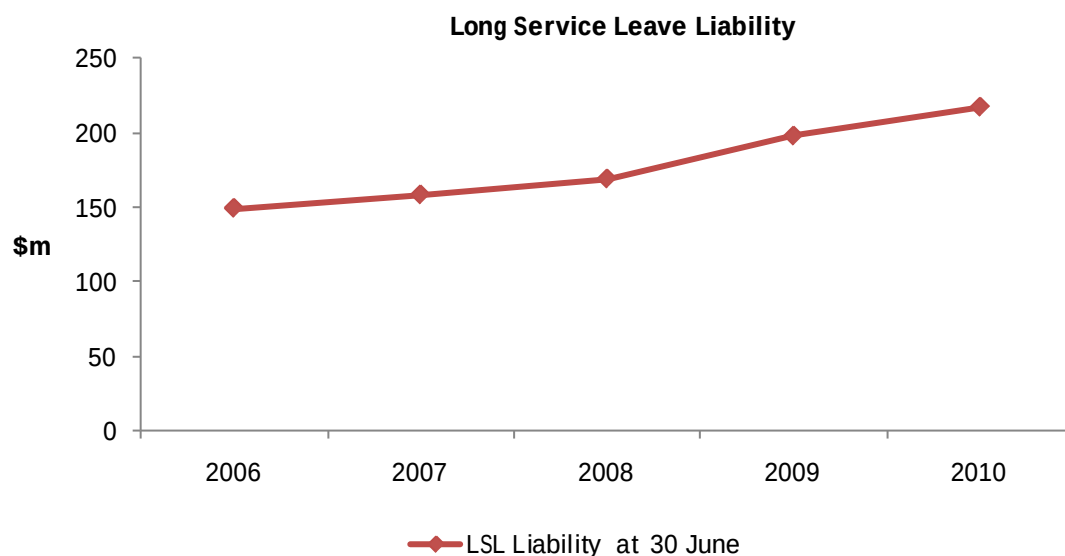
* Permanent staff includes staff employed under Crown Employee Award but excludes contract, temporary and casual staff

Source: Hunter New England Area Health Service (unaudited)

To ensure sufficient availability of experienced staff in the future, the Service should actively monitor its workforce age profile and develop and implement appropriate strategies to attract and retain staff whose skills are aligned with the strategic direction of the Service.

Long Service Leave Liability

Increasing long service leave liabilities create funding challenges for the Service. Long service leave liabilities increased by 28.7 per cent over the past three years to \$217 million in 2010 (\$198 million in 2009).



The Service advised that the Department of Health is finalising arrangements for the transfer of employee long service leave entitlements to the Crown Entity, to bring the Department into line with other Government budget dependent agencies. The effective date of the transfer is expected to be 31 December 2010.

Annual Leave Balances

I recommend the Service review the effectiveness of its policies for managing excess annual leave.

Managing excessive annual leave balances remains a challenge for the Service. Out of its total workforce of 10,441 at 30 June 2010, 2,292 employees or 22.0 per cent (22.6 percent) had accrued more than the general public service benchmark of 40 days annual leave. The highest annual leave balance was 328 days (317 days). The total number of staff with annual leave balances exceeding 40 days decreased by 236 this year.

The Department advised that a significant number of staff attract award entitlements of six weeks annual leave per annum, with entitlements further increased depending on the incidence of time worked on Sundays and public holidays. The Department advised in such instances, and using the public sector benchmark of two years' accrual as a guide, Health staff may not be an excess leave position until the accrual exceeds 70 days.

The Service should continue to apply the measures it has implemented to reduce leave balances focussing on staff at the high end of the excessive leave range.

Overtime

Overtime paid to staff in 2009-10 was \$28.1 million (\$25.8 million).

During 2009-10, overtime was paid to approximately 63.0 per cent of all permanent staff, which is slightly more than in the prior year. The average overtime paid to staff who worked overtime during 2009-10 was \$4,254. There were incidences of overtime payments totalling in excess of \$115,000.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	1,031,266	994,381	--	--
Personnel services	--	--	1,031,266	994,381
Visiting medical officers	72,876	68,681	72,876	68,681
Grants and subsidies	9,235	9,882	9,235	9,882
Other expenses	707,046	643,476	707,046	643,476
TOTAL EXPENSES	1,820,423	1,716,420	1,820,423	1,716,420
TOTAL REVENUE	385,899	306,408	405,748	326,075
Loss on disposal of non-current assets and other losses	4,212	233	4,212	233
NET COST OF SERVICES	1,438,736	1,410,245	1,418,887	1,390,578
Government contributions	1,421,319	1,358,287	1,401,470	1,338,620
DEFICIT	17,417	51,958	17,417	51,958
OTHER COMPREHENSIVE INCOME				
Asset revaluation increment	83,845	--	83,845	--
TOTAL OTHER COMPREHENSIVE INCOME	83,845	--	83,845	--
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	66,428	(51,958)	66,428	(51,958)

Employee related expenses rose due to an award rate increase.

The increase in other expenses was mainly due to the first full year of operation of the Pathology North and management charge for food service from the Health Support Food Services.

The increase in revenue, is attributable to higher infrastructure fees and intra health charges to the North Coast and Northern Sydney and Central Coast Area Health Services, following the merger of pathology services.

The increase in Government contributions reflects a general rise in the budget allocation and a \$39.6 million supplementation for employee award increases.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	172,873	163,630	172,873	163,630
Non-current assets	1,211,572	1,127,758	1,211,572	1,127,758
TOTAL ASSETS	1,384,445	1,291,388	1,384,445	1,291,388
Current liabilities	451,589	426,389	451,589	426,389
Non-current liabilities	164,712	163,564	164,712	163,564
TOTAL LIABILITIES	616,301	589,953	616,301	589,953
NET ASSETS	768,144	701,435	768,144	701,435

The increase in non-current assets is mainly due to revaluation increments in land and buildings of \$83.8 million.

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of the Hunter New England area through the following hospitals:

- Armidale Hospital
- Barraba District Hospital
- Belmont Hospital
- Bingara Community Hospital
- Boggabri District Hospital
- Bulahdelah Community Hospital
- Calvary Mater Newcastle
- Cessnock District Hospital
- Denman Hospital
- Dungog Community Hospital
- Glenn Innes District Hospital
- Gloucester Soldier's Memorial Hospital
- Gunnedah District Hospital
- Guyra Community Hospital
- Inverell District Hospital
- James Fletcher Mental Health Hospital
- John Hunter Children's Hospital
- John Hunter Hospital
- Kurri Kurri District Hospital
- Maitland Hospital
- Manilla District Hospital
- Manning Hospital - Taree
- Merriwa Community Hospital
- Moree District Hospital
- Morisset Mental Health Hospital
- Muswellbrook District Hospital
- Narrabri District Hospital
- Quirindi Hospital
- Royal Newcastle Centre
- Scott Memorial Hospital - Scone

- Singleton District Hospital
- Tamworth Hospital
- Tenterfield Community Hospital
- Tingha Hospital
- Tomaree Community Hospital
- Vegetable Creek Hospital - Emmaville
- Walcha Multipurpose Service
- Warialda District Hospital
- Wingham Community Hospital
- Wee Waa District Hospital
- Werris Creek District Hospital
- Wilson Memorial Hospital – Murrurundi.

The Service also incorporates and manages the operating activities of various community health services, and is associated with several affiliated health organisations.

For further information on the Service, refer to www.hnehealth.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	Website
Hunter New England Area Health Service Special Purpose Service Entity	*

* This entity does not have a website.

North Coast Area Health Service

AUDIT OPINION

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

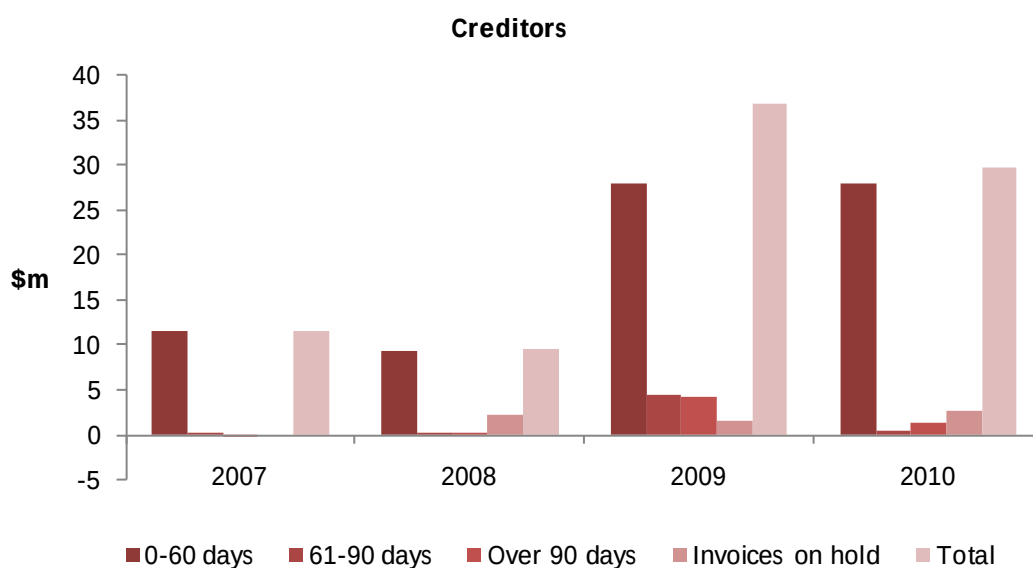
Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Accounts Payable (Repeat issue)

I recommend the Service ensures all purchases are supported by authorised orders, creditors are paid within agreed payment terms, and it follows up disputed invoices in a timely manner.

The following chart shows the ageing of creditors for the past four years, and amounts on hold or in dispute*.



* Amount 'on hold or in dispute' not disclosed for 2007 as this information is not available.

Note: the Total column is comprised of the three ageing columns, as they include the amounts for invoices on hold or in dispute. The 0-60 day columns for 2010 and 2009 include accruals (not included for 2008 and 2007).

Source: North Coast Area Health Service (the ageing profile and invoices on hold have not been audited)

The timely payment of accounts during the year continues to be an issue for the Service. The Service's outstanding trade creditors (including accruals) position had improved at 30 June 2010 largely due to cash assistance provided by the Department of Health late in the financial year.

Trade creditors and accruals outstanding at 30 June 2010 totalled \$29.6 million (\$36.7 million at 30 June 2009). Of this amount \$2.8 million (\$1.7 million) related to invoices on hold. The Service advises invoices can be placed on hold for a number of reasons, including the absence of a purchase order in support of the invoice.

Intra Health creditors at 30 June 2010 amounted to \$3.9 million (\$5.0 million) and are not included in the above graph as normal credit terms do not apply.

In addition, some capital works creditors and non-trade creditors are not included as no ageing analysis was available. The total of these creditors at 30 June 2010 was \$3.8 million (\$1.7 million).

Budget to Actual Comparison

The Service's result for the year was \$1.4 million below the budget, which is significantly better than the previous year. Last year the Service's result was \$24.6 million worse than budget. The Service advises some of the reasons for the improved result include:

- a reduction in full time equivalent staff
- improved procurement practices
- additional revenue enhancements from patient fees.

The Department of Health advised it has started implementing the recommendations from the Independent Financial Management Review, and has completed an independent review of progress. Further comment is included in the Overview earlier in this Volume.

Fully Depreciated Plant and Equipment

I again recommend the Service liaise with the Department of Health to ensure it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment.

The Department advised it has established the Medical Equipment Asset Management Program (MEAM) to determine the feasibility of an external private sector partnership in the provision of a whole-of-life asset management facility. A tender document was issued by the Department in 2009-10, and it is currently assessing the tenders received.

The table below shows the extent of the Service's fully depreciated plant and equipment over the past four years.

At 30 June	2010	2009	2008	2007
Total plant and equipment – at cost (\$'000)	60,749	70,360	76,272	77,248
Fully depreciated plant and equipment – at cost (\$'000)	12,066	20,141	24,247	25,517
Fully depreciated plant and equipment as a percentage of total (per cent)	19.9	28.6	31.8	33.0

The Service continues to use fully depreciated plant and equipment. However, this has reduced to 19.9 per cent (28.6 per cent) of all plant and equipment at 30 June 2010. The Service advises it conducts routine reviews to ensure the use of equipment does not pose a risk to either patient or staff safety.

Special Purpose and Trust Funds

In past years, I recommended the Service review all special purpose and trust funds (SP&T funds) to confirm each fund's intended purpose, as the nature and intended use of some funds was not apparent.

The Service advised it substantially completed its review, with only some minor administrative matters outstanding. The total value of SP&T funds at 30 June 2010 was \$11.4 million (\$9.3 million). The table below shows the number and value of SP&T funds at 30 June 2010.

At 30 June 2010	Number of SP&T accounts
Overdrawn	9
\$1 - \$9,999	454
\$10,000 - \$99,999	92
\$100,000 - \$499,999	19
\$500,000 - \$999,999	2
\$1,000,000 and over	3
Total	579

Source: North Coast Area Health Service (unaudited)

The Service advised that on limited occasions some SP&T accounts were overdrawn, but the overdrawn amount did not exceed \$20,000. In most cases this resulted from the Service incurring the expenditure before receiving the promised donations. Most overdrawn accounts were corrected in the following month.

Local Health Networks

In April 2010, New South Wales entered into the National Health and Hospitals Network Agreement (the NHHN Agreement) with the Australian Government. Further comment is included in the 'Health Overview' section earlier in this Volume.

PERFORMANCE INFORMATION

Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.

The average length of stay in acute hospitals in the North Coast area remained consistent at 3.7 days (3.7 days). This is above the State average of 3.6 days.

The Service's bed occupancy rate increased to 85.6 per cent (83.8 per cent). This is below the State average of 88.3 per cent.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in only two of the five triage categories. However, the Service failed to meet three benchmarks including the requirement to treat 80.0 per cent of imminently life threatening patients within ten minutes.

The Service had a decrease in its emergency admissions performance from 75.0 per cent in 2009 to 71.0 per cent in 2010. This is below its target of 80.0 per cent.

OTHER INFORMATION

Asset Stock Take

Last year I recommended the Department of Health, in consultation with the Area Health Services, improve the plant and equipment stocktake policies and procedures. During 2009-10, the Service conducted a stocktake of all plant and equipment, which resulted in the Service writing off plant and equipment with a gross cost of \$14.8 million. This explains the decrease in fully depreciated assets reported earlier. The written down value of plant and equipment written off was \$1.0 million.

Comparison of Payments to Visiting Medical Officers and Medical Staff

The following table shows a comparison of payments to Visiting Medical Officers (VMOs) and Medical Staff for the past five years.

Year ended 30 June Category	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000
Total Medical Staff*	63,391	59,472	52,640	46,737	39,262
VMOs	93,285	87,732	77,941	71,453	67,314

* Payments to Medical Staff include: base salary, overtime, penalties, sick and other leave, annual leave and long service leave.

Source: North Coast Area Health Service (total medical staff figures are unaudited)

The table above shows VMO costs are higher than expenses for staff specialists employed directly by the Service. VMOs are specialist medical staff working as independent contractors for an average of six to eight hours per week in the public health system to supplement staff specialists employed directly by the Service. At other times they work in private practice.

Human Resources

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

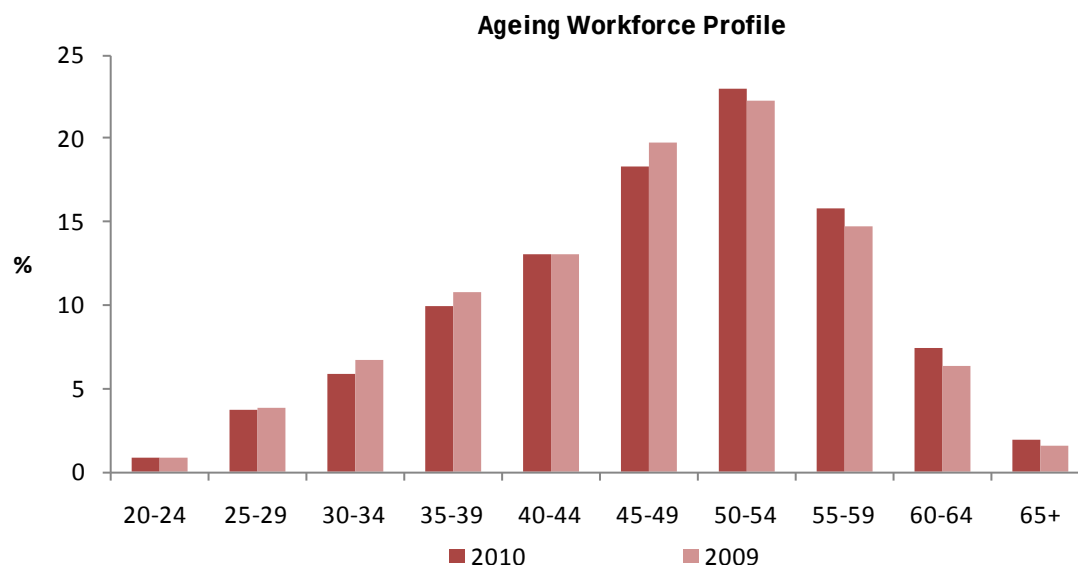
- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies
- extent of overtime.

A summary of the results of my review follows.

Workforce Ageing

At 30 June 2010, 25.1 per cent (22.7 per cent) of the Service's employees were 55 years of age or older and 48.1 per cent (45.0 per cent) were 50 or older. A large number of these employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for the Service.

The age profile of the Service's employees is shown below. It excludes contract, temporary, casual, sessional and seasonal staff.



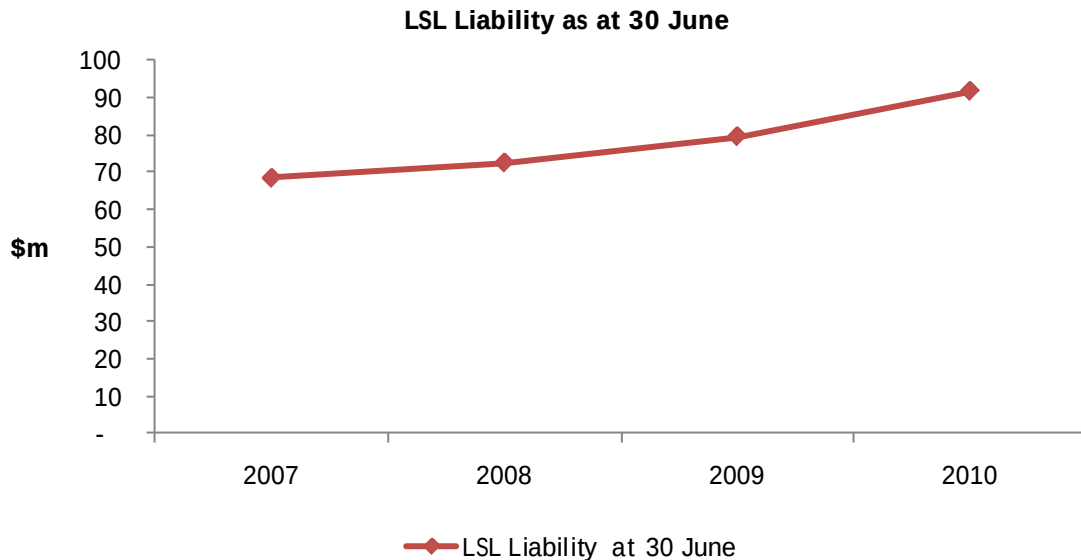
At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
20-24	56	0.9	53	0.8
25-29	234	3.7	242	3.9
30-34	372	5.9	421	6.7
35-39	625	10.1	677	10.8
40-44	816	13.0	822	13.1
45-49	1,151	18.3	1,234	19.7
50-54	1,444	23.0	1,395	22.3
55-59	991	15.8	918	14.7
60-64	464	7.4	399	6.4
65+	122	1.9	98	1.6
Total	6,275	100	6,259	100

Source: North Coast Area Health Service (unaudited)

The Service advised it has implemented a number of initiatives to ensure it has appropriate strategies to attract, retain and develop staff to minimise the challenges of an ageing workforce. I will review this data again next year to assess the effectiveness of the initiatives.

Long Service Leave Liability

Increasing long service leave liabilities create funding challenges for the Service. The Service's long service leave liabilities increased by 33.9 per cent over the last three years to \$91.6 million at 30 June 2010. The graph below demonstrates the increasing liability.



The Department of Health advised it is finalising arrangements to transfer employee long service leave entitlements to the Crown Entity, to bring the Area Health Services into line with other New South Wales Government budget department agencies. The effective date of the transfer is expected to be 31 December 2010.

Annual Leave Balances

I recommend the Service review the effectiveness of its policies for managing excessive leave balances.

Managing excessive annual leave balances remains a challenge for the Service. At 30 June 2010, 1,298 employees (1,322 employees) had accrued annual leave balances in excess of 40 days. This represents 20.7 per cent (21.1 per cent) of total employees at 30 June 2010. The table below shows the number of staff with excessive annual leave balances.

Annual Leave Entitlement (Days)	2010	2009
	No. of Staff	No. of Staff
41-45	201	234
46-50	201	179
51-60	306	347
61-80	346	343
81-100	133	129
100+	111	90
Total	1,298	1,322

Source: North Coast Area Health Service (unaudited)

Some staff attract award entitlements of six weeks annual leave per annum, with entitlements increasing further depending on the incidence of time worked on Sundays and public holidays. The Service advised that in such instances, and using the public sector benchmark of two years' accrual as a guide, staff may not be in an excess leave position until the accrual exceeds 70 days. As shown in the table above, some staff have accumulated leave above the industry norm.

As leave entitlements are paid at rates applicable at the time the leave is taken, excessive leave balances place additional financial pressures on the Service. The health and welfare of employees can also be adversely affected if they do not take sufficient leave during the year.

Overtime

The Department advised the Service's overtime payments in 2009-10 amounted to \$16.0 million (\$16.6 million), 3.6 per cent (3.8 per cent) of base salary expense for the year. On average, Service employees who worked overtime received \$4,145 (\$4,111) in overtime payments in 2009-10. The highest amount paid to a single employee was \$102,042 (\$179,597).

Internal Controls

I identified some opportunities for improvement to accounting and internal control procedures and have reported them to management. One observation is that the Service continues to acquire a high percentage of goods or services outside its electronic procurement system. This exposes it to a higher level of fraud risk because employees only approve purchases after they have occurred.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	552,012	534,369	--	--
Personnel services	--	--	552,012	534,369
Visiting medical officers	93,285	87,732	93,285	87,732
Grants and subsidies	8,201	7,652	8,201	7,652
Other expenses	399,574	372,277	399,574	372,277
OPERATING EXPENSES	1,053,072	1,002,030	1,053,073	1,002,030
OPERATING REVENUE	155,069	132,228	163,248	140,712
Loss on disposal of non-current assets	171	44	171	44
Other losses	1,435	1,335	1,435	1,335
NET COST OF SERVICES	899,609	871,181	891,430	862,697
Government contributions	915,089	846,032	906,910	837,548
SURPLUS/(DEFICIT)	15,480	(25,149)	15,480	(25,149)
OTHER COMPREHENSIVE INCOME				
Asset revaluation increment/(decrement)	22,855	(50,739)	22,855	(50,739)
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	38,335	(75,888)	38,335	(75,888)

The increase in employee related expenses was primarily due to increases in actuarially assessed long service leave entitlements, annual leave entitlements, and award rate increases.

The increase in revenue and other expenses was due to a general rise in activity. The change in high cost drug funding also contributed to the increase in revenue.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	32,150	34,272	32,150	34,272
Non-current assets	647,967	614,896	647,967	614,896
TOTAL ASSETS	680,117	649,168	680,117	649,168
Current liabilities	216,957	220,898	216,957	220,898
Non-current liabilities	8,532	11,977	8,532	11,977
TOTAL LIABILITIES	225,489	232,875	225,489	232,875
NET ASSETS	454,628	416,293	454,628	416,293

The increase in non-current assets was primarily due to a revaluation of land and buildings. The revaluation resulted in a \$22.9 million increment. The decrease in current liabilities was mainly due to a reduction in trade creditors.

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of the North Coast area through the following hospitals:

- Ballina District Hospital
- Bellingen River District Hospital
- Bonalbo Hospital
- Byron District Hospital
- Campbell Hospital (Coraki)
- Casino and District Memorial Hospital
- Coffs Harbour Base Hospital
- Dorrigo Multi Purpose Service
- Grafton Base Hospital
- Kempsey District Hospital
- Kyogle Memorial Hospital
- Lismore Base Hospital
- Macksville Health Campus
- Maclean District Hospital
- Mullumbimby and District War Memorial Hospital
- Murwillumbah District Hospital
- Nimbin Multi Purpose Service
- Port Macquarie Base Hospital
- The Tweed Hospital
- Urbenville Health Service
- Wauchope District Memorial Hospital.

The Service also incorporates and manages the operating activities of various community health services and is associated with several affiliated health organisations.

For further information on the Service, refer to www.ncahs.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	Website
North Coast Area Health Service Special Purpose Service Entity	*

* This entity does not have a website.

Northern Sydney and Central Coast Area Health Service

AUDIT OPINION

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

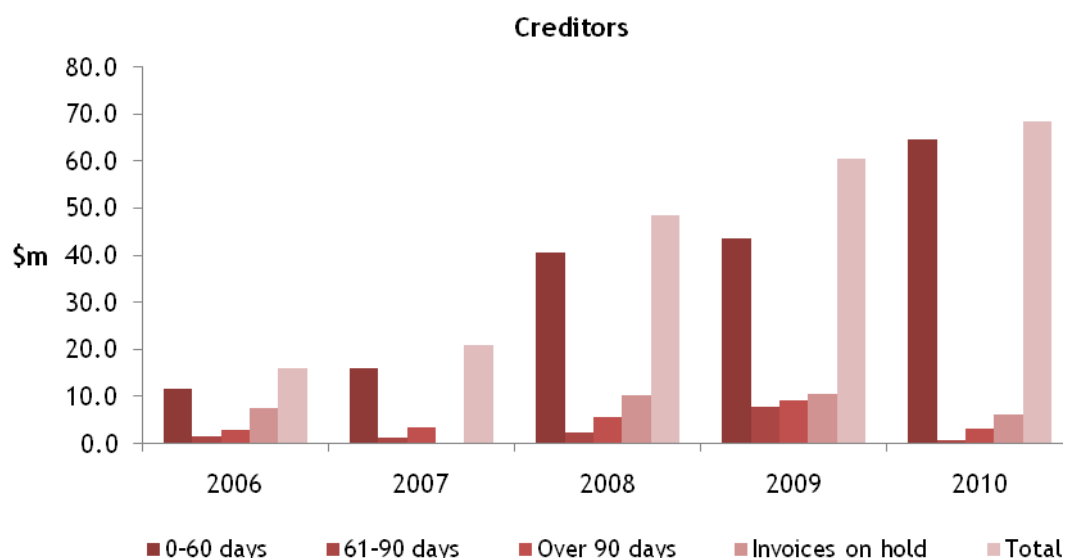
Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Accounts Payable (Repeat issue)

I again recommend the Service pays its creditors within agreed payment terms and follows up disputed invoices in a timely manner.

The following graph shows the ageing of trade creditors for the past five years and the invoices on hold or in dispute:



Note: Total column is the aggregate of the three ageing columns, as they include invoices on hold or in dispute.

The 0-60 days column for 2010 and 2009 include accruals, which are not included in 2008, 2007 and 2006.

Source: Northern Sydney and Central Coast Area Health Service (unaudited).

The Service has reduced the time it takes to pay its creditors. Creditors older than 90 days have decreased by 67.0 per cent. Total creditors increased to \$68.3 million at 30 June 2010 from \$60.5 million at 30 June 2009. During the year, the Service received \$62.3 million in additional funding from the Department of Health (the Department) to help pay outstanding creditors.

In each of the past five years, the amounts on hold or in dispute have constituted a significant portion of total trade creditors. At 30 June 2010, \$6.1 million, 14.0 per cent (20.0 per cent) of total creditors, were either on hold or in dispute. A significant amount of the on hold balance, \$3.0 million, was older than 90 days, with some invoices dating back more than two years.

Intra Health creditors at 30 June 2010 amounted to \$3.0 million (\$4.3 million) and are not included in the above graph as the normal credit terms do not apply.

In addition, some capital works creditors and non-trade creditors are not included in the graph as no ageing analysis was available. The total of these creditors at 30 June 2010 was \$4.8 million (\$430,000).

Budget to Actual Comparison (Repeat Issue)

I recommend the Service continue to improve its budget monitoring processes to ensure any potential budget overruns are addressed in a timely manner.

The Service's result for the year, a deficit of \$41.4 million, was \$15.7 million worse than the budgeted deficit of \$25.7 million. In comparison, the 2009 result was \$39.7 million worse than the budgeted surplus of \$32.2 million. Although there has been an improvement in 2009-10, the continued budget overruns should be appropriately addressed.

The Service advised that the Department has started implementing recommendations from the Independent Financial Management Review, and has completed an independent review of progress. Further comment is included in the 'Overview' earlier in this Volume.

Fully Depreciated Plant and Equipment (Repeat Issue)

I recommend the Service continue to liaise with the Department of Health to ensure it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment.

Following my recommendation in 2008-09, the Service conducted physical stock takes of fully depreciated plant and equipment and reduced the cost of fully depreciated assets from \$92.0 million to \$33.7 million at 30 June 2010. The Service advised all equipment is periodically inspected by technicians for service delivery capabilities.

The Department advised it has engaged an independent expert to conduct a pilot review on fully depreciated assets across a selection of Health Services (refer to Health Overview section of this Volume).

The table below shows the extent of the Service's fully depreciated plant and equipment over the last three years.

At 30 June	2010	2009	2008
Total Plant and Equipment – at cost (\$'000)	181,576	204,940	221,961
Fully Depreciated Plant and Equipment – at cost (\$'000)	33,700	92,000	83,600
Fully depreciated Plant and Equipment as a percentage of total (%)	18.6	44.9	37.7

The Service plans to review the lives of these assets on an ongoing basis.

Special Purpose & Trust Funds (Repeat Issue)

I recommend the Service continue to institute a process to locate the source documentation for a number of trust funds.

Last year, I recommended the Service review all special purpose and trust funds to confirm each fund's intended purpose. The Service has completed this review and found the source documentation for some trust funds was incomplete. The Service has instituted a process to locate these documents. It had \$35.9 million of these funds at 30 June 2010 (\$38.4 million).

The table below shows the dissection of Special Purpose and Trust Funds at 30 June 2010.

At 30 June 2010	Number of SP&T accounts
\$1 - \$9,999	404
\$10,000 - \$99,999	247
\$100,000 - \$499,999	57
\$500,000 - \$999,999	10
\$1,000,000 and over	5
Total	723

Source: Northern Sydney and Central Coast Area Health Service (unaudited).

Local Health Networks

In April 2010, New South Wales entered into the National Health and Hospitals Network Agreement (the NHHN Agreement) with the Australian Government. Further comment is included in the 'Overview' earlier in this Volume.

PERFORMANCE INFORMATION

Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.

The average length of stay in acute hospitals in the Northern Sydney and Central Coast area decreased slightly to 4.3 days (4.4 days). This is well above the state average of 3.6 days (3.7 days) and the highest in the state.

The Service's bed occupancy rate increased to 89.8 per cent (88.3 per cent). This was higher than the State average of 88.3 per cent (87.4 per cent).

The Service has met or exceeded the Department's benchmarks for timeliness in treating emergency patients in four of the five triage categories (met or exceeded three of the five triage categories in 2009).

The Service's emergency admission performance slightly increased to 71.0 per cent (70.0 per cent). This was less than its 80.0 per cent target.

OTHER INFORMATION

Asset Stock Take (Repeat issue)

I recommend the Service strengthen its policies and procedures in relation to missing items identified from plant and equipment stock takes.

Last year, I recommended the Service strengthen its policies and procedures of plant and equipment stock takes. Following my recommendation, the Service performed a stock take of all plant and equipment in 2009-10. All cost centres returned complete stock take sheets and total of \$2.6 million of plant and equipment was written off.

Payments to Visiting Medical Officers and Medical Staff

The following table shows a comparison of payments to Visiting Medical Officers (VMOs) and Medical Staff.

Year ended 30 June Category	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000
Total Medical Staff*	192,392	190,039	174,491	160,951
VMOs	65,467	58,884	57,629	49,363

* Payments to Medical Staff include: base salary, overtime, penalties, sick and other leave, annual leave and long service leave.

Source: Northern Sydney and Central Coast Area Health Service (unaudited)

VMOs are specialist medical staff working as independent contractors for an average of six to eight hours per week in the public health system. At other times they work in private practice. They supplement staff specialists and other staff employed directly by the Service (medical staff).

VMO costs are a substantial part of the overall medical costs for the Service.

Human Resources

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

- workforce ageing profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities .
- management of annual leave balances in excess of threshold policies
- extent of overtime.

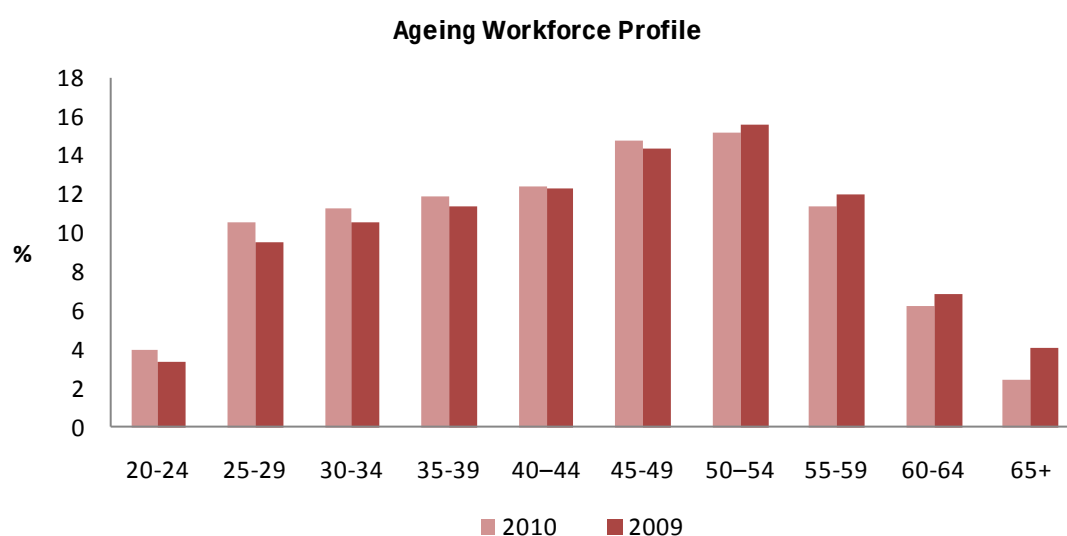
A summary of the results of my review follows.

Workforce Ageing

I recommend the Service review the effectiveness of its policies for managing its ageing workforce.

Twenty three percent of the Services employees are over 55 years of age and 38.5 per cent are over 50. A large number of these employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for the Service.

The age profile of the Service employees is shown below:



At 30 June Age Group	2010		2009	
	No. of Permanent Staff *	%	No. of Permanent Staff *	%
20 - 49	7,093	61.5	7,836	64.7
50 - 54	1,795	15.5	1,837	15.2
55 - 59	1,382	12.0	1,377	11.4
60 - 64	792	6.9	750	6.2
65+	470	4.1	302	2.5
Total	11,532	100	12,102	100

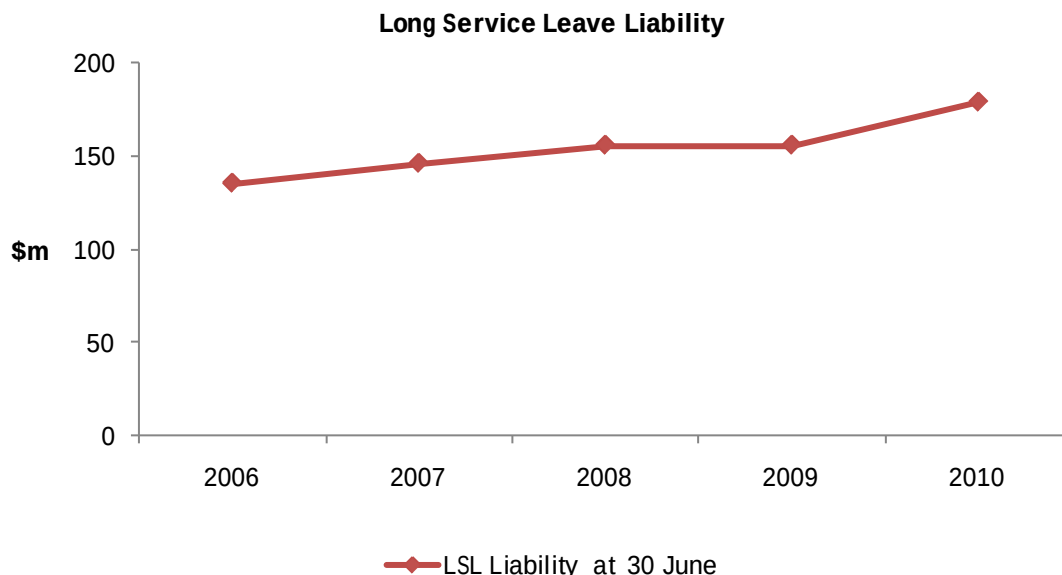
* Permanent staff includes staff employed under Crown Employee Award but excludes contract, temporary and casual staff

Source: Northern Sydney and Central Coast Area Health Service (unaudited)

To ensure sufficient availability of experienced staff in the future, the Service should actively monitor its workforce age profile and develop and implement appropriate strategies to attract and retain staff whose skills are aligned with the strategic direction of the Service.

Long Service Leave Liability

Increasing long service leave liabilities create funding challenges for the Service. Long service leave liabilities increased by 14.8 per cent to \$179 million in 2010 (\$156 million).



The Service advised that the Department of Health is finalising arrangements for the transfer of employee long service leave entitlements to the Crown Entity, to bring the Department into line with other Government budget dependent agencies. The effective date of the transfer is expected to be 31 December 2010.

Annual Leave Balances

I recommend the Service review the effectiveness of its policies for managing excess annual leave.

Managing excessive annual leave balances remains a challenge for the Service. Of its total workforce of 11,532, 2,366 employees or 20.5 per cent (22.8 percent) had annual leave balances in excess of 40 days. The highest employee annual leave balance was 421 days (422 days). The total number of staff with annual leave balances exceeding 40 days decreased by 405 employees this year.

The Department advised a significant number of staff attract award entitlements of six weeks annual leave per annum, with entitlements further increased depending on the incidence of time worked on Sundays and public holidays. The Department advised in such instances, and using the public sector benchmark of two years' accrual as a guide, Health staff may not be in an excess leave position until the accrual exceeds 70 days.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

The Service should continue to apply the measures it has implemented to reduce leave balances focussing on staff at the high end of the excessive leave range.

Overtime

Overtime paid to staff in 2009-10 was \$38.4 million (\$39.3 million). Overtime was paid to approximately half of all permanent staff, slightly less than in the prior year. The average overtime paid over to people who worked overtime was \$5,899. There were incidences of overtime payments totalling in excess of \$130,000.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	1,082,833	1,053,759	--	--
Personnel services	--	--	1,082,833	1,053,759
Visiting medical officers	65,467	58,884	65,467	58,884
Other expenses	680,578	637,287	680,578	637,287
TOTAL EXPENSES	1,828,878	1,749,930	1,828,878	1,749,930
TOTAL REVENUE	357,477	342,491	373,537	359,944
Loss on disposal of non-current assets and other losses	24,666	2,965	24,666	2,965
NET COST OF SERVICES	1,496,067	1,410,404	1,480,007	1,392,951
Total government contributions	1,454,624	1,402,860	1,438,564	1,385,407
DEFICIT	41,443	7,544	41,443	7,544
OTHER COMPREHENSIVE INCOME				
Asset revaluation increment / (decrement)	77,933	(30)	77,933	(30)
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	77,933	(30)	77,933	(30)
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	36,490	(7,574)	36,490	(7,574)

Employee related expenses rose due to award rate increases that were partially offset by the fall in permanent staff numbers.

The increase in other expenses was mainly due to: higher pathology services costs of \$16.3 million resulting from the transfer of these services from the Service to Hunter New England Area Health Service; increases in food, drug and medical supplies costs of \$15.9 million; and increased maintenance costs of \$5.9 million.

The loss on disposal of non-current assets of \$21.0 million was mainly due to disposal of Royal North Shore Hospital car park, leased to a private entity.

The asset revaluation increment of \$77.9 million comprised: increases in the value of buildings, \$82.7 million; increases in the value of infrastructure systems, \$4.5 million; and decreases in the value of land, \$9.3 million.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	161,973	133,120	161,973	133,120
Non-current assets	1,512,428	1,411,184	1,512,428	1,411,184
TOTAL ASSETS	1,674,401	1,544,304	1,674,401	1,544,304
Current liabilities	430,123	395,645	430,123	395,645
Non-current liabilities	150,929	90,573	150,929	90,573
TOTAL LIABILITIES	581,052	486,218	581,052	486,218
NET ASSETS	1,093,349	1,058,086	1,093,349	1,058,086

The increase in current assets is mainly due to the transfer of land and buildings held for sale, valued at \$17.2 million, from non-current assets.

The increase in non-current assets and non-current liabilities is mainly due to the non-current receivable of \$68.0 million for the car park leasing and the revaluation increase.

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of Northern Sydney and the Central Coast through the following hospitals:

- Gosford Hospital
- Hornsby Ku-ring-gai Hospital
- Long Jetty Hospital
- Macquarie Hospital
- Manly Hospital
- Mona Vale Hospital
- Royal North Shore Hospital
- Ryde Hospital
- Woy Woy Hospital
- Wyong Hospital.

The Service also incorporates and manages the operating activities of various community health services, and is associated with several affiliated health organisations.

For further information on the Service's activities, refer to www.nsccahs.health.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	Website
Northern Sydney and Central Coast Area Health Service Special Purpose Service Entity	*

* This entity does not have a website.

South Eastern Sydney and Illawarra Area Health Service

AUDIT OPINION

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

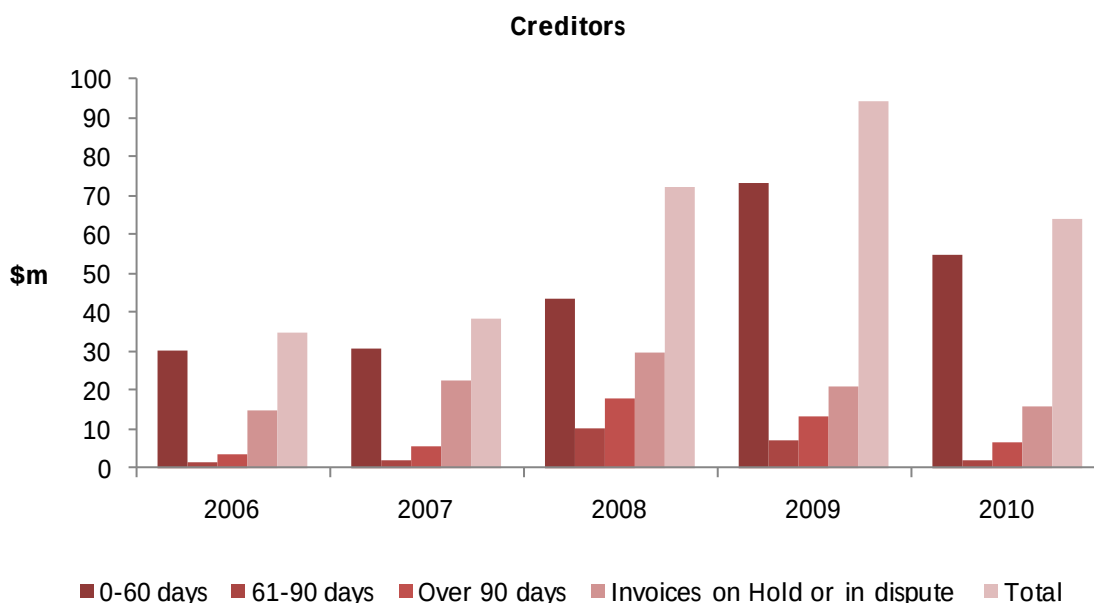
Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Accounts Payable (Repeat issue)

I again recommend the Service ensures all purchases are supported by authorised orders, creditors are paid within agreed payment terms, and disputed invoices are followed up in a timely manner.

The following graph shows the ageing of creditors for the past five years, and amounts on hold or in dispute.



Note: Total column is comprised of the three ageing columns, as they include the amounts for invoices on hold or in dispute. The 0-60 day columns for 2010 and 2009 include accruals (not included for 2008, 2007 and 2006)

Source: South Eastern Sydney and Illawarra Area Health Service (the ageing profile and invoices on hold have not been audited)

Intra Health creditors at 30 June 2010 amounted to \$18.2 million, and are not included in the above graph as normal credit terms do not apply. Although I was unable to age the full balance of intra Health creditors, I noted that \$5.8 million was over 120 days old.

In addition, some capital works creditors and non-trade creditors are not included in the graph as an ageing analysis was not available for them. The total of these creditors for 2010 was \$9.1 million (\$8.6 million for 2009).

Timely payment of creditors continues to be an issue for the Service. Total creditors at 30 June 2010 of \$63.9 million, was significantly lower than the prior year's \$94.1 million. Creditors over 90 days old reduced by 41 per cent in that time. This result, however, was only achieved after an injection of \$41.7 million in cash assistance from the Department of Health (the Department) in June 2010. The additional cash was specifically assigned for the payment of creditors.

In each of the past five years, invoices on hold or in dispute have constituted a material portion of total creditors. At 30 June 2010, some \$15.8 million or 24.7 per cent (22.6 per cent) of total creditors, were either on hold or in dispute.

A significant amount, \$7.2 million, of the 'on hold' balance at 30 June 2010 was over 90 days old. Invoices can be placed on hold for a number of reasons, including the lack of a purchase order to support the invoice. I have reported and recommended purchases need to be accompanied by valid orders for the last three years. The Department has also written to suppliers asking them to not invoice Health entities until they have received valid purchase orders. It is incumbent on the Service to ensure purchases are only made if they are supported by an approved order.

Budget to Actual Comparison

I again recommend the Service improve its budget monitoring processes to ensure any potential budget overruns are addressed in a timely manner.

The Service's result for the year, a deficit of \$36.0 million, was \$9.7 million worse than the budgeted deficit of \$26.3 million. In comparison, the 2009 result was \$23.3 million worse than the budgeted deficit of \$41.5 million. Although there has been an improvement in 2009-10, the continued budget overruns should be addressed.

The Department advised it has started implementing recommendations from the Independent Financial Management Review, and has completed an independent review of progress. Further comment is included in the Overview earlier in this Volume.

Fully Depreciated Plant and Equipment (Repeat issue)

I again recommend the Service liaise with the Department to ensure it implements recommendations from a pilot review the Department is conducting into whole-of-lifecycle management of medical equipment.

The Department advised it has established the Medical Equipment Asset Management Program to determine the feasibility of an external private sector partnership in the provision of a whole-of-life asset management facility. A tender document was issued by the Department in 2009-10, and it is currently assessing the tenders received.

The table below shows the extent of the Service's fully depreciated plant and equipment over the last four years.

At 30 June	2010	2009	2008	2007
Total plant and equipment - at cost (\$'000)	233,459	226,677	214,814	234,079
Fully depreciated plant and equipment - at cost (\$'000)	62,071	68,503	73,200	56,700
Fully depreciated plant and equipment as a percentage of total (per cent)	26.6	30.2	34.1	24.2

The Service continues to use a high proportion of plant and equipment, which has been fully depreciated. Although this reduced from 30.2 per cent in 2009 to 26.6 per cent in 2010, it is still very significant.

The Service performed a review of fully depreciated plant and equipment assets during 2008-09, resulting in \$12.0 million being written off, generally for assets with an original cost of less than \$10,000. No assets were written off during 2009-10.

Special Purpose and Trust Funds (Repeat issue)

I again recommend the Service review all special purpose and trust funds to confirm each fund's intended purpose. Where appropriate, approvals should be sought to move funds into the public contributions trust fund account to assist in the delivery of health services.

In past years, I have recommended the Service review all special purpose and trust funds (SP&T funds) to confirm each fund's intended purpose, as the nature and intended use of some funds was not apparent. The Service advised it commenced a review of SP&T funds in June 2009, but found further investigation was required. The review was expected to be completed by March 2010, however, it had still not been finalised at the time of this report. The total value of SP&T funds at 30 June 2010 was \$49.4 million (\$48.5 million).

Local Health Networks

In April 2010, New South Wales entered into the National Health and Hospitals Network Agreement (the NHHN Agreement) with the Australian Government. Further comment is included in the 'Overview' earlier in this Volume.

PERFORMANCE INFORMATION

Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.

The average length of stay in acute hospitals in the South Eastern Sydney and Illawarra areas remained steady at 3.6 days (3.6 days). This is equal to the State average.

The Service's bed occupancy rate was consistent at 93.3 per cent (93.3 per cent). This is the highest in the State and well above the State average of 88.3 per cent.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in four of the five triage categories (met or exceeded in four of the five triage categories in 2009).

The Service's emergency admission performance remained steady at 74.0 per cent (74.0 per cent). This is lower than its 80.0 per cent target.

OTHER INFORMATION

Asset Stock Take (Repeat Issue)

I again recommend the Service strengthen its policies and procedures in relation to plant and equipment stock takes.

In 2009-10, the Service instructed its hospitals and other facilities to undertake a stock take of assets.

Although the Service has still to collate all the results of the stock takes, the process highlighted issues, including assets with nil values; assets not appearing in the fixed asset register; and the incorrect physical location of assets.

The Service needs to implement additional procedures to improve the plant and equipment stock take process, including aiming for all locations to undertake stock takes.

Payments to Visiting Medical Officers and Medical Staff

The following table shows a comparison of payments to Visiting Medical Officers (VMOs) and Medical Staff for the last five years.

Year ended 30 June Category	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000
Medical staff*	295,659	251,636	238,092	211,174	201,749
VMOs	70,482	67,274	67,005	60,577	58,529

* Payments to medical staff include: base salary, overtime, penalties, sick and other leave, annual leave and long service leave.

VMO costs comprise a substantial part of the overall medical costs for the Service.

VMOs are medical staff working as independent contractors for an average of six to eight hours per week in the public health system. At other times they work in private practice. They supplement staff specialists and other staff employed directly by the Service (medical staff).

Human Resources

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

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies
- extent of overtime.

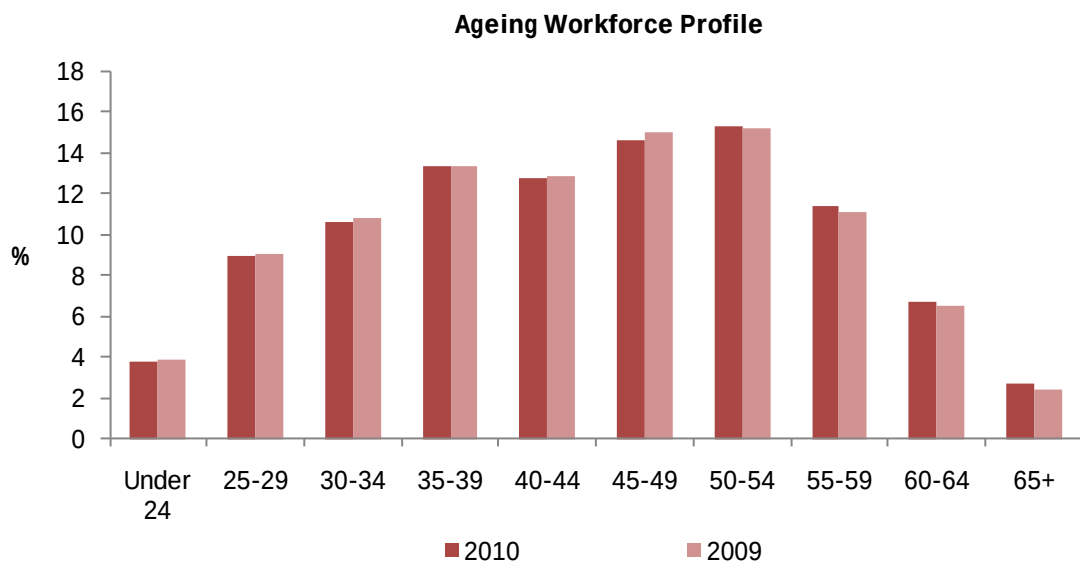
Issues identified from my review will be reported in a management letter to the Service. A summary of the results of my review follows.

Workforce Ageing

I recommend the Service review the effectiveness of its policies for managing its ageing workforce.

Twenty one per cent of the Service's employees are over 55 years of age and 36 per cent are over 50. A large number of these employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for the Service.

The age profile of the Service's employees is shown below:

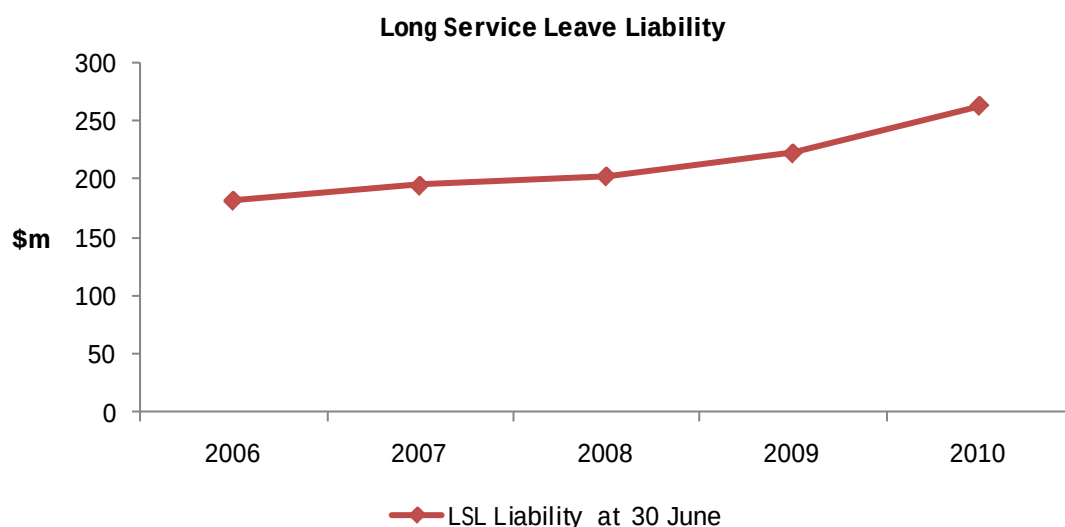


At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
Under 35	3,275	23.3	3,392	23.7
35-39	1,866	13.3	1,897	13.3
40-44	1,785	12.7	1,824	12.8
45-49	2,056	14.6	2,150	15.0
50-54	2,143	15.3	2,179	15.2
55-59	1,597	11.4	1,585	11.1
60-64	942	6.7	926	6.5
65+	385	2.7	336	2.4
Total	14,049	100	14,289	100

Source: South Eastern Sydney and Illawarra Area Health Service (unaudited).

Long Service Leave Liability

Increasing long service leave liabilities create funding challenges for the Service. Long service leave liabilities increased by 44.3 per cent over the past five years to \$263 million in 2010 (\$182 million).



The Department advised it is finalising arrangements for the transfer of employee long service leave entitlements to the Crown Entity, to bring the Department into line with other Government budget dependent agencies. The effective date of the transfer is expected to be 31 December 2010.

Annual Leave Balances

I recommend the Service review the effectiveness of its policies for managing excess annual leave.

The following table shows the number of staff with leave in excess of 40 days.

At 30 June Annual Leave Entitlement (Days)	2010	2009
	No. of Staff	No. of Staff
41-60	1,800	1,809
61-80	838	944
81-100	411	452
100 +	450	483
Total	3,499	3,688

The information in the table above was obtained centrally from the Department and excludes groups such as temporary and seasonal staff. The Department advised the data was extracted at a point in time and may differ from the Service's payroll records, which is a 'live' database updated continuously for changes that may impact past balances.

The Service advised that managing excessive annual leave balances remains a challenge. At 30 June 2010, 3,499 staff had accrued more than the general public service benchmark of 40 days annual leave. The highest annual leave balance was 415 days, with the next highest being 385 days.

A significant number of staff attract award entitlements of six weeks annual leave per annum, with entitlements increasing further depending on the incidence of time worked on Sundays and public holidays. The Service advised that in such instances, and using the public sector benchmark of two years' accrual as a guide, its staff may not be in an excess leave position until the accrual exceeds 70 days. As shown in the table above, some staff have accumulated leave above the industry norm.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

In October 2010, the Service established the Excessive Annual Leave Steering Committee, with the object of reducing current excessive annual leave balances and directing appropriate management of annual leave entitlements. The Committee will begin implementing an action plan next year.

Overtime

The Department advised that the Service's overtime payments in 2009-10 amounted to \$50.8 million (\$47.2 million), 3.7 per cent (3.6 per cent) of the total salary expenses for the year. On average, Service employees received \$5,973 in overtime payments in 2009-10. The highest amount paid by the Service to an employee was \$228,894.

Internal Controls

I identified other opportunities to improve accounting and internal control procedures and have reported these to management. The major matters included:

- weakness in the maintenance of the payroll master file data
- late submission, sign-off and review of timesheets
- limited reconciliations performed on intra health debtor and creditor balances, resulting in unexplained reconciling items
- no reconciliation performed of the out-patient log and the bill sheets, resulting in a potential loss of revenue.

FINANCIAL INFORMATION

The consolidated financial information includes the financial statements of the Service and its controlled entities.

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	1,380,697	1,322,930	--	--
Personnel services	--	--	1,380,697	1,322,930
Visiting medical officers	70,482	67,274	70,482	67,274
Grants and subsidies	26,307	27,484	26,307	27,484
Other expenses	935,178	909,238	935,178	909,238
OPERATING EXPENSES	2,412,664	2,326,926	2,412,664	2,326,926
OPERATING REVENUE	641,840	566,200	641,840	566,200
Loss on disposal of non-current assets and other losses	2,267	6,939	2,267	6,939
NET COST OF SERVICES	1,773,091	1,767,665	1,773,901	1,767,665
Government contributions	1,737,087	1,702,847	1,737,087	1,702,847
DEFICIT	36,004	64,818	36,004	64,818
OTHER COMPREHENSIVE INCOME				
Increase/(decrease) in property, plant and equipment valuation	123,448	(13,871)	123,448	(13,871)
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	123,448	(13,871)	123,448	(13,871)
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	87,444	(78,689)	87,444	(78,689)

Employee related expenses increased primarily due to increases in actuarially assessed long service leave entitlements and award rate increases.

The increase in revenue and other expenses was due to a general rise in activity, including increased patient fees.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	176,004	167,497	176,004	167,497
Non-current assets	1,525,460	1,433,295	1,525,460	1,433,295
TOTAL ASSETS	1,701,464	1,600,792	1,701,464	1,600,792
Current liabilities	591,751	573,766	591,751	573,766
Non-current liabilities	31,698	35,304	31,698	35,304
TOTAL LIABILITIES	623,449	609,070	623,449	609,070
NET ASSETS	1,078,015	991,722	1,078,015	991,722

The increase in non-current assets is due to the revaluation of land and buildings during the year.

The increase in current liabilities is mainly due to an increase in employee entitlements.

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of the South Eastern Sydney and Illawarra area through the following hospitals:

- Bulli District Hospital
- Coledale District Hospital
- David Berry Hospital
- Garrawarra Centre
- Gower Wilson Memorial Hospital
- Kiama Hospital and Community Health Service
- Milton Ulladulla Hospital
- Port Kembla Hospital
- Prince of Wales Hospital and Community Health Services
- Royal Hospital for Women
- Shellharbour Hospital
- Shoalhaven District Memorial Hospital
- St George Hospital and Community Health Services
- Sutherland Hospital and Community Health Services
- Sydney Children's Hospital and Community Health Services
- Sydney Hospital and Sydney Eye Hospital
- Wollongong Hospital.

The Service also incorporates and manages the operating activities of various community health services, and is associated with several affiliated health organisations.

For further information on the Service, refer to www.sesiahs.health.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	Website
South Eastern Sydney and Illawarra Area Health Service Special Purpose Service Entity	*

* This entity does not have a website.

Sydney South West Area Health Service

AUDIT OPINION

The audits of the Service and its controlled entities' financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports, except for the ANZAC Health and Medical Research Foundation Trust Fund, which was qualified.

As is common for entities that have donations and fundraising as sources of revenue, it is impractical for the Trust Fund to maintain an effective system of internal control over such revenue it receives until its entry in the financial records. This means the audit evidence available regarding revenue from these sources is limited and our audit procedures with respect to such revenue is restricted to the amounts recorded in the financial records. This is a common issue across similar entities, which rely on discretionary revenue streams, and does not represent a shortcoming by the Trust Fund's management.

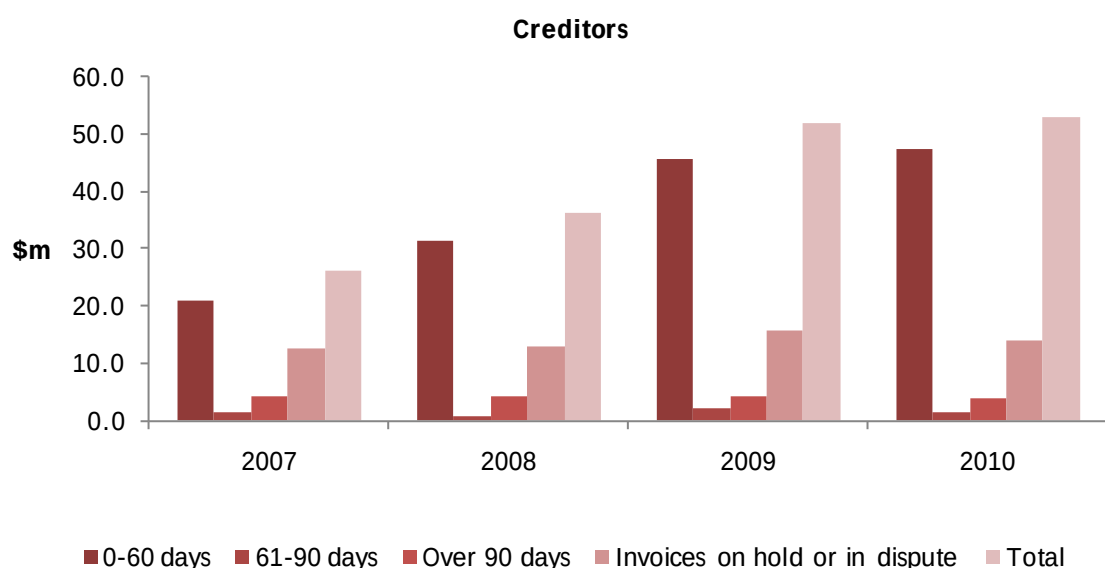
Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Accounts Payable (Repeat issue)

I recommend the Service ensures all purchases are supported by authorised orders, creditors are paid within agreed payment terms, and disputed invoices are followed up in a timely manner.

The following chart shows ageing of trade creditors and accruals for the past four years, and amounts on hold or in dispute.



Note: Total column is comprised of the three ageing columns, as they include the amounts for invoices on hold or in dispute. The 0-60 days' columns for 2010 & 2009 include accruals, which are not included in 2008 & 2007.

Source: Sydney South West Area Health Service (unaudited)

The Service's total creditors at 30 June 2010 were \$43.9 million, slightly higher than \$41.2 million in 2009. Of this, \$33.0 million (\$31.3 million) were trade creditors.

In each of the past four years, amounts on hold or in dispute have constituted a significant portion of trade creditors. At 30 June 2010, \$14.1 million, 42.7 per cent of trade creditors, were either on hold or in dispute (\$15.6 million and 49.6 per cent). The Service advises that \$3.9 million (\$4.1 million) is over 90 days old and is genuinely in dispute. Invoices can be placed on hold for a number of reasons, including lack of a purchase order to support the invoice, omission of purchase order reference on invoices by vendors, the unit price and/or quantity received not per the purchase order's agreed terms.

Intra Health Creditors at 30 June 2010 of \$3.8 million (\$4.8 million) are not included in the above graph as the normal credit terms are not applicable. In addition, \$4.8 million (\$5.7 million) of capital works creditors have not been included as no ageing analysis for comparative data was available.

Special Purpose and Trust Funds (Repeat issue)

I recommend the Service continue its review of all special purpose and trust funds to confirm their intended purpose. Where appropriate, approvals should be sought to move funds into the public contributions trust fund where they can then be used for health services.

At 30 June 2010, the Service and its controlled entities held more than \$232 million (\$208 million) in special purpose and trust funds. The number of funds and their balances held appear in the table below.

At 30 June 2010	No of SP & T Funds
less than \$10,000	809
\$10,000 to \$99,999	632
\$100,000 to \$499,999	228
\$500,000 to \$999,999	48
\$1,000,000 and over	37
Total	1,754

Source: Sydney South West Area Health Service (Unaudited)

I previously recommended the Service review all special purpose and trust funds to confirm their intended purpose. In 2009-10, the Service partially reviewed these funds and consolidated some larger funds which have a similar purpose. No funds were moved into the public contributions trust fund.

Budget to Actual Comparison

The Service's consolidated result for the year was a surplus of \$97.8 million. This was \$47.7 million above the budgeted surplus of \$50.1 million. This is higher than the 2008-09 surplus of \$23.5 million, which exceeded the budgeted surplus by \$16.9 million.

Fully Depreciated Plant and Equipment (Repeat issue)

I again recommend the Service should liaise with the Department of Health to ensure it implements recommendations from a pilot review the Department is conducting into whole of life cycle management of medical equipment.

The Department advised it has established the Medical Equipment Asset Management Program to determine the feasibility of an external private sector partnership in the provision of a whole-of-life asset management facility. A tender document was issued in 2009-10 and the tender responses are currently being assessed. Refer to the 'Health Overview' section earlier in this Volume.

The Service continues to use a high proportion of fully depreciated plant and equipment. Details of the extent of fully depreciated plant and equipment within the Service's asset register appear in the table below.

At 30 June	2010	2009	2008
Total Plant and Equipment – at cost (\$'000)	394,610	454,758	453,014
Fully Depreciated Plant and Equipment – at cost (\$'000)	188,583	240,197	230,443
Percentage of Fully depreciated Plant and Equipment to total (%)	47.8	52.8	50.9

The Service advised that fully depreciated plant and equipment at 30 June 2010 includes \$68.4 million of medical equipment. This is a significant reduction on prior years. In the past two years, the Service reported in excess of \$100 million of fully depreciated medical equipment. As a result of more comprehensive stocktake procedures, equipment no longer in use has been removed from the asset register.

The Service has a policy of conducting regular inspections of equipment to ensure the safety of equipment used on patients.

Asset Stock Take

I recommend the Service further strengthen its policies and procedures in relation to plant and equipment management.

Following its stocktake of medical equipment in 2010, the Service wrote off items within its fixed asset register with an original cost of \$70.1 million. Of this, \$63.3 million was fully depreciated at the time of write off.

The stocktake highlighted that the Service needs to strengthen its processes to ensure:

- accurate and timely accounting for asset disposals
- all assets appear in fixed asset registers
- asset registers contain accurate location information.

Local Health Networks

In April 2010, New South Wales entered into the National Health and Hospitals Network Agreement with the Australian Government. Refer to the 'Health Overview' section earlier in this Volume.

PERFORMANCE INFORMATION

Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.

The average length of stay in acute hospitals in the Sydney South West Area was 3.6 days (3.7 days in 2009). This is equal to the State average.

The Service's bed occupancy rate was 92.6 per cent (90.7 per cent). This is higher than the State average of 88.3 per cent.

The Service improved its performance by meeting or exceeding the Department's benchmarks for timeliness in treating emergency patients in all of the five triage categories (three triage categories in 2009).

The Service's emergency admission performance increased from 65.0 per cent in 2009 to 71.0 per cent in 2010. This is still lower than the target of 80.0 per cent.

OTHER INFORMATION

Major Capital Projects

Liverpool Hospital

Stage 2.1 of the Liverpool Hospital redevelopment is underway with completion scheduled in late 2011. The redeveloped Liverpool Hospital will feature 855 beds, 20 operating rooms and three interventional suites, 60 intensive care beds, extended cancer treatment facilities, a major new ambulatory care centre, an additional rooftop helipad, additional parking, new education facilities, and an elevated road and separate pedestrian bridge over the railway linking the eastern and western campuses.

At 30 June 2010, \$253 million of project costs had been incurred. The forecast total cost on completion is \$397 million, which is consistent with original forecasts. This project is being managed by Health Infrastructure Services and is estimated for completion in December 2011.

Royal Prince Alfred Hospital

Planning studies have commenced for a new purpose built mental health unit within Royal Prince Alfred Hospital, which will replace the existing unit. The New South Wales Government will contribute \$30.0 million towards the project with the University of Sydney contributing \$10.0 million. Construction is expected to commence in 2011 and be completed within two years.

Construction has begun on the Lifehouse at RPA cancer centre located on the grounds of Royal Prince Alfred Hospital. Stage One of Lifehouse at RPA is estimated to cost \$182 million, most of which will be funded by the Australian Government.

Human Resources

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

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- extent of overtime
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- use of contract staff
- payments to Visiting Medical Officers.

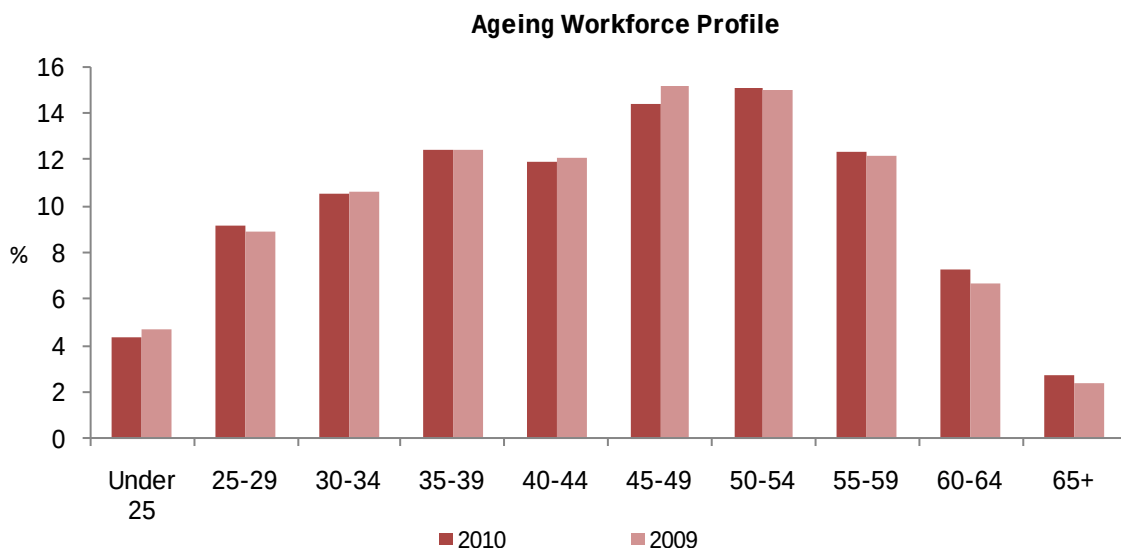
Issues identified from my review will be reported in a management letter to the Service. A summary of the results of my review follows.

Workforce Ageing

Twenty two per cent of the Service's employees are over 55 years of age and 37.0 per cent are over 50. A large number of these employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for the Service.

To ensure an adequate supply of staff in the future and address the associated risks, the Service needs to monitor its workforce age profile and ensure strategies are in place to attract, develop and retain staff. The Service has a strategic workforce plan, which is regularly updated, to help ensure the challenges of an aging workforce are minimised.

The age profile of the Service's employees is shown below:



At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
Up to 35	4,008	24.0	4,003	24.1
35-39	2,074	12.4	2,055	12.4
40-44	1,983	11.9	2,006	12.1
45-49	2,402	14.3	2,510	15.1
50-54	2,517	15.0	2,484	15.0
55-59	2,066	12.4	2,021	12.2
60-64	1,220	7.3	1,106	6.7
65+	453	2.7	396	2.4
Total	16,723	100	16,581	100

Source: Sydney South West Area Health Service (unaudited).

Annual Leave Balances

I recommend the Service review the effectiveness of its policies for managing excess annual leave.

The Service's annual leave liability increased by 6.1 per cent during 2009-10, to \$261 million. There has been no improvement in managing excess annual leave during 2009-10, with 5,675 staff having leave balances in excess of 40 days at 30 June 2010. The Service has approximately 12,000 full time and 4,500 part time staff at 30 June 2010. The following table shows the number of staff with annual leave in excess of 40 days.

Annual leave entitlement (Days) At 30 June	Number of Staff	
	2010	2009
41-45	774	819
46-50	703	665
51-60	1,190	1,184
61-80	1,521	1,400
81-100	720	704
100+	767	739
Total	5,675	5,511

Source: Department of Health (unaudited).

Forty days is a public sector benchmark. However, the Service advises some staff are entitled to 20 days annual leave above the public sector benchmark, and may, therefore, have more than 40 days accrued but not be in an excess annual leave position.

The Service has advised it has active procedures in place for managing annual leave accruals for all staff. This involves regular reporting and monitoring of leave balances and a series of escalating actions for the reduction of balances. Despite these procedures, the highest annual leave balance at 30 June 2010 was 298 days.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

Overtime

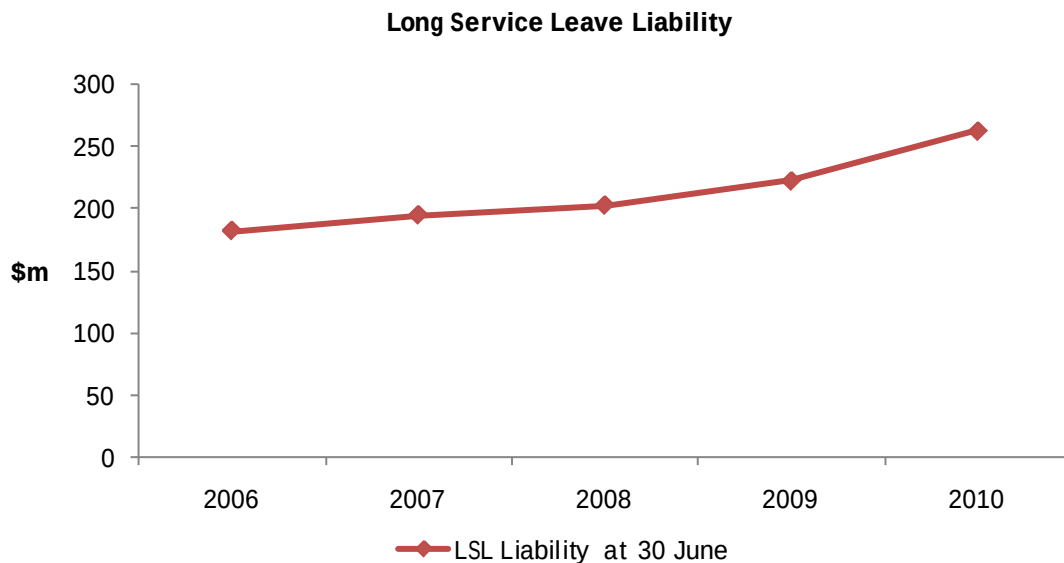
Overtime paid to staff in 2009-10 was \$56.3 million (\$55.7 million). Approximately 80.0 per cent of this figure was paid to nursing and medical staff. Overtime costs represent only 3.5 per cent (3.6 per cent) of total employee related expenditure, which is comparable with other Health Services.

During 2009-10, overtime was paid to approximately half of all permanent staff, which is slightly less than in the prior year. The average overtime paid to individuals who worked overtime in 2009-10 was \$6,382. However, there were incidences of overtime payments totalling more than \$150,000.

Long Service Leave Liability

The Department has advised it is finalising arrangements for the transfer of employee long service leave entitlements to the Crown Entity in order to bring New South Wales Health into line with other New South Wales Government budget dependent agencies. The effective date of the transfer is expected to be 31 December 2010.

The Service's long service leave liability increased by 32.0 per cent over the past three years to \$277 million at 30 June 2010 (\$238 million). The graph below shows the increasing liability.



Use of Contract Staff

For the 12 months to 30 April 2010, the Service advised it paid \$103 million to contract staff. The following table shows a breakdown of the type of contractors and total costs for that 12 month period.

Contractor Type	2010	
	No. of Contractors	\$'000
Visiting Medical Officers (VMO)*	724	85,547
Agency Nurse	976	8,472
Agency Medical	202	5,946
Agency Administration Staff	66	2,886
Total	1,968	102,851

* VMO expenditure is for the period 2009-10 and other agency staff expenditure is for the 12 months ended 30 April 2010.

Source: Sydney South West Area Health Service (unaudited).

Just over 97.0 per cent of contract staff costs were related to front line clinical staff. The Service advised that contract administration staff have been used to fill vacant permanent positions.

At 30 April 2010, 62.8 per cent of contract staff had been engaged for more than 12 months and thirty staff had been contracted for more than six years. The Service advises that Visiting Medical Officers are usually appointed on a three year term and are eligible to apply for reappointment at the end of the contract term.

Payments to Visiting Medical Officers and Medical Staff

The following table shows a comparison of payments to Visiting Medical Officers (VMOs) and Medical Staff.

Year ended 30 June Category	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000
Medical Staff*	304,061	282,872	262,453	243,777
VMO	92,764	84,167	84,815	77,628
VMO to Medical Staff Cost in comparison (%)	30.5	29.8	32.3	31.8

* Payments to Medical Staff include: base salary, overtime, penalties, sick and other leave, annual leave and long service leave.

Source: Sydney South West Area Health Service (unaudited)

VMO costs are a substantial and consistent portion of medical costs. VMOs are specialist medical staff working as independent contractors for an average of six to eight hours per week in the public health system to supplement staff specialists and other staff employed directly by the Service. At other times they work in private practice.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	1,613,443	1,560,517	--	--
Personnel services	--	--	1,609,729	1,556,877
Visiting medical officers	92,764	84,167	92,764	84,167
Grants and subsidies	36,043	27,162	35,256	26,921
Other expenses	920,593	881,394	917,170	878,707
OPERATING EXPENSES	2,662,843	2,553,240	2,654,919	2,546,672
OPERATING REVENUE	634,520	553,283	644,380	566,382
Other losses	14,578	5,861	5,899	5,861
NET COST OF SERVICES	2,042,901	2,005,818	2,016,438	1,986,151
Government contributions	2,140,695	2,029,282	2,115,774	2,004,116
SURPLUS	97,794	23,464	99,336	17,965
OTHER COMPREHENSIVE INCOME				
Asset revaluation increment/(decrement)	(26,229)	91,689	(26,043)	91,165
TOTAL COMPREHENSIVE INCOME	71,565	115,153	73,293	109,130

The increase in employee related expenses was due to Award increases and additional staff numbers, together with increases in employee benefit provisions. The increase in visiting medical officer's expense is mostly due to an increase in the remuneration rate.

Other increases in revenues and expenses are attributable to a general rise in activity.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	295,154	280,728	278,213	261,704
Non-current assets	1,888,061	1,787,228	1,878,690	1,777,890
TOTAL ASSETS	2,183,215	2,067,956	2,156,903	2,039,594
Current liabilities	661,036	620,900	659,835	619,553
Non-current liabilities	36,573	33,015	34,706	30,972
TOTAL LIABILITIES	697,609	653,915	694,541	650,525
NET ASSETS	1,485,606	1,414,041	1,462,362	1,389,069

The increase in assets is mainly as a result of construction in progress of Liverpool Hospital. Increases in employee entitlements account for the growth in liabilities.

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of the Sydney South West area through the following hospitals:

- Balmain Hospital
- Bankstown Hospital
- Bowral and District Hospital
- Camden Hospital
- Campbelltown Hospital
- Canterbury Hospital
- Concord Repatriation General Hospital
- Fairfield Hospital
- Liverpool Hospital
- Royal Prince Alfred Hospital
- Sydney Dental Hospital.

The Service also incorporates and manages the operating activities of various community health services, and is associated with several affiliated health organisations.

For further information on the Service, refer to www.sswahs.nsw.gov.au.

CONTROLLED ENTITIES

The Service controlled three entities during the year, including two research institutes.

Ingham Health Research Institute

The Australian government has committed \$46.9 million to the Ingham Health Research Institute to construct a new research facility located at Liverpool Hospital. The Institute received \$4.6 million of this funding during 2009-10.

As of 31 May 2010, the Service ceased to control the Institute. Transactions and balances after that date have not been reported as part of the consolidated entity.

ANZAC Health and Medical Research Foundation (Repeat Issue)

I again recommend the Foundation obtain approval for its loan.

Last year, I recommended the Foundation obtain approval for a loan it obtained in 2008-09. The Foundation has failed to do so.

During 2008-09, the Foundation entered into long term leasing arrangements for additional facilities within the new Bernie Banton Centre located on the Concord Hospital campus. The arrangements provide additional research facilities for the Foundation.

To secure the long term lease, the Foundation contributed to the construction of Centre. This contribution was partly funded via a loan. The loan is interest free and at 30 June 2010, was \$1.8 million. Under the *Public Authorities (Financial Arrangements) Act 1987*, New South Wales Government agencies require approval to borrow funds.

For further financial and other information on these entities we have listed the entities' websites.

Entity Name	Website
ANZAC Health and Medical Research Foundation	www.anzac.edu.au
ANZAC Health and Medical Research Foundation Trust Fund	
Ingham Health Research Institute	www.sswahs.nsw.gov.au/SSWAHS/IHRI/
Sydney South West Area Health Service Special Purpose Service Entity	*

* This entity does not have a website.

Sydney West Area Health Service

AUDIT OPINION

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

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

KEY ISSUES

Waiting List for Elective Surgery

The Service's waiting list and waiting list management practices were recently audited by an external consultant. The audit was commissioned by the Service after it and the Department of Health identified some anomalies with waiting list data. Overall the audit found the Service had not effectively managed waiting lists, noting weaknesses in the areas of people, processes and systems. An earlier review by the Department of Health also identified policy breaches and poor waiting list management practices. Some of the findings from the independent audit included:

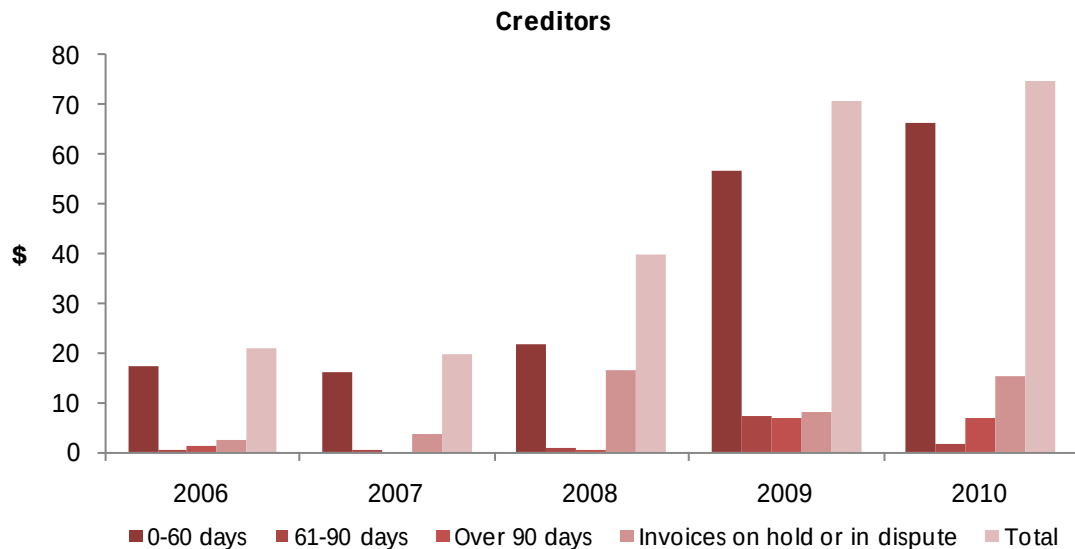
- admission forms appeared to go missing and/or were not input into the system within the three day requirement
- insufficient resourcing within the centralised registration office
- the absence of standard procedures
- booking staff having insufficient knowledge of the waiting list policy
- some doctors were managing their own waiting list outside the system
- inappropriate movement of patients from the waiting list just prior to reaching their clinical recommended timeframes
- an apparent culture of certain levels of management influencing waiting lists
- minimal oversight of waiting list processes within the Service.

The audit made ten recommendations and the Department of Health and the Service have commenced implementing all the recommendations.

Accounts Payable (Repeat issue)

I again recommend the Service ensures all purchases are supported by authorised orders, creditors are paid within agreed payment terms, and disputed invoices are followed up in a timely manner.

The following graph shows ageing of creditors for the past five years, and amounts on hold or in dispute.



Note 1: The Total column is comprised of the three ageing columns, as they include the amounts for invoices on hold or in dispute. The 0-60 day columns for 2010 and 2009 include accruals (not included for 2008, 2007 and 2006). Invoices on hold or in dispute have not been included in the ageing columns in 2006, 2007 and 2008.

Source: Sydney West Area Health Service (the ageing profile and invoices on hold have not been audited).

The timely payment of accounts during the year continues to be an issue for the Service. Despite cash assistance provided by the Department of Health late in the financial year, the Service's trade creditors and accruals outstanding at 30 June 2010 totalled \$74.7 million (\$70.6 million at 30 June 2009). Of this amount \$15.4 million (\$8.1 million) related to invoices on hold. The Service advises invoices can be placed on hold for a number of reasons, including the absence of a purchase order in support of the invoice.

Intra Health creditors at 30 June 2010 amounted to \$6.6 million (\$3.8 million) and are not included in the above graph as the normal credit terms do not apply. In addition, some capital works creditors and non-trade creditors are not included in the graph as an ageing analysis was not available. The total of these creditors was \$6.4 million (\$7.0 million).

Budget to Actual Comparison

The Service's result for the year was \$1.8 million over budget, significantly better than the previous year's result, which was \$43.0 million worse than the budget.

The Department of Health advised it has started implementing the recommendations from the Independent Financial Management Review, and has completed an independent review of progress. Further comment is included in the Health Overview earlier in this Volume.

Fully Depreciated Plant and Equipment (Repeat Issue)

I again recommend the Service liaise with the Department of Health to ensure it implements recommendations from a pilot review the Department conducted into whole-of-lifecycle management of medical equipment.

The Department advised it has established the Medical Equipment Asset Management Program (MEAM) to determine the feasibility of an external private sector partnership in the provision of a whole-of-life asset management facility. A tender document was issued by the Department in 2009-10 and it is currently assessing the tenders received.

The table below shows the extent of the Service's fully depreciated plant and equipment over the last four years.

At 30 June	2010	2009	2008	2007
Total plant and equipment – at cost (\$'000)	267,973	250,692	217,379	301,317
Fully depreciated plant and equipment – at cost (\$'000)	52,046	37,850	47,844	143,564
Fully depreciated plant and equipment as a percentage of total (per cent)	19.4	15.1	22.0	47.6

The Service continues to use a high proportion of fully depreciated plant and equipment. The Service advises it conducts routine reviews to ensure the use of equipment does not pose a risk to either patient or staff safety.

Special Purpose and Trust Funds (Repeat Issue)

I recommend the Service finalise its review of all special purpose and trust funds to confirm each fund's intended purpose. Where appropriate, approvals should be sought to move funds into the public contribution trust fund account where they can then be used to assist in the delivery of health services.

In past years, I recommended the Service review all special purpose and trust funds (SP&T funds) to confirm each fund's intended purpose, as the nature and intended use of some funds was not apparent.

The Service advised it substantially completed its review during 2009-10, however, further investigations were required to determine the purpose and restrictions placed on some of the funds. The Service expects to complete this review in 2010-11. The total value of SP&T funds at 30 June 2010 was \$146 million (\$127 million), as shown in the table below.

At 30 June 2010	Amount (\$000)	Number of SP&T accounts
Overdrawn	(1)	3
Zero value	--	6
Less than \$10,000	732	238
\$10,000 to \$99,999	7,855	228
\$100,000 to \$499,999	17,571	90
\$500,000 to \$999,999	10,468	15
Greater than \$1 million	109,416	13
TOTAL	146,041	593

Source: Sydney West Area Health Service (unaudited).

Westmead Millennium Institute Special Purpose and Trust Funds

The Service identified it incorrectly allocated \$12.8 million of SP&T funds for the Westmead Millennium Institute to general operating funds. The \$12.8 million shortfall was rectified with a borrowing from the Department of Health. The Service will need to implement savings strategies in 2010-11 to repay this debt.

Local Health Networks

In April 2010, New South Wales entered into the National Health and Hospitals Network Agreement (the NHHN Agreement) with the Australian Government. Further comment is included in the 'Health Overview' earlier in this Volume.

PERFORMANCE INFORMATION

Comparative performance data on all Area Health Services appears in the 'Health Overview' earlier in this Volume.

The average length of stay in acute hospitals in the Sydney West Area was 3.4 days (3.5 days). This is lower than the State average of 3.6 days.

The Service's bed occupancy rate was 91.5 per cent (92.8 per cent). This was higher than the State average of 88.3 per cent.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in three of the five triage categories. This is consistent with 2009.

The Service's emergency admission performance decreased to 66.0 per cent (69.0 per cent). This was less than its 80.0 per cent target and was the lowest in the State.

OTHER INFORMATION

Voluntary Redundancy Payments

In 2009-10, the Service paid \$10.6 million in voluntary redundancy to 179 staff. This included \$3.7 million paid to 57 nursing staff. The redundancies arose from the Service's rationalisation program.

Asset Stock Take

Last year, I recommended the Service strengthen its policies and procedures in relation to plant and equipment stocktakes. This year the Service conducted a stocktake of all plant and equipment. The stocktake resulted in various assets being categorised as either missing or unidentified. The Service is currently investigating these discrepancies. The Service believes the discrepancies might be due to:

- incorrect data migration when the financial system was upgraded
- assets not being properly tagged
- assets having tags but the tag reference is not in the asset register
- incorrect asset descriptions in the asset register
- not updating the asset register for asset transfers between units.

Payments to Visiting Medical Officers and Medical Staff

The following table shows a comparison of payments to Visiting Medical Officers (VMO) and Medical Staff for the last five years.

Year ended 30 June Category	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000
Total Medical Staff*	226,180	215,520	**	177,169	160,918
VMO	46,134	47,172	47,577	40,349	36,630

* Payments to Medical Staff include: base salary, overtime, penalties, sick and other leave, annual leave and long service leave.

** An accurate figure for the payments to medical staff for 2008 cannot be obtained due to a change in the chart of accounts that occurred part way through that year

Source: Sydney West Area Health Service (total medical staff figures unaudited)

VMO costs are a substantial portion of the overall medical costs for the Service. They are specialist medical staff working as independent contractors for an average of six to eight hours per week in the public health system to supplement staff specialists employed directly by the Service. At other times they work in private practice.

Human Resources

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

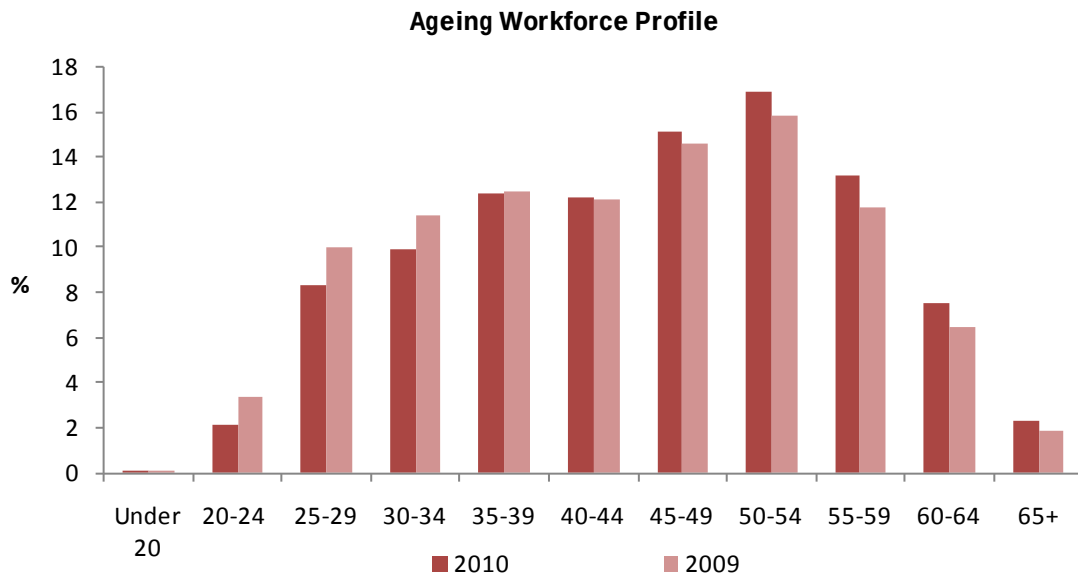
- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies
- extent of overtime.

A summary of the results of my review follows.

Workforce Ageing

At 30 June 2010, 23.0 per cent (20.2 per cent) of the Service's employees were 55 years of age or older and 39.9 per cent (36.0 per cent) were 50 or older. A large number of these employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for the Service.

The age profile of the Service's employees is shown below. It excludes contract, temporary, casual, sessional and seasonal staff.



Source: Sydney West Area Health Service (unaudited).

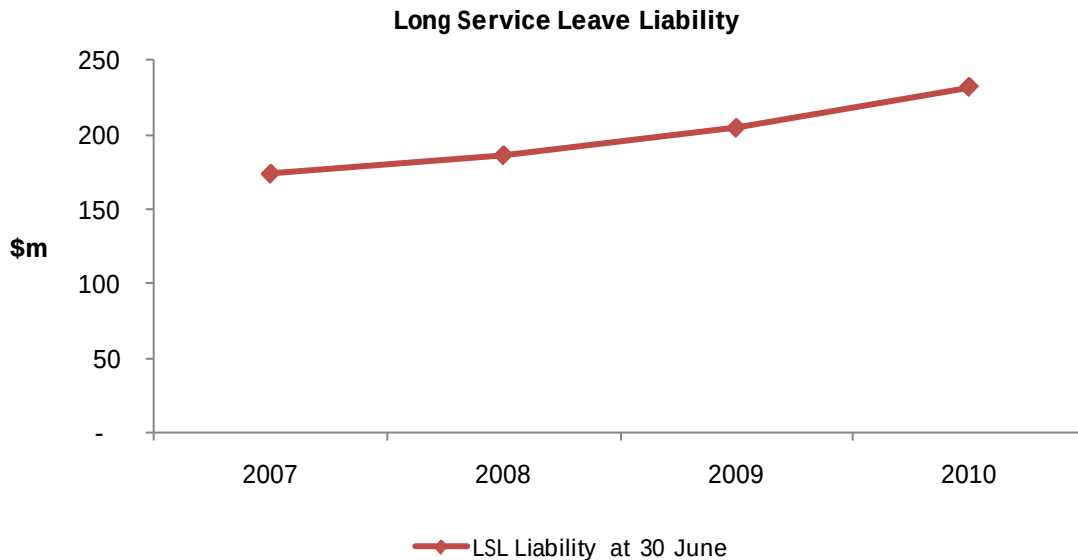
At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
Under 20	8	0.1	8	0.1
20-24	254	2.1	458	3.4
25-29	1,020	8.3	1,346	10.0
30-34	1,215	9.9	1,539	11.4
35-39	1,522	12.4	1,685	12.5
40-44	1,502	12.2	1,633	12.1
45-49	1,850	15.1	1,967	14.6
50-54	2,075	16.9	2,132	15.8
55-59	1,626	13.2	1,590	11.8
60-64	918	7.5	878	6.5
65+	286	2.3	253	1.8
Total	12,276	100	13,489	100

Source: Sydney West Area Health Service (unaudited).

The Service advised it has a formal workforce development plan, which it continuously reviews to ensure it has appropriate strategies to attract, retain and develop staff to minimise the challenges of an ageing workforce.

Long Service Leave Liability

Increasing long service leave liabilities create funding challenges for the Service. The Service's long service leave liabilities increased by 33.2 per cent over the last three years to \$232 million at 30 June 2010. The graph below demonstrates the increasing liability.



The Department of Health advised it is finalising arrangements to transfer employee long service leave entitlements to the Crown Entity, to bring the Area Health Services into line with other New South Wales Government budget dependent agencies. The effective date of the transfer is expected to be 31 December 2010.

Annual Leave Balances

Managing excessive annual leave balances remains a challenge for the Service. While the Service is actively managing this issue, at 30 June 2010, 2,611 employees (2,754 employees) had annual leave balances in excess of 40 days. This represents 21.3 per cent (20.4 per cent) of total employees. The table below shows the number of staff with excessive annual leave balances.

Annual Leave Entitlement (Days)	2010	2009
	No. of Staff	No. of Staff
41-45	480	544
46-50	450	435
51-60	591	637
61-80	615	614
81-100	250	268
100 +	225	256
Total	2,611	2,754

Source: Department of Health (unaudited)

The information in the table above was obtained from the Department of Health and excludes groups such as temporary and seasonal staff. The Department advised the data was extracted at a point in time, so may differ from the Service's payroll records from a 'live' database, which is updated continuously for changes that may impact past balances.

Some staff attract award entitlements of six weeks annual leave per annum, with entitlements further increased depending on the incidence of time worked on Sundays and public holidays. The Service advised in such instances, and using the public sector benchmark of two years' accrual as a guide, its staff may not be in an excess leave position until the accrual exceeds 70 days. As shown in the table above, some staff have accumulated leave above the industry norm.

As leave entitlements are paid at rates applicable at the time the leave is taken, excessive leave balances place additional financial pressures on the Service. The health and welfare of employees can also be adversely affected if they do not take sufficient leave during the year.

Overtime

The Department advised the Service's overtime payments in 2009-10 amounted to \$41.6 million (\$42.6 million), 4.3 per cent (4.5 per cent) of base salary expense for the year. On average, Service employees who worked overtime received \$5,647 (\$5,125) in overtime payments. The highest amount paid to a single employee in 2009-10 was \$212,835 (\$192,739), which represented 139 per cent of that employee's base salary.

Internal Controls

I identified some opportunities for improvement to accounting and internal control procedures and have reported them to management. The major matters included:

- employees approving purchases beyond their approved financial delegation
- inventory control weaknesses at Westmead Hospital
- VMO not submitting their claim forms on a timely basis.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June 2010	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	1,201,961	1,186,182	--	--
Personnel services	--	--	1,201,961	1,186,182
Visiting medical officers	46,134	47,172	46,134	47,172
Grants and subsidies	18,392	17,599	18,392	17,599
Other expenses	803,314	762,277	803,314	762,277
OPERATING EXPENSES	2,069,801	2,013,230	2,069,801	2,013,230
OPERATING REVENUE	375,093	329,531	396,619	351,591
Loss on disposal of non-current assets	1,669	13,064	1,669	13,064
Impairment of receivables	5,084	3,428	5,084	3,428
NET COST OF SERVICES	1,701,461	1,700,191	1,679,935	1,678,131
Government contributions	1,676,303	1,639,737	1,654,777	1,617,677
DEFICIT	25,158	60,454	25,158	60,454
OTHER COMPREHENSIVE INCOME				
Asset revaluation increment/ (decrement)	29,576	(1,814)	29,576	(1,814)
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	4,418	(62,268)	4,418	(62,268)

The increase in employee related expenses was primarily due to increases in actuarially assessed long service leave entitlements and award rate increases.

The increase in revenue and other expenses was due to a general rise in activity, including increased patient fees. A change in high cost drug funding also contributed to the increase in revenue.

Abridged Statements of Financial Position

At 30 June 2010	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	217,276	187,641	217,276	187,641
Non-current assets	1,470,757	1,475,732	1,470,757	1,475,732
TOTAL ASSETS	1,688,033	1,663,373	1,688,033	1,663,373
Current liabilities	536,088	489,606	536,088	489,606
Non-current liabilities	53,688	59,592	53,688	59,592
TOTAL LIABILITIES	589,776	549,198	589,776	549,198
NET ASSETS	1,098,257	1,114,175	1,098,257	1,114,175

Current assets increased mainly due to the Service holding more cash at bank at 30 June 2010. The Service also had more inventories on hand resulting from the transfer of pathology services from the Greater Southern and the Greater Western Area Health Services.

The increase in current liabilities was mainly due to increases in annual leave and long service leave liabilities.

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of Western Sydney, from Auburn to Lithgow, through the following hospitals:

- Auburn Hospital
- Blacktown Hospital
- Blue Mountains District ANZAC Memorial Hospital
- Cumberland Hospital
- Lithgow Integrated Health Service
- Mt Druitt Hospital
- Nepean Hospital
- Portland Tabulam Health Centre
- Springwood Hospital
- Westmead Hospital.

The Service also incorporates and manages the operating activities of various community health services and is associated with several affiliated health organisations. It has a contract for services with the Hawkesbury District Health Service Limited.

For further information on the Service's activities, refer to www.wsahs.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	Website
Sydney West Area Health Service Special Purpose Service Entity	*

* This entity does not have a website.

Aus Health International Pty Limited

AUDIT OPINION

The audit of the Company's financial statements for the period 1 July 2007 to 31 December 2008 resulted in an unqualified Independent Auditor's Report.

KEY ISSUES

Voluntary Winding Up of the Company

In accordance with the Government's Mini Budget announcement on 11 November 2008, the Company ceased operations on 31 December 2008 and transferred its net assets to the Department of Health. It subsequently deregistered with the Australian Securities and Investments Commission (ASIC) on 27 April 2009.

Abridged Financial Statements

Period ended	Consolidated		Parent	
	2008*	2007**	2008*	2007**
	\$'000	\$'000	\$'000	\$'000
Revenue	6,592	6,181	6,592	5,217
Expenses	3,937	5,586	3,937	4,628
Profit before income tax	2,655	595	2,655	589
Income tax expense	--	47	--	--
Profit after tax	2,655	548	2,655	589
Net liabilities (at 31 December/30 June)	--	2,655	--	2,655

* Financial information for 2008 covers activities for eighteen months from 1 July 2007 to 31 December 2008

** Financial information for 2007 covers activities for year ended 30 June 2007 and includes the controlled entity which was disposed on 17 November 2006.

ENTITY ACTIVITIES

The principal activity of the Company was the export of health services. It facilitated commercial opportunities and assisted in delivering aid programs in developing countries, such as ongoing design, management and evaluation of health related projects.

Cancer Institute NSW

AUDIT OPINION

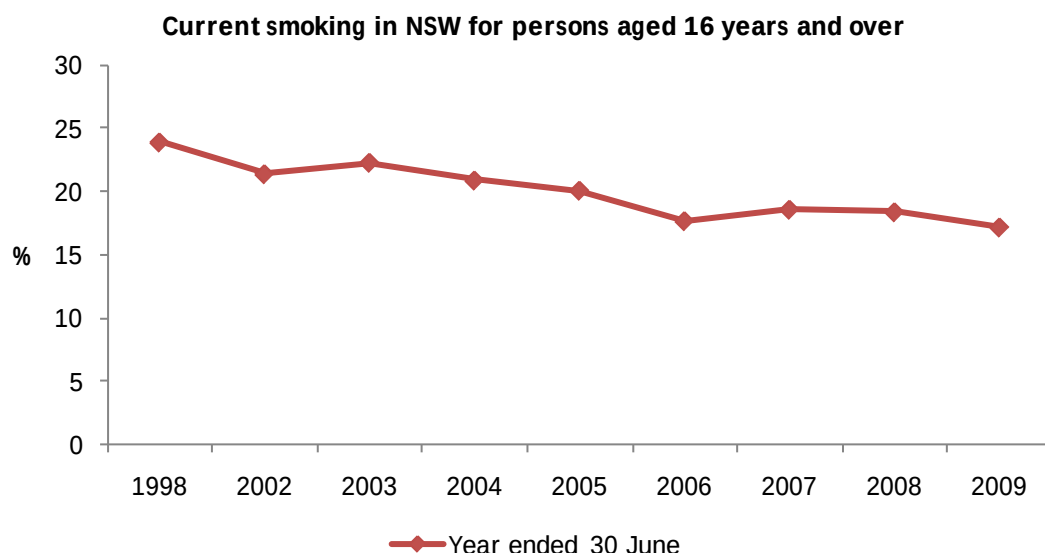
The audits of the Institute and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

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

PERFORMANCE INFORMATION

Smoking Rates

One of the strategies implemented by the Institute in preventing cancer is anti smoking campaigns. The graph below shows the smoking patterns over the past eleven years for persons aged 16 years and over in New South Wales.



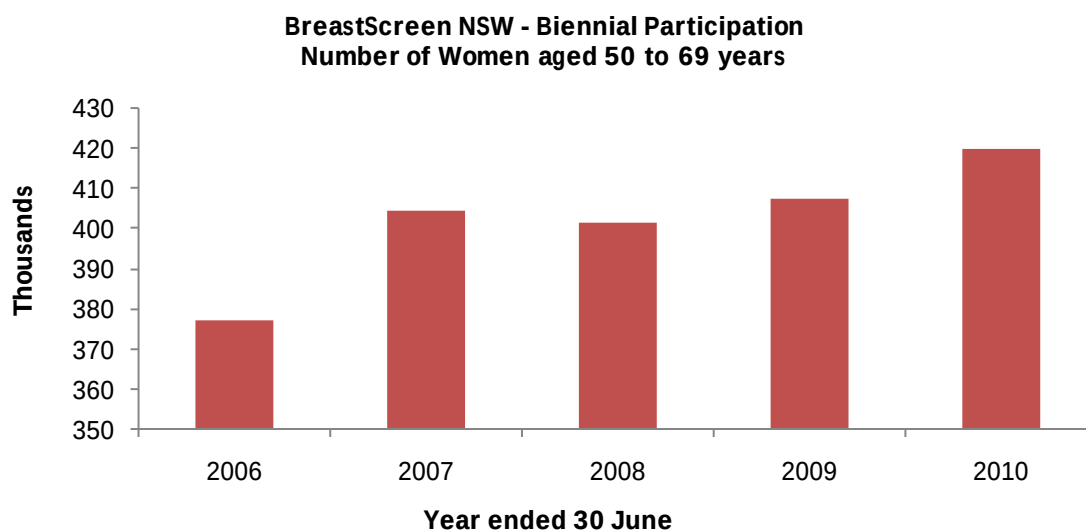
Source: Department of Health Survey (unaudited).

Over the past decade, smoking prevalence has been trending downwards from 23.9 per cent in 1998 to 17.2 per cent in 2009, which exceeded the Department of Health's forecast of 17.7 per cent.

The New South Wales State Plan, the New South Wales Tobacco Action Plan 2005-2009 and the New South Wales Cancer Plan 2007-2010 all aimed to reduce smoking rates by one per cent per year to 2010 and then by 0.5 per cent per year to 2016. The target per the New South Wales Cancer Plan was to reduce smoking rates to 16.0 per cent in 2010. On 30 November 2010, the Department of Health released its Strategic Direction for Tobacco Control in New South Wales 2011-2016 Discussion Paper, which aims to reduce smoking rates to ten per cent in 2020.

Biennial Breast Screen Participation Rates

The Institute is the program manager for the BreastScreen NSW Program. This program provides free biennial screening mammograms for asymptomatic women and specifically targets women aged 50-69 years. The graph below shows the number of women aged 50-69 years who participated in biennial breast screening in New South Wales over the past five years.



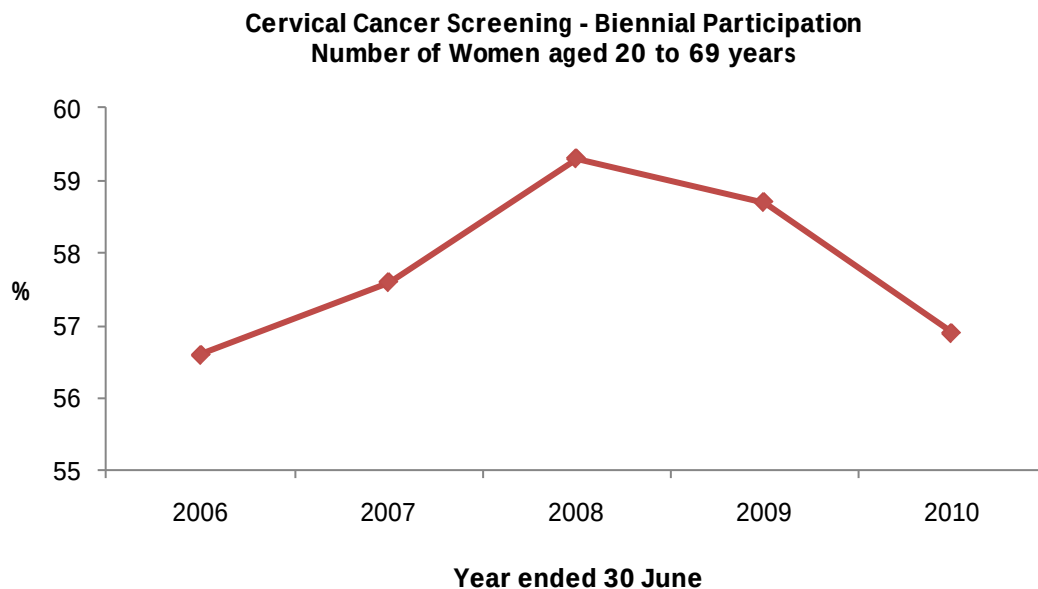
Source: BreastScreen NSW (unaudited).

The Institute reported a biennial participation rate of 53.6 per cent (54.7 per cent) among women aged 50 to 69 years in 2009-10. The Institute's aim is to increase the biennial participation rate for women aged 50 to 69 years to 70.0 per cent. The Institute has implemented a number of initiatives to increase participation including:

- extending opening hours for BreastScreen appointments to outside office hours in selected sites
- delivering a comprehensive statewide BreastScreen Information System
- better engagement with primary care practitioners in recommending screening
- better use of mobile screening vans.

Biennial Cervical Cancer Screening Participation Rates

The Institute has a Cervical Screening Program, which aims to increase the participation rate by three per cent per annum. This year the Institute reported a participation rate of 56.9 per cent (58.7 per cent). The graph below shows the percentage of women aged 20-69 years participating in biennial cervical screening.



Source: Cancer Institute NSW (unaudited).

The biennial participation rate has decreased in recent years and the Institute is not achieving its target. The Institute advised its recent media campaigns did not have the same impact as those during 2006 to 2008. The Institute intends to investigate a series of strategies to improve participation including:

- alternate social media campaigns in the first half of 2011
- introducing additional reminder letters to women
- developing a screening communication plan to increase awareness amongst women from diverse cultural and linguistic backgrounds.

OTHER INFORMATION

Human Resources

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

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies
- extent of overtime
- extent of contract staff.

A summary of the results of my review follows.

Workforce Ageing

At 30 June 2010, 28.5 per cent (29.4 per cent) of the Institute's employees were 50 years of age or older and 14.7 per cent (15.3 per cent) were 55 or older. Many of these employees are likely to retire in the five to ten years increasing the risk of a loss of knowledge and skills for the Institute.

The age profile of the Institute's employees is shown below:



Source: Cancer Institute NSW (unaudited).

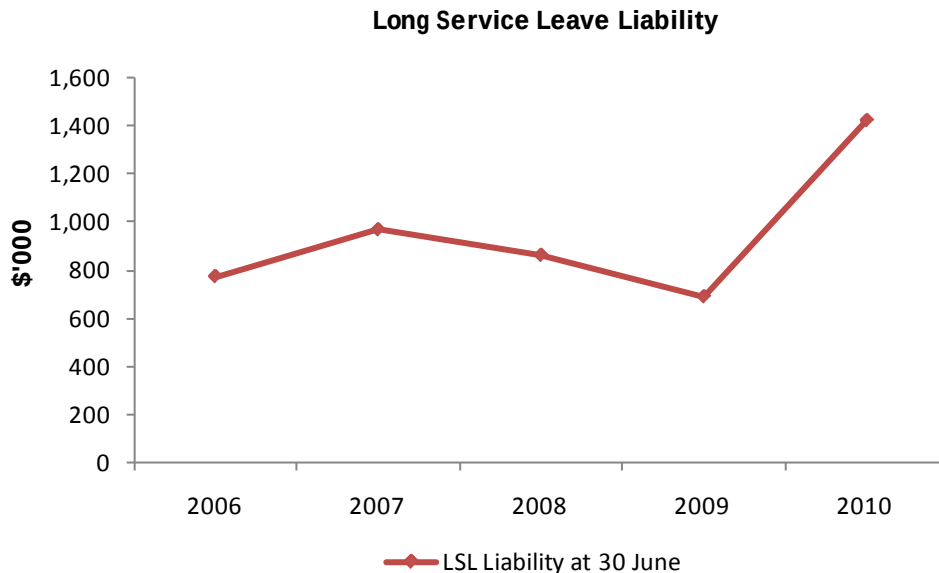
At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
20 - 49	98	71.5	92	70.6
50 - 54	19	13.8	19	14.1
55 - 59	10	7.0	11	8.3
60 - 64	8	5.8	7	5.1
65+	2	1.9	2	1.9
Total	137	100	131	100

Source: Cancer Institute NSW (unaudited).

To ensure the Institute continues to have sufficient, appropriately skilled employees, it will need to actively monitor its workforce age profile and ensure strategies are in place to develop, attract and retain staff whose skills are aligned with its strategic direction.

Long Service Leave Liability

The Institute's liability for long service leave entitlements at 30 June 2010 amounted to \$1.4 million (\$689,000). As shown in the graph below this liability has increased by 83.7 per cent over the last four years.



The significant increase in 2009-10 was largely due to the Institute obtaining an independent actuarial assessment of its long service leave liability. In previous years the Institute performed its own calculation.

Although the Institute has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities, which generally increase over time with increases in employee remuneration levels.

Annual Leave Balances

The Institute has actively managed employees with excessive annual leave balances in recent years. The number of employees with annual leave balances in excess of 40 days has reduced to nine employees (13 employees) at 30 June 2010. This represents 6.1 per cent (9.0 per cent) of total employees.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

Overtime

Overtime payments in 2009-10 amounted to \$94,917 (\$100,246) which was one per cent (one per cent) of base salary expense for the year.

Use of Contract Staff

In 2009-10, the Institute paid \$2.4 million (\$2.3 million) to 49 contractors (52 contractors). At 30 June 2010, 27 contractors had been engaged by the Institute for more than 12 months. The retention of contract staff for extended periods may result in additional costs to the Institute. The Institute advises it continuously monitors the use and performance of contractors to ensure they represent value for money.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
REVENUE				
Grants from NSW Department of Health	138,890	146,292	138,890	146,292
Other	3,999	4,372	3,999	4,372
OPERATING REVENUE	142,889	150,664	142,889	150,664
Loss on disposal	15	--	15	--
EXPENSES				
Grants to New South Wales Area Health Services	61,908	59,675	61,908	59,675
Research grants to hospitals and institutions	27,404	26,592	27,404	26,592
Prevention campaigns and advertising	11,520	17,357	11,520	17,357
Other	41,249	41,351	41,205	42,064
OPERATING EXPENSES	142,081	144,975	142,037	145,688
SURPLUS	793	5,689	837	4,976
OTHER COMPREHENSIVE INCOME				
Actuarial gain/(loss) on superannuation	44	(713)	--	--
TOTAL COMPREHENSIVE INCOME	837	4,976	837	4,976

The decrease in prevention campaigns and advertising expenses was largely due to reduced funding from the NSW Department of Health.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	39,563	39,125	39,563	39,125
Non-current assets	2,675	2,929	2,675	2,929
TOTAL ASSETS	42,238	42,054	42,238	42,054
Current liabilities	7,175	8,216	7,866	8,256
Non-current liabilities	813	425	122	385
TOTAL LIABILITIES	7,988	8,641	7,988	8,641
NET ASSETS	34,250	33,413	34,250	33,413

INSTITUTE ACTIVITIES

The Institute was established by the *Cancer Institute (NSW) Act 2003*. Its principal objectives are to increase the survival rate for cancer patients; reduce the incidence of cancer in the community; improve the quality of life of cancer patients and their carers; and to operate as a source of expertise on cancer control for the government, health service providers, medical researchers and the general community.

For further information on the Institute, refer to www.cancerinstitute.org.au.

CONTROLLED ENTITY

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

Entity Name	Website
Cancer Institute Division	*

* This entity does not have a website.

Health Administration Corporation

AUDIT OPINION

The audits of the Health Administration Corporation (the Corporation) and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

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

KEY ISSUES

Internal Control Deficiencies across the Health Sector

I recommend Health Support Services (HSS), a division of the Corporation, agree with the Department of Health and its customers the respective responsibilities for implementing effective internal controls. In the absence of this, there is an elevated risk that irregularities may not be prevented or detected. I strongly recommend that standardised internal controls should be implemented at HSS to prevent errors and irregularities from occurring.

HSS provides financial and payroll support to Health Services. HSS began processing transactions for health entities in 2007, and now provides the financial transaction processing and payroll functions for the majority of Health Services.

I found a significant number of weaknesses in internal controls at HSS service centres, in a number of areas, including payroll and accounts payable. Examples of deficiencies are included later in this comment. While transitional issues in establishing shared service functions are expected, sufficient time has now elapsed for these to have been resolved.

The weaknesses identified in the operation of internal controls pose an elevated risk of irregularities not being prevented or detected. If HSS had requested the Audit Office to provide third party assurance opinions on the operation of internal controls for payroll and accounts payable, those opinions would have been heavily qualified. Some examples of the control weaknesses identified are included in the Repeat Issues section below.

In some cases, HSS advised that the issues identified in its processes are a Health Service responsibility, while the Health Services consider them to be an HSS responsibility. As a result, the relevant controls are often not operating at both the Health Service and HSS. I strongly recommend that standardised internal control procedures be established by HSS for all its clients. There should be clear agreements between HSS and the Health Services as to respective responsibilities for the operation of designated controls to avoid confusion and blame shifting.

The impending move from Health Services to Local Health Networks provides an opportunity to examine the distribution of responsibilities and resolve any control issues.

HSS Key Performance Measures (Repeat Issue)

I again recommend HSS further develop its Key Performance Indicators (KPIs) for its service centres to ensure they include more qualitative indicators as well as quantitative indicators, and to measure these indicators against appropriate targets.

Last year I recommended HSS improve its KPIs to measure them against appropriate targets, and to develop qualitative indicators to measure its performance. Some quality measures were developed to assess potential duplicate invoices picked up through Continuous Control Monitoring. However, the majority of indicators for its service centre operations still focus on processes, and none are measured against appropriate targets.

HSS needs to develop targets that it believes are realistic and achievable. It is important that HSS develop and report on KPIs that measure outcomes and quality of service. For example, even though processes referred to in the Service Partnership Agreements (SPAs) are being performed within agreed timeframes, there should also be some measurement of:

- number of errors made in processing of accounts payable transactions
- time taken to recover overpayments to suppliers and customer employees
- number of complaints in a month made by customers, and how long it took to satisfactorily address those complaints.

Below are some KPIs that HSS identified and monitored for its two largest service centre operations.

Key Performance Indicators - At 30 June	Parramatta Service Centre		Newcastle Service Centre	
	(%)		(%)	
	2010	2009	2010	2009
Purchase orders raised within 2 business days	99	89	78	86
Accounts payable invoices entered within 7 days	64	*	82	*
Invoices raised within 2 business days	69	61	98	100

Source: HSS internal reports (unaudited).

* Reported by customer health services in 2009 without an average. Percentages range from 60 to 100 per cent

In addition to the above, HSS monitors the reasons for overpayments and manual payments. For overpayments, HSS advised that at June 2010 more than 60.0 per cent of overpayments were caused by its customers. Similarly, HSS advised the cause of manual payments in more than 70.0 per cent of cases rested with its customers.

Finalisation of Service Partnership Agreements (Repeat Issue)

I again recommend HSS finalise the Service Partnership Agreements (SPAs) with its customers under its newly established framework as soon as possible.

HSS provides financial, payroll, linen, food, information systems and other support services to the health sector.

For the last three years I have noted that not all SPAs had been finalised with HSS customers, and was advised that a new framework was being developed for establishment and sign-off of SPAs for 2010-11. Although progress has been made in this regard, signed SPAs were not in place for the year ended 30 June 2010. I understand HSS customers are currently considering the agreements for the 2010-11 year.

Intra Health Receivables Confirmations (Repeat Issue)

I again recommend HSS implement a systematic process to confirm its intra health receivables with its customers at year end.

I was unable to confirm a significant number of receivables balances at HSS with its customer Health Services. The total unconfirmed balance was \$9.1 million. Although it is probable that Health Services will be able to confirm a number of these receivables in due course, a process should be implemented to confirm these at appropriate intervals during the year, and at year end so that any discrepancies are identified and resolved on a timely basis.

Management Letter Repeat Issues

I recommend the following control deficiencies I have reported to the Corporation for the past two years, which have not been addressed, be actioned as a matter of priority.

The following control weaknesses have been identified either at one or all of the HSS service centres for at least the past two years:

- insufficient controls to ensure all customer transactions are processed
- the validity of signatures authorising purchases, approving payments to suppliers and approving manual timesheets are not checked
- payroll master file changes are not reviewed on a regular basis and when reviewed they are not always reviewed by an independent officer
- final termination payments are not being made in a timely manner to terminated customer employees.

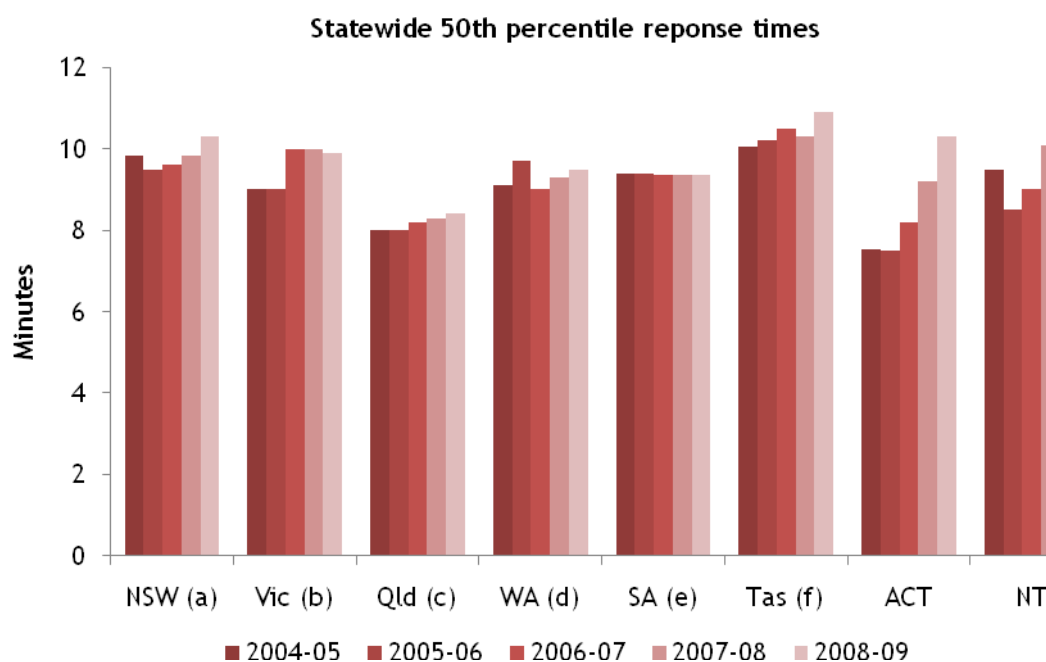
Last year, HSS advised it was standardising processes and controls across its service centres to address these issues. However, this has not been finalised.

PERFORMANCE INFORMATION

Ambulance Service of NSW

Response Times

The Ambulance Emergency Response Time is the period between when a Triple Zero (000) emergency call is recorded and the time the first ambulance resource arrives at the scene in a life-threatening case. In Australia, the 50th percentile (median) response time is the key measure, allowing performance to be compared with other States.



Source: Report on Government Services 2010, Volume 1: State Emergency Services table 9A.29

- (a) NSW: Did not triage emergency calls prior to 2005-06. Results for code 1 cases represent '000' and urgent medical incidents. In 2005-06, the introduction of medical prioritisation has allowed for separation of emergency and urgent activity. A volunteer ambulance service audit was undertaken in 2008-09 which led to improved reporting.
- (b) Vic: Data are incomplete for 2004-05 due to industrial action in the month July 2004. The basis of response time reporting changed in 2007-08 and results are not directly comparable with previous years. Metropolitan response and case times data are sourced from the Computer Aided Dispatch system. Prior to 2008-09, these data were sourced from patient care records completed by paramedics. Rural response times are sourced from Patient Care Records completed by paramedics.
- (c) Qld: Casualty room attendances are not included in response count and, therefore, are not reflected in response times data. Response times are reported from the computer aided dispatch (CAD) data.
- (d) WA: Ambulance first responder locations data are not available for 2007-08.
- (e) SA: for the 2010 Report figures have been revised retrospectively to more directly align with definitions, except for 2004-05. Code 1 response times are now calculated from SA Ambulance CAD data and are more aligned to the definitions provided by the CAA. Previously, prior to 2006-07, code 1 response times were calculated on all responses to category 1 and 2 cases and based on patient case cards. Code 1 response times from 2006-07 have excluded second and subsequent vehicles arriving at an incident and exclude incidents where the category of dispatch was upgraded.
- (f) Tas: The highest proportion of population is in small rural areas, relative to other jurisdictions, which increases average response times.

In 2008-09, the 50th percentile response time for potentially life-threatening cases state-wide, across all States, ranged from 8.4 minutes to 10.9 minutes. This means that at least 50.0 per cent of potentially life-threatening cases were responded to within this range. The 50th percentile response times for metropolitan areas within each state ranged from 7.6 minutes to 10.3 minutes.

Within New South Wales, the 2008-09 50th percentile response time for potentially life-threatening cases was 10.3 minutes for the whole of New South Wales (9.9 minutes in 2007-08) and 10.1 minutes (9.7 minutes in 2007-08) for the Sydney metropolitan area. The Ambulance Service advised that there was a slight deterioration in response performance during 2008-09, primarily due to longer 'off stretcher' times which limited the overall availability of ambulances to respond. Off stretcher time is the period between when a paramedic arrives at a hospital emergency department and the time the paramedic is cleared to respond to other emergencies.

Workforce Attrition

The workforce attrition rate for the Ambulance Service was 4.4 per cent in 2008-09, a decrease from 5.1 per cent in the prior year, but above the average rate of 4.0 per cent across Australia. The Ambulance Service has advised that the attrition rate has fallen to 4.0 per cent in 2009-10. As the Service has a highly skilled and professional workforce, a low attrition rate is desirable and the Service should ensure it has adequate policies and procedures implemented to maintain a low rate.

At 30 June State	2009		2008	
	Total Operational Workforce FTE	Operational Workforce attrition %	Total Operational Workforce FTE	Operational Workforce attrition %
NSW	3,460	4.4	3,409	5.1
Vic	2,561	2.9	2,314	4.6
Qld	2,729	4.2	2,549	4.2
WA	614	7.2	604	7.6
SA	857	1.1	786	3.2
Tas	238	5.9	237	7.2
ACT	130	10.0	130	10.8
NT	122	5.7	121	5.0
Aust	10,711	4.0	10,149	4.9

Source: Report on Government Services 2010, Volume 1: State Emergency Services table 9A.25

HSS Cost Benefit Review

The Corporation commissioned an external review of HSS to assess, amongst other things, whether expected savings at the time HSS was established have been realised. The results of this review were finalised in June 2010. I am currently awaiting receipt of the report from the Corporation.

OTHER INFORMATION

I identified other opportunities for improvement to the Corporation's accounting and internal control procedures and will report them to management.

Human Resources

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

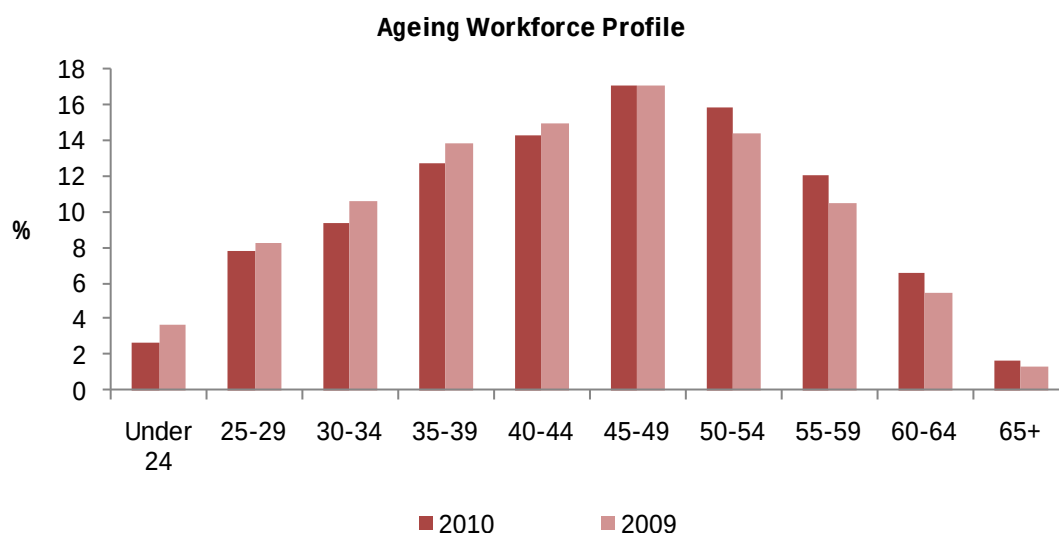
- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities
- management of annual leave balances in excess of threshold policies
- extent of overtime.

Workforce Ageing

I recommend, to ensure sufficient availability of experienced staff in the future, the Corporation actively monitor its workforce age profile and develop and implement appropriate strategies to attract and retain staff whose skills are aligned with the strategic direction of the Corporation.

The Corporation has 20.0 per cent of its employees over 55 years of age and 36.0 per cent over 50. This represents a large number of employees who are likely to retire over the next five to ten years. This potential loss of knowledge and skills is a risk for the Corporation.

The age profile of Corporation employees is shown below:

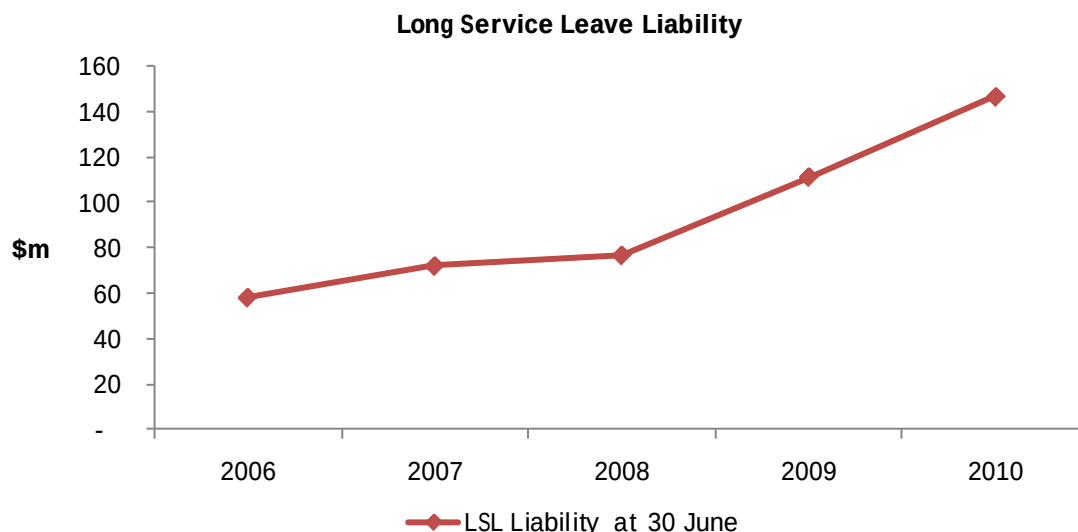


At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
Up to 39	2,919	32.5	2,688	36.3
40-44	1,281	14.3	1,105	14.9
45-49	1,531	17.1	1,264	17.1
50-54	1,418	15.8	1,068	14.4
55-59	1,074	12.0	775	10.5
60-64	594	6.6	409	5.5
65+	148	1.7	93	1.3
Total	8,965	100	7,402	100

Source: Information provided by Department of Health (unaudited). The information above excludes the Health Infrastructure and Institute of Medical Education and Training divisions.

Long Service Leave Liability

The Corporation's liability for long service leave entitlements at 30 June 2010 amounted to \$147 million (\$57.9 million in 2006). This liability has increased by 153.9 per cent over the last five years.



The increase in the long service leave liability resulted mainly from the transition of Area Health Service (AHS) employees to HSS to provide various functions to AHSSs, including food services, linen services, payroll and financial transaction processing, and warehousing.

The Department has advised it is finalising arrangements for the transfer of employee long service leave entitlements to the Crown Entity in order to bring NSW Health into line with other New South Wales Government budget dependent agencies. The effective date of the transfer is expected to be 31 December 2010.

Annual Leave Balances

The number of employees with annual leave balances in excess of 40 days has increased from 2,970 employees at 30 June 2009 to 3,508 employees at 30 June 2010. However, this increase stems mainly from employees transferred from AHSSs, increasing overall staff numbers. The Corporation's divisions have implemented strategies to reduce the level of excessive annual leave. The number of employees with annual leave balances in excess of 40 days has declined to 39.1 per cent of total employees at 30 June 2010 (40.1 per cent in 2009).

The following table shows the number of staff with leave in excess of 40 days:

Annual Leave Entitlement (Days)	2010	2009
	No. of Staff	No. of Staff
41-60	1,919	1,660
61-80	891	737
81-100	361	316
100 +	337	257
Total	3,508	2,970

Source: Information provided by Department of Health (unaudited). The information above excludes the Health Infrastructure and Institute of Medical Education and Training divisions.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

The Corporation should actively manage employee annual leave balances to ensure leave is taken in a timely manner.

Overtime

Overtime payments in 2009-10 amounted to \$73.6 million (\$69.7 million in 2008-09) which was 14.2 per cent (17.4 per cent) of base salary expense for the year. On average, Corporation employees received \$11,467 (\$12,350) in overtime payments in 2009-10 and 71.6 per cent (76.2 per cent) of employees received a payment for working overtime. The highest amount paid to a single employee, an officer of the Ambulance Service, in 2009-10 was \$138,190 (\$109,989).

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	723,111	581,232	--	--
Personnel services	--	--	723,111	581,232
Other expenses	579,773	387,751	579,773	387,751
OPERATING EXPENSES	1,302,884	968,983	1,302,884	968,983
OPERATING REVENUE	768,378	489,793	784,197	503,505
Other losses	26,114	23,588	26,114	23,588
NET COST OF SERVICES	560,620	502,778	544,801	489,066
Government contributions	579,842	542,000	564,023	528,288
SURPLUS	19,222	39,222	19,222	39,222
OTHER COMPREHENSIVE INCOME				
Increase in Asset Revaluation Reserve	3,003	11,800	3,003	11,800
TOTAL OTHER COMPREHENSIVE INCOME	3,003	11,800	3,003	11,800
TOTAL COMPREHENSIVE INCOME	22,225	51,022	22,225	51,022

The increase in expenses, revenues and government contributions is mainly due to the transfer of additional customer health entities and operations to HSS during the year.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	292,964	247,496	292,964	247,496
Non-current assets	474,799	434,891	474,799	434,891
TOTAL ASSETS	767,763	682,387	767,763	682,387
Current liabilities	411,822	358,124	411,822	358,124
Non-current liabilities	18,893	12,782	18,893	12,782
TOTAL LIABILITIES	430,715	370,906	430,715	370,906
NET ASSETS	337,048	311,481	337,048	311,481

The rise in current assets is mainly due to an increase in receivables and other financial assets as a result of more customer Health Services being transferred to HSS during the year.

The increase in non-current assets is largely the result of intangible assets added during the year.

Current liabilities increased because of greater staff numbers, and an increase in payables consistent with increased operations.

The following table provides a summary of financial information for 2009-10 by business unit:

Year ended 30 June	Health Support Services		Ambulance Service		Other business units*	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Expenses	660,397	371,308	654,149	608,557	14,452	12,706
Revenue	572,584	312,359	194,337	176,351	1,457	1,083
Net cost of services	87,813	58,949	459,812	432,206	12,995	11,623
Government contributions	130,676	112,744	434,336	416,841	14,830	12,415
Surplus/(Deficit)	42,863	53,795	(25,476)	(15,365)	1,835	792
Assets	435,197	367,461	270,973	282,072	61,593	32,854
Liabilities	173,516	157,653	199,468	182,426	57,731	30,827
Net assets	261,681	209,808	71,505	99,646	3,862	2,027

* Other business units comprise Health Infrastructure, and the NSW Institute of Medical Education and Training.

CORPORATION ACTIVITIES

Health Administration Corporation consists of a number of units established under the Public Health System Support Division, in accordance with the provisions of the *Health Services Act 1997*. These units are as follows:

- Health Support Services, which provides financial, payroll, linen, food, warehousing, information systems and other support services to the health sector
- NSW Institute of Medical Education and Training (IMET), which provides medical education and training support to the health sector. IMET ceased to be a division of the Corporation on 1 July 2010. Its functions were transferred to a new statutory health corporation, the Clinical Education and Training Institute.
- Ambulance Service of New South Wales transferred to Health Administration Corporation on 17 March 2006 after the *Ambulance Service Act 1990* was repealed
- Health Infrastructure, established 1 July 2007 to undertake major capital projects in connection with public health organisations.

For further information on the Health Administration Corporation, refer to the Department of Health website at www.health.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	Website
Health Administration Corporation Special Purpose Service Entity	*

* This entity does not have a website.

Health Care Complaints Commission

AUDIT OPINION

The audit of the Health Care Complaints Commission and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

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

PERFORMANCE INFORMATION

Formal Complaints and Investigations

In 2009-10, the Commission received 4.6 per cent more complaints than last year. Of the 3,515 complaints received in 2009-10, 1,266 (1,270 in 2008-09) related to health organisations and 2,249 (2,090) related to individual health practitioners.

In the same period 223 (270) complaints were referred for investigation and 272 (261) investigations were finalised.

The following table provides a summary of the total complaints received and finalised by the Commission during the last three financial years.

Year ended 30 June	2010		2009		2008	
	Received	Finalised*	Received	Finalised*	Received	Finalised*
Total	3,515	3,522	3,360	3,462	3,128	2,986

Source: Health Care Complaints Commission (unaudited).

* Includes complaints received in previous years.

Management advised that it cannot explain why complaints received and finalised have increased over the last three years, but it may be partly due to the Peter Garling Special Commission of Inquiry into Acute Care in Public Hospitals and a general increase in public awareness of the work of the Commission.

Average Time to Finalise all Complaints Received

The following table shows the days taken to finalise complaints.

Year ended 30 June	Actual Days		
	2010	2009	2008
Non-investigative	90	86	86
Investigative	320	354	339

Source: Health Care Complaints Commission (unaudited).

The Commission must assess complaints within a statutory timeframe of 60 days and has a target to finalise 80.0 per cent of its investigation of serious complaints within 12 months.

The number of complaints about public hospitals received and finalised follows.

Year ended 30 June	2010		2009		2008	
	Received	Finalised*	Received	Finalised*	Received	Finalised*
Greater Southern AHS**	41	40	45	54	47	35
Greater Western AHS	31	31	35	48	63	49
Hunter New England AHS	77	58	84	102	102	79
North Coast AHS	51	54	38	62	81	55
Northern Sydney and Central Coast AHS	72	79	84	99	121	102
South Eastern Sydney and Illawarra AHS	130	124	115	122	137	130
Sydney South West AHS	124	139	122	119	106	89
Sydney West AHS***	88	94	97	94	104	91
Other	--	--	--	--	2	2
Total	614	619	620	700	763	632

Source: Health Care Complaints Commission (unaudited).

* Includes complaints received in prior years.

** Includes complaints about Albury-Wodonga Health.

*** Includes complaints about Westmead Children's Hospital.

AHS: Area Health Service.

The complaints received about public hospitals, as a percentage of total complaints about health organisations, increased from 48.8 per cent in 2008-09 to 49.1 per cent in 2009-10.

FINANCIAL INFORMATION

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Personnel related expenses	7,415	7,662	7,415	7,662
Other expenses	3,397	3,754	3,397	3,754
OPERATING EXPENSES	10,812	11,416	10,812	11,416
OPERATING REVENUE	438	402	438	402
NET COST OF SERVICES	10,374	11,014	10,374	11,014
Government contributions	9,918	10,043	9,918	10,043
DEFICIT	456	971	456	971
OTHER COMPREHENSIVE INCOME	--	--	--	--
TOTAL OTHER COMPREHENSIVE INCOME	456	971	456	971
NET ASSETS (At 30 June)	611	1,067	611	1,067

Abridged Service Group Information

The Commission's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2010 Budget \$'000	2010 Actual \$'000	2009 Actual \$'000	2010 Actual \$'000	2009 Actual \$'000
Complaints Assessment and Resolution	4,303	4,251	6,057	249	531
Investigation and Prosecution of Serious Cases	6,200	6,123	4,957	362	536
Total all service groups	10,503	10,374	11,014	611	1,067

Management advised that the movement in service groups' results from the prior year is due to a revised methodology of cost allocations between service groups.

COMMISSION ACTIVITIES

The Commission deals with complaints about health service providers in New South Wales. It responds to inquiries from health consumers, assesses complaints about health service providers and assists in the resolution of complaints. The Commission also investigates complaints that raise serious issues of public health and safety, takes action in relation to unregistered health practitioners and prosecutes serious complaints against registered health practitioners. In exercising its functions, the Commission's main consideration must be the protection of the health and safety of the public.

The Commission was established under the *Health Care Complaints Act 1993*.

In addition to these complaint-handling functions, the Commission informs the public and its stakeholders about its work.

For further information on the Commission, refer to www.hccc.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	Website
Office of the Health Care Complaints Commission	*

* This entity does not have a website

Justice Health

AUDIT OPINION

The audits of Justice Health and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

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

PERFORMANCE INFORMATION

Justice Health's major service deliveries for the last three years are shown below.

Year ended 30 June	2010	2009	2008
Total non-admitted patients (occasions of service)	3,597,300	3,652,619	3,615,883
Mental health inpatient (bed days)	58,000	43,698	49,882
Screened for mental health problems by the State-wide Court and Community Liaison Service (number of patients)	14,401	14,758	14,746
Received comprehensive mental assessments by the State-wide Court and Community Liaison Service (number of patients)	2,362	2,354	1,900
Vaccinated against Hepatitis B (number of patients)	3,603	2,997	3,468
Vaccinated against seasonal influenza (number of patients)	4,064	3,945	5,075
Released from custody on maintenance pharmacotherapy (number of patients accepting)	2,354	2,098	2,245

Source: Justice Health (unaudited).

Justice Health advises the increase in mental health inpatient bed days was primarily due to 2009 -10 being the first full year of operation of its forensic hospital.

OTHER INFORMATION

Financial Report and Supporting Work Papers

In past years, I reported that the financial statements and supporting work papers submitted for audit were inadequate. This year, it was pleasing to note an improvement, which resulted in earlier completion of the audit. There is still room for further improvement and Justice Health advises it will be implementing additional review procedures in 2010-11.

Plant and Equipment Stocktake

Last year, I reported Justice Health had not performed a stock take of its plant and equipment. In 2009-10, it completed a stock take at six of its 56 cost centres and intends to do the remaining 50 in 2010-11. The written down value of plant and equipment at 30 June 2010 was \$4.4 million (\$4.0 million at 30 June 2009).

Human Resources

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

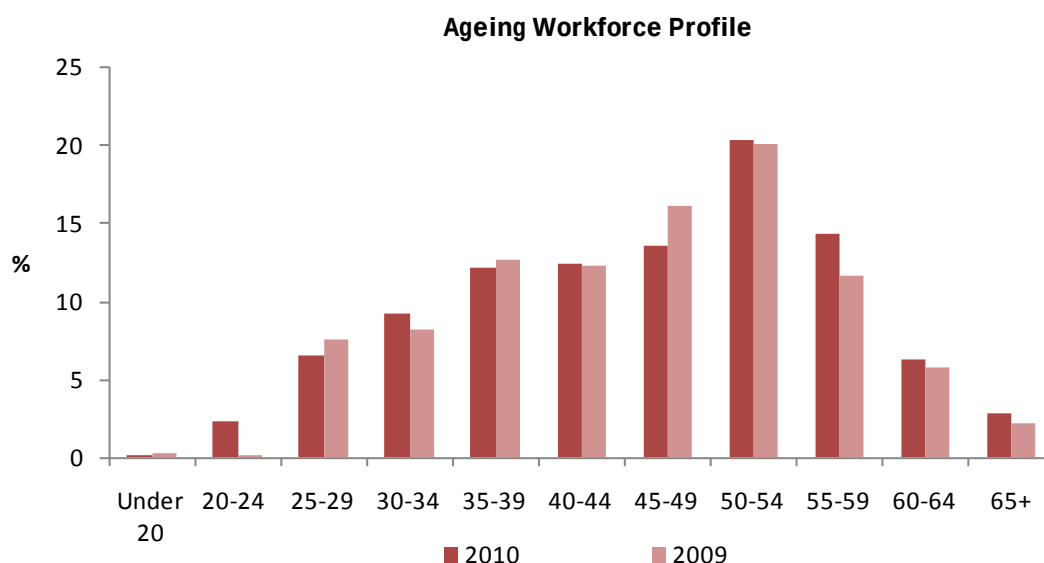
- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities
- management of annual leave balances in excess of threshold policies
- extent of overtime.

A summary of the results of my review follows.

Workforce Ageing

At 30 June 2010, 23.4 per cent (19.6 per cent) of Justice Health's employees were 55 years of age or older and 43.7 per cent (39.7 per cent) were 50 or older. A large number of these employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for Justice Health.

The age profile of Justice Health's employees is shown below. It excludes contract, temporary, casual, sessional and seasonal staff.



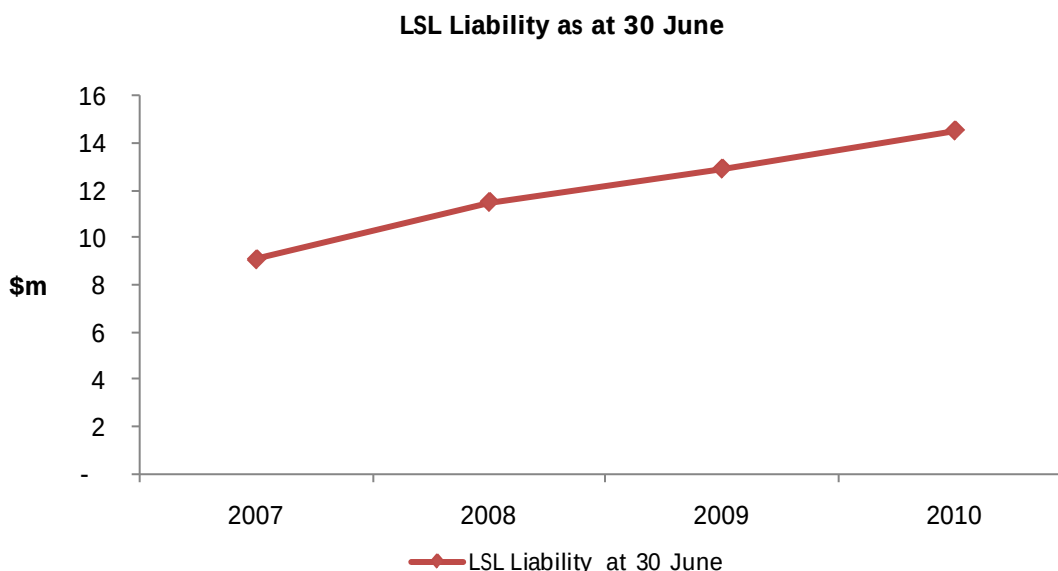
At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
Under 20	1	0.1	3	0.4
20-24	20	2.3	26	3.0
25-29	57	6.5	67	7.6
30-34	81	9.2	72	8.2
35-39	108	12.2	111	12.7
40-44	109	12.4	108	12.3
45-49	120	13.6	141	16.1
50-54	179	20.3	176	20.1
55-59	126	14.3	102	11.6
60-64	56	6.3	51	5.8
65+	25	2.8	19	2.2
Total	882	100	876	100

Source: Justice Health (unaudited).

Justice Health advises it has implemented a number of initiatives to ensure it has appropriate strategies to attract, retain and develop staff to minimise the challenges of an ageing workforce.

Long Service Leave Liability

Increasing long service leave liabilities create funding challenges for Justice Health. Its long service leave liabilities increased by 59.7 per cent over the last three years to \$14.5 million at 30 June 2010. The increase in Justice Health's workforce over the last two years has contributed to this increase. A number of employees came to Justice Health with long service leave balances they accumulated whilst working for other Health entities. The graph below demonstrates the increasing liability.



The Department of Health advised it is finalising arrangements to transfer employee long service leave entitlements to the Crown Entity, to bring Justice Health into line with other New South Wales Government budget dependent agencies. The effective date of the transfer is expected to be 31 December 2010.

Annual Leave Balances

Justice Health appears to be actively managing excessive annual leave balances. At 30 June 2010, 138 employees (210 employees) had accrued annual leave balances in excess of 40 days. This represents 15.6 per cent (24.0 per cent) of total employees.

Annual Leave Entitlement (Days)	2010	2009
	No. of Staff	No. of Staff
41-45	38	36
46-50	25	32
51-60	27	65
61-90	38	46
91-120	8	21
120 +	2	10
Total	138	210

Source: Justice Health (unaudited)

Some staff attract award entitlements of six weeks annual leave per annum, with entitlements further increased depending on the incidence of time worked on Sundays and public holidays. Justice Health advised that in such cases, and using the public sector benchmark of two years' accrual as a guide, its staff may not in fact have excess leave until the accrued value exceeds 70 days. As shown in the table above, some staff have accumulated leave beyond industry norms.

As leave entitlements are paid at rates applicable at the time the leave is taken, excessive leave balances will place additional financial pressures on Justice Health as they will be paid at higher remuneration rates. The health and welfare of employees can also be adversely affected if they do not take sufficient leave during the year.

Overtime

The Department advised Justice Health's overtime payments in 2009-10 were \$4.0 million (\$3.3 million), 4.8 per cent (4.7 per cent) of base salary expense for the year. On average, Justice Health employees who worked overtime received \$5,466 (\$5,477) in overtime payments in 2009-10. The highest amount paid to a single employee was \$94,624 (\$54,355).

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	111,025	92,800	--	--
Personnel services	--	--	111,025	92,800
Visiting Medical Officers	5,208	5,851	5,208	5,851
Grants and Subsidies	1,154	1,018	1,154	1,018
Other expenses	37,079	30,229	37,079	30,229
OPERATING EXPENSES	154,466	129,898	154,466	129,898
OPERATING REVENUE	6,064	3,082	7,003	4,887
Loss on disposal of non-current assets	109	61	109	61
NET COST OF SERVICES	148,511	126,877	147,572	125,072
Government contributions	151,834	120,841	150,895	119,036
SURPLUS/(DEFICIT)	3,323	(6,036)	3,323	(6,036)
OTHER COMPREHENSIVE INCOME	--	--	--	--
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	3,323	(6,036)	3,323	(6,036)

The increase in employee related expenses and other expenses was largely due to 2009-10 being the forensic hospital's first full year of operations. The hospital only operated for six months in the prior year.

The increase in revenue was primarily due to a change in high cost drug funding.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	16,011	8,986	16,011	11,444
Non-current assets	101,782	102,468	101,782	102,468
TOTAL ASSETS	117,793	111,454	117,793	113,912
Current liabilities	37,388	33,780	37,388	36,182
Non-current liabilities	83,884	84,476	83,884	84,532
TOTAL LIABILITIES	121,272	118,256	121,272	120,714
NET LIABILITIES	3,479	6,802	3,479	6,802

Current assets increased due to an increase in cash at bank. The increase in current liabilities was mainly due higher accrued expenses and liabilities for employee entitlements.

JUSTICE HEALTH ACTIVITIES

Justice Health is responsible for providing health care to people who come into contact with the criminal justice system.

For further information on Justice Health, refer to www.justicehealth.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	Website
Justice Health Special Purpose Service Entity	*

* This entity does not have a website.

New South Wales Health Foundation

AUDIT OPINION

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

FINANCIAL INFORMATION

Year ended 30 June	2010 \$'000	2009 \$'000
Revenue	230	628
Expenses	1,866	976
Deficit	1,636	348
Net assets (at 30 June)	48,450	50,086

Revenue is comprised of interest earned during the year. Revenue in the prior year comprised interest earned plus grant revenue. No grants were received in the current year.

The increase in expenses related mainly to a grant of \$1.2 million provided to the Ambulance Service of New South Wales.

FOUNDATION ACTIVITIES

The Foundation was established under the *Health Administration Act 1982*. It is managed by the Department of Health on behalf of the Minister. The Foundation accepts bequests and provides financial and other support for any purpose connected with providing health services. Through the *Walker Trusts (Amendment) Act 1983*, the Foundation owns and has a custodial role over the Thomas Walker Convalescent Hospital.

Royal Alexandra Hospital for Children

AUDIT OPINION

The audits of the Hospital and its controlled entity's financial statements for the year ended 30 June 2010 resulted in a qualified Independent Auditor's Report for the Hospital and an unqualified Independent Auditor's Report for the controlled entity. It is impractical for the Hospital to maintain an effective system of internal controls over fundraising revenue and voluntary donations it receives until the initial entry in the financial records. Accordingly, I was unable to express an opinion as to whether all fundraising revenue and voluntary donations received by the Hospital were recorded. My opinion was similarly qualified in 2009.

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

KEY ISSUES

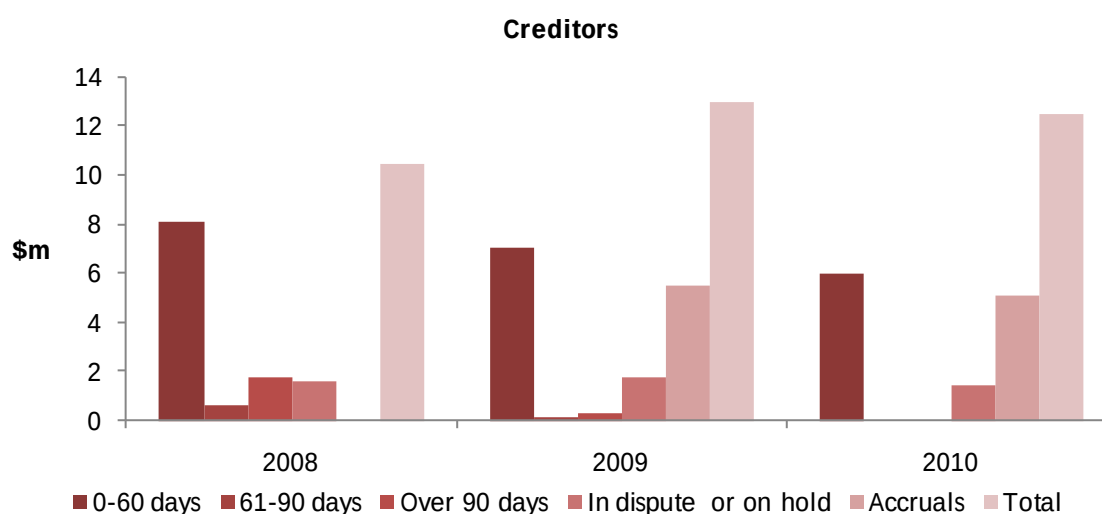
Sydney Children's Hospitals Network

As part of the *Caring Together: The Health Action Plan for NSW*, on 1 July 2010, The Royal Alexandra Hospital for Children was renamed the Sydney Children's Hospital Network (Randwick and Westmead). The entity incorporates the Royal Alexandra Hospital for Children and the public hospital located at Randwick known as the Sydney Children's Hospital which has been transferred from the South Eastern Sydney and Illawarra Area Health Service.

Accounts Payable (Repeat issue)

I again recommend the Network ensures all purchases are supported by authorised orders, creditors are paid within agreed payment terms, and it follows up disputed invoices in a timely manner.

The following chart shows total trade creditors for the last three years; ageing of creditors; and amounts on hold or in dispute.



*Accruals have been excluded from 2008 calculation

Note: Total column is comprised of the three ageing columns, as they include the amounts for invoices on hold or in dispute. The 0-60 day columns for 2010 and 2009 include accruals (not included for 2008)

Source: Information provided by the Hospital (unaudited)

Total creditors at 30 June 2010, \$12.5 million, was slightly lower than the prior year, \$13.0 million. Creditors over 90 days old have reduced to nil in 2010. During the year, the Hospital implemented policies to reduce trade creditors by allocating funds to settle outstanding accounts.

Total intra Health creditors (amounts owed by one Area Service to another Area Service) at 30 June 2010 amounted to \$1.3 million. The ageing of intra Health creditors is not included in the above graph as the normal credit terms are not applicable.

In addition, a further \$0.3 million (\$0.8 million in 2009) of Capital Works Creditors was not included in the graph as an ageing analysis was not available from the Hospital.

In each of the past three years, amounts on hold or in dispute have constituted a significant portion of total trade creditors. At 30 June 2010, \$1.4 million of invoices were either on hold or in dispute with 34.0 per cent being older than 90 days.

The Hospital has advised that invoices can be placed on hold for a number of reasons, including the lack of a Hospital purchase order in support of the invoice. The Department of Health (the Department) has written to suppliers asking them not to invoice Health entities until they have received valid purchase orders.

Fully Depreciated Plant and Equipment (Repeat Issue)

I again recommend the network liaise with the Department to ensure it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment.

The Department advised it has established the Medical Equipment Asset Management Program (MEAM) to determine the feasibility of an external private sector partnership in the provision of a whole-of-life asset management facility. A tender document was issued in 2009-10 and the tender responses are currently being assessed.

The table below shows the extent of the Hospital's fully depreciated plant and equipment over the last three years.

At 30 June	2010	2009	2008
Total Plant and Equipment – Cost value (\$'000)	106,552	105,418	118,624
Fully Depreciated Plant and Equipment – Cost value (\$'000)	52,098	56,066	72,219
Fully depreciated Plant and Equipment to total (%)	48.9	53.2	60.9

In prior years, I reported that the Hospital continued to use a significant number of items of fully depreciated plant and equipment. The Hospital conducted a follow up review during the year to monitor the status of its fully depreciated assets and to determine the appropriateness of continued use. The Hospital is continuing to actively monitor this issue. As a result the percentage of fully depreciated assets has continued to reduce over the past three years.

I will continue to monitor and review the extent of fully depreciated assets held by the Network.

Special Purpose and Trust Funds (Repeat Issue)

I recommend the Network complete its review of Governance arrangements over Special Purpose and Trust Funds.

I recommend that the Network review its practices so that Special Purpose Trust Funds are not overdrawn at any point during the year.

Two years ago, I recommended the Department and its controlled entities review all Special Purpose and Trust Funds to confirm each fund's intended purpose. The nature of some funds and what they can be used for is not readily apparent.

At the time of my recommendation, the Hospital had already commenced a review of its Funds. The first phase of the review has now been completed. Phase two of the review is currently underway and is specifically dealing with the governance of the Funds.

The hospital has a total of 463 Fund accounts. Throughout 2009-10 the Hospital had overdrawn a number of the accounts. As a general rule, these types of accounts should not be overdrawn. At 30 June 2010 all overdrawn accounts had been rectified.

The table below sets out the number of overdrawn accounts for each month and the total value of those overdrawn accounts throughout 2009-10.

Month	Number of Overdrawn Accounts	Amount Overdrawn \$
July	8	312,600
August	2	260,555
September	8	399,269
October	12	802,505
November	10	534,640
December	11	1,211,822
January	8	794,847
February	2	19,599
March	7	66,404
April	3	13,952
May	3	5,801
June	0	--

Source: Information provided by the Hospital (unaudited).

PERFORMANCE INFORMATION**Treatment of Patients**

Patients' average length of stay in the Hospital for 2010 decreased to 3.2 days (3.3 days in 2009). This is below the State average of 3.6 days.

The bed occupancy rate for the Hospital was 91.8 per cent (89.1 per cent). This is well above the State average of 88.3 per cent.

The Hospital met or exceeded benchmarks for timeliness in treating emergency patients in four of the five triage categories. This is consistent with 2009.

The Hospital's emergency admission performance was 79.0 per cent, which was just under the State target of 80.0 per cent.

OTHER INFORMATION

Project Implementations

I recommend the Network considers whether any lessons learnt from the implementation of the fundraising system can be applied to any future system implementations.

The Hospital implemented a new fundraising system during 2009-10. The implementation encountered a number of problems which are being addressed. Issues included the lack of appropriate policies and procedures being in place for the new system.

Human Resources

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

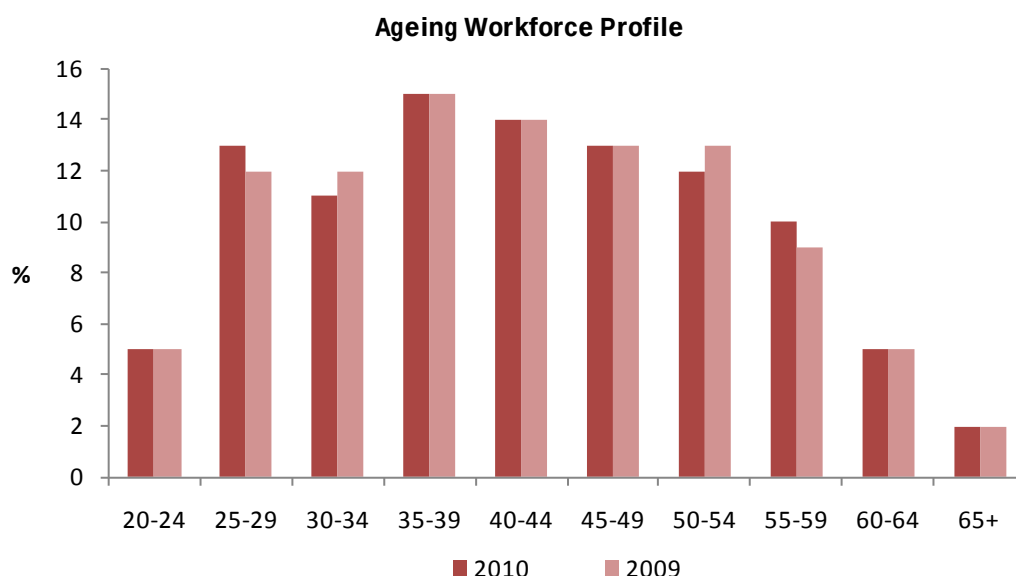
- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies
- extent of overtime.

Issues identified from my review will be reported in a management letter to the Hospital. A summary of the results of my review follows.

Workforce Ageing

I did not identify significant issues with the age profile trends for employees. The Hospital has 17.5 per cent of its employees over 55 years of age and 29.5 per cent of its employees over 50.

The age profile of the Hospital employees is shown below:

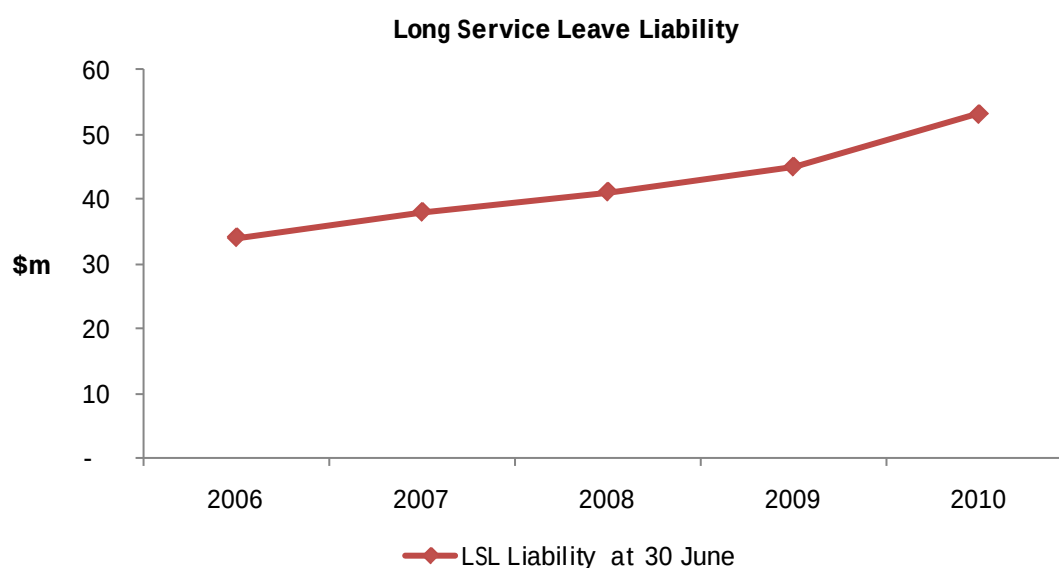


At 30 June	2010		2009	
Age Group	No. of Employees	%	No. of Employees	%
Under 35	627	28.6	622	29.4
35-39	332	15.1	307	14.5
40-44	302	13.8	298	14.1
45-49	286	13.0	278	13.2
50-54	263	12.0	272	12.9
55-59	214	9.7	187	8.8
60-64	118	5.4	114	5.4
65+	52	2.4	35	1.7
Total	2,194	100.0	2,113	100.0

Source: Information provided by the Hospital (unaudited).

Long Service Leave Liability

Increasing long service leave liabilities create funding challenges for the Hospital. Liabilities for long service leave entitlements at 30 June 2010 were \$53.0 million (\$45.0 million in 2009). This has increased by 56.0 per cent over the last five years.



The Department of Health advised that it is finalising arrangements for the transfer of employee long service leave entitlements to the Crown Entity, to bring it into line with other Government budget dependent agencies.

The effective date of the transfer is expected to be 31 December 2010.

Annual Leave Balances

The Hospital has actively managed employees with excessive annual leave balances in recent years. The number of employees with annual leave balances in excess of 40 days has declined from 479 employees at 30 June 2009 to 454 employees at 30 June 2010. Although the Hospital's strategies have reduced the number of employees with annual leave balances in excess of 40 days, employees in this category represented 20.6 per cent (22.7 per cent) of total employees at 30 June 2010.

The Hospital advised that a significant number of staff attract award entitlements of six weeks annual leave per annum, with entitlements further increased dependent on the incidence of time worked on Sundays and public holidays. The Hospital further advised in such instances, and using the public sector benchmark of two years' accrual as a guide, Health staff may not in fact have excess leave until the accrued value exceeds 70 days.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

Overtime

Overtime payments in 2009-10 amounted to \$5.7 million (\$6.0 million) which was 2.8 per cent (3.2 per cent) of base salary expense for the year. On average, the Hospital's employees received \$4,104 (\$4,045) in overtime payments in 2009-10 and 63.4 per cent (70.4 per cent) of employees received a payment for working overtime. The highest amount paid to a single employee in 2009-10 was \$83,412 (\$80,907).

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	254,176	236,918	--	--
Personnel services	--	--	254,176	236,918
Visiting medical officers	5,225	5,538	5,225	5,538
Grants and Subsidies	1,923	1,181	1,923	1,181
Other expenses	103,434	99,427	103,434	99,427
OPERATING EXPENSES	364,758	343,064	364,758	343,064
OPERATING REVENUE	297,756	293,181	301,570	296,707
Loss on disposal on non-current assets	257	275	257	275
Other losses	249	140	249	140
NET COST OF SERVICES	67,508	50,298	63,694	46,772
Total government contributions	65,578	40,594	61,764	37,068
DEFICIT	1,930	9,704	1,930	9,704
OTHER COMPREHENSIVE INCOME				
Asset revaluation increment	--	17,807	--	17,807
TOTAL OTHER COMPREHENSIVE INCOME	--	17,807	--	17,807
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	(1,930)	8,103	(1,930)	8,103

Employee related expenses rose because of an increase in the number of employees and award rate increases.

Operating revenue rose 1.6 per cent and was predominantly because of an increase in investment income from \$1.4 million in the prior year to \$7.4 million in the current year. The improvement in the performance of the investments can be linked to the upturn in the economy post the global financial crisis.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	97,807	82,485	97,807	82,485
Non-current assets	378,489	390,204	378,489	390,204
TOTAL ASSETS	476,296	472,689	476,296	472,689
Current liabilities	104,862	99,059	104,862	99,059
Non-current liabilities	5,123	5,389	5,123	5,389
TOTAL LIABILITIES	109,985	104,448	109,985	104,448
NET ASSETS	366,311	368,241	366,311	368,241

The increase in current liabilities is mainly due to an increase in employee benefit provisions resulting from increases in actuarial adjustments, the number of employees and award rates.

HOSPITAL ACTIVITIES

For further information on the Hospital, refer to www.chw.edu.au.

CONTROLLED ENTITIES

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

Entity Name	Website
Royal Alexandra Hospital for Children Special Purpose Service Entity	*

* This entity does not have a website.

Minister for Ports and Waterways

Maritime Authority of NSW

Newcastle Port Corporation

Pork Kembla Port Corporation

Sydney Ports Corporation

Maritime Authority of NSW

AUDIT OPINION

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

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

KEY ISSUES

Superyacht Marina Business

The Authority leased its Superyacht Marina business to a private entity for fifty years from 15 June 2010. The lump sum lease payment and proceeds from the sale of related assets totalling \$2.0 million is due on 1 September 2014. The business had assets of \$2.5 million and generated revenue of \$1.3 million in 2008-09. The Authority advised that the savings on maintenance expenditure will significantly outweigh the foregone revenue from continued operation.

The business was not considered to be a core function of the Authority and was leased to the private entity following a public tender process.

PERFORMANCE INFORMATION

The Authority provided the following information regarding its performance:

Year ended 30 June	2010	2009	2008	2007	2006
Boating licences issued	491,521	483,649	451,696	445,736	445,158
Registered recreational vessels	226,515	222,322	217,074	213,387	209,382
Waste recovered from Sydney Harbour (cubic metres)	2,778	2,737	3,183	3,471	3,681
Fatalities per 100,000 total registered or licensed vessels	9.7	5.2	9.3	10.3	4.1
Safety compliance rate*:					
- recreational vessels (%)	89.0	88.3	87.1	87.4	89.5
- commercial vessels (%)	88.3	91.0	93.4	89.8	93.9

Source: Maritime Authority of New South Wales (unaudited)

* The safety compliance rate reports the proportion of random vessel checks that did not result in infringement or formal warning notices being issued.

Fatalities from boating incidents during the year totalled 23. There was no clear trend or pattern to these incidents.

The Authority has been involved in a number of safety initiatives, including the implementation of the Marine Safety (General) Regulation 2009. The regulation created improved provisions and penalties and includes, for the first time, a requirement for practical training in boat handling as a part of the licensing process.

The Authority plans to introduce further rules regarding the requirement to wear life jackets.

Property Management

Year ended 30 June	2010	2009	2008	2007	2006
Value of rental properties (\$m)	131.0	129.0	133.0	130.0	130.0
Rental revenue (\$m)	13.8	13.9	14.6	12.8	12.1
Return on rental properties (%)	10.6	10.8	11.0	9.9	9.4

Source: Maritime Authority of New South Wales (unaudited)

OTHER INFORMATION

Human Resources

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

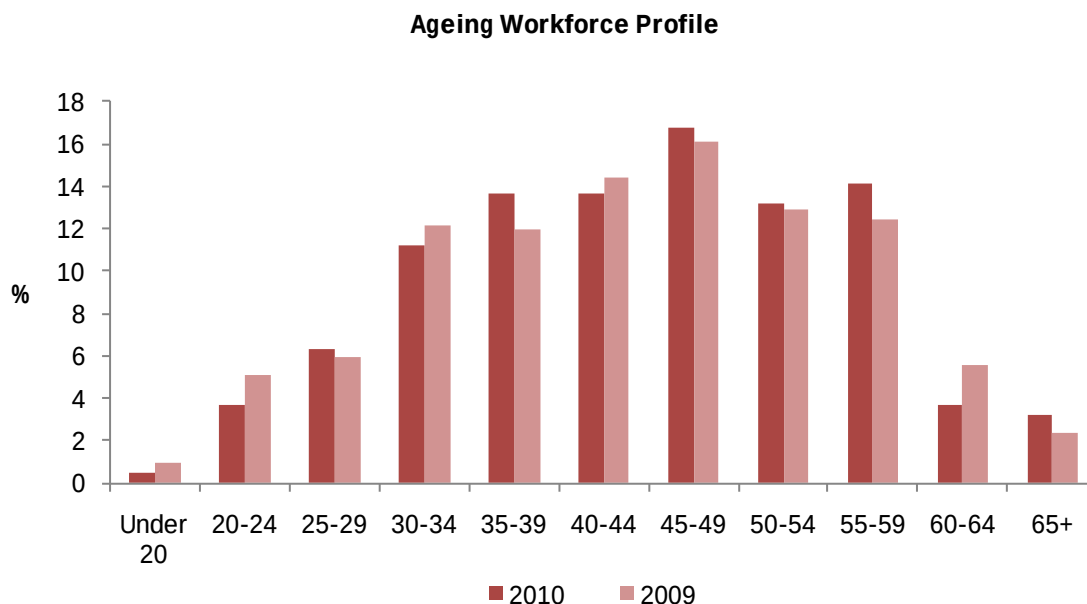
- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies
- extent of overtime
- extent of contract staff.

A summary of the results of my review follows.

Workforce Ageing

Almost 21.0 per cent of the Authority's employees are over 55 years of age and 34.1 per cent are over 50. A large number of these employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for the Authority.

The age profile of the Authority's employees is shown below:



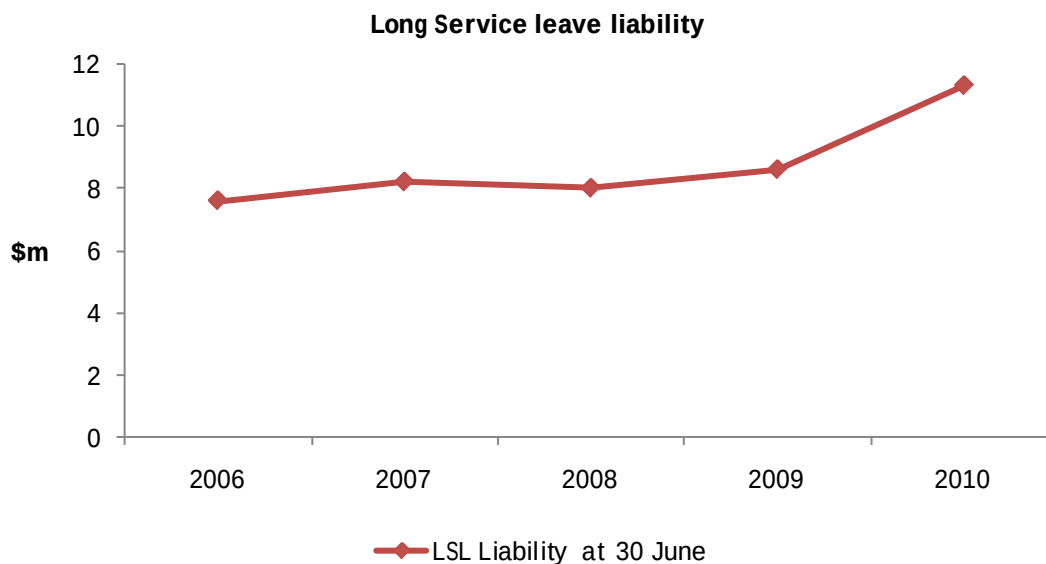
As at 30 June Age Group	2010		2009	
	No. of Staff	%	No. of Staff	%
Under 34	89	21.7	99	24.2
35 - 39	56	13.7	49	12.0
40 - 44	56	13.7	59	14.4
45 - 49	69	16.8	66	16.1
50 - 54	54	13.2	53	12.9
55 - 59	58	14.1	51	12.4
60 - 64	15	3.6	23	5.6
65+	13	3.2	10	2.4
Total	410	100.0	410	100.0

Source: Maritime Authority (unaudited)

Management advised, as part of succession planning, junior staff are trained by experienced staff members, who have the relevant skills and knowledge. For specialised positions the Authority has implemented an understudy program for its incoming staff.

Long Service Leave Liability

The Authority's long service leave liability as at 30 June 2010 amounted to \$11.4 million (\$8.6 million). This liability has increased by 49.6 per cent over the last five years.



The increase in the liability for the year was due to an adjustment arising from a formal actuarial assessment.

Although the Authority has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities, which generally increase over time with increases in employee remuneration levels. This will be further compounded as other liabilities arise from the retirement of a significant portion of the workforce.

Annual Leave Balances

The Authority actively manages employees' annual leave balances. The number of employees in excess of 40 days has declined from 20 employees as at 30 June 2007 to 7 employees at 30 June 2010. The proportion of employees with excessive leave balances has also decreased during this period from 5.3 per cent to 1.7 per cent.

Overtime

Overtime payments amounted to \$501,000 (\$588,000), 1.3 per cent (1.6 per cent) of total employee expense for the year. For those employees who were paid overtime, on average, they received \$3,000 in 2009-10 and only 0.4 per cent of employees received a payment for working overtime.

The Authority's use of overtime is not considered excessive.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Boating revenue	46,319	43,787	46,319	43,787
Rent revenue	41,452	40,045	41,452	40,045
Channel fees	8,342	7,872	8,342	7,872
Investment income	5,699	3,384	5,699	3,384
Other revenue	16,726	10,629	16,726	10,135
TOTAL REVENUE	118,538	105,717	118,538	105,223
Employee related expenses	39,221	36,759	44,478	58,260
Service contractors	22,056	22,011	22,056	22,011
Administration expenses	8,300	9,009	7,920	8,605
Interest expenses	7,707	7,855	7,707	7,855
Depreciation and amortisation	11,417	9,773	11,417	9,773
Other expenditure	20,609	14,299	20,609	14,299
TOTAL EXPENSES	109,310	99,706	114,187	120,803
SURPLUS/(DEFICIT)	9,228	6,011	4,351	(15,580)
OTHER COMPREHENSIVE INCOME				
Superannuation actuarial losses	(4,877)	(21,591)	--	--
Gain on revaluation of property, plant and equipment	150,102	8,831	150,102	8,831
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	145,225	(12,760)	150,102	8,831
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	154,453	(6,749)	154,453	(6,749)

The increase in boating revenue was due to a rise in the number of boat registrations and fees.

The increase in investment income was due to a combination of larger investment balances and higher interest rates.

The movement in other revenue reflects \$4.5 million of wharf assets received from local councils.

The increase in employee related expenses was due to a 3.5 per cent award rate rise and growth in full time equivalent employees from 320 to 332.

The drop in superannuation actuarial losses represents improved investment returns from improved financial markets.

The increase in other expenses was mainly due to the recognition of the loss on disposal of assets of \$4.6 million and adjustments resulting from the lease of Superyacht Marina of \$1.7 million.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	91,686	102,919	90,618	101,958
Non-current assets	1,470,445	1,151,121	1,470,358	1,150,980
TOTAL ASSETS	1,562,131	1,254,040	1,560,976	1,252,938
Current liabilities	78,192	85,250	98,827	102,180
Non-current liabilities	551,362	385,471	529,572	367,439
TOTAL LIABILITIES	629,554	470,721	628,399	469,619
NET ASSETS	932,577	783,319	932,577	783,319

Payments for asset acquisitions decreased cash and current assets.

Non-current assets increased due to:

- a gain on the revaluation of property, plant and equipment of \$150 million
- harbour deepening costs of \$146 million performed on behalf of the Authority by various NSW port corporations.

The increase in non-current liabilities was due to recognition of a \$146 million liability for channel fees received in advance, arising from the harbour deepening referred to above.

AUTHORITY ACTIVITIES

The Authority is responsible for marine safety and environmental protection of navigable New South Wales' waterways. It also ensures the appropriate development and use of wetlands and associated maritime assets.

The *Ports and Maritime Administration Act 1995* established the Authority in July 1995.

For further information on the Authority, refer to www.maritime.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	Website
Maritime Authority of NSW Division	*

* This entity does not have a website.

Newcastle Port Corporation

AUDIT OPINION

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

PERFORMANCE INFORMATION

The Corporation provided the following information regarding its performance:

Trade Volumes

Year ended 30 June	Target*	Actual				
	2010	2010	2009	2008	2007	2006
Total trade ('000 tonnes)	95,550	103,026	95,840	93,314	85,603	85,572
Total chargeable vessel visits	1,607	1,712	1,560	1,519	1,403	1,418
Total chargeable vessel gross tonnage ('000s)	60,755	67,801	63,506	61,223	56,989	57,443

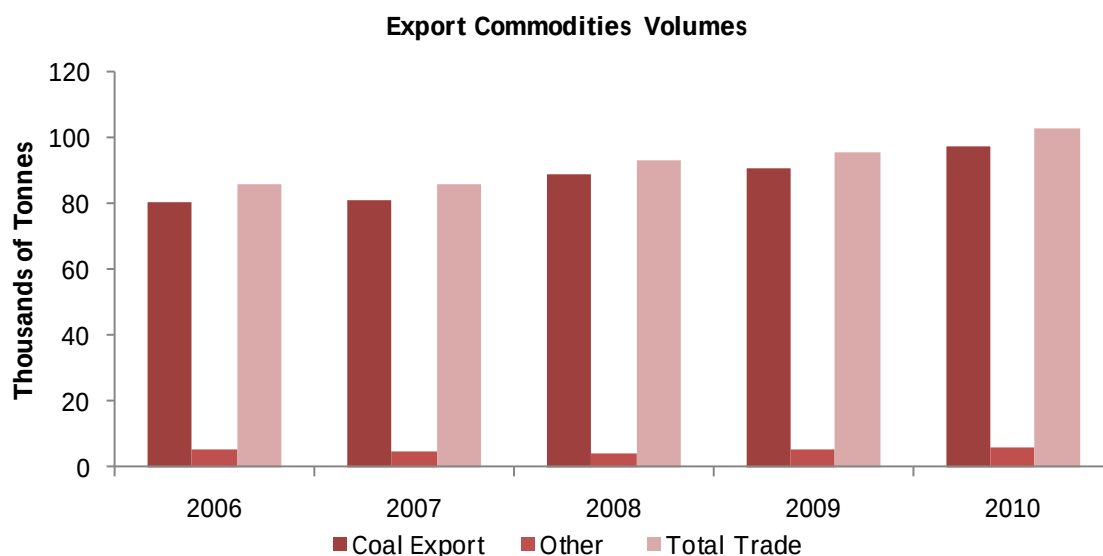
Source: Newcastle Port Corporation (unaudited)

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

The trade activities continued to trend upwards mainly due to increasing coal exports to Asia. The expansion for this year was due to economic growth in these countries.

Major Export Commodity

The Corporation's export commodities were:



Source: Newcastle Ports Corporation (unaudited).

Financial Performance

Year ended 30 June	Target*	Actual				
	2010	2010	2009	2008	2007	2006
Return on equity (%)	2.1	4.3	6.5	7.8	11.2	11.6
Return on average assets (%)	4.1	6.1	5.9	6.7	9.8	12.0
Interest cover (times)	4	3.4	na	na	na	9.1
Debt to equity ratio (%)	28.5	28.7	19.8	22.9	22.3	31.0
Dividend to Government (\$m)	--	3.1	2.0	4.7	3.8	6.0

Source: Newcastle Port Corporation (unaudited)

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

na: not applicable due to nil borrowings

Return on equity for the year fell by 2.2 per cent as a result of an \$87.4 million contribution of land assets by other government agencies. Increased borrowing for land acquisition contributed to the increase in the debt to equity ratio.

OTHER INFORMATION

Major Projects

The table below provides the cost and completion date for the Corporation's major project, construction of Mayfield Berth. The project was completed marginally below budgeted cost and by the target completion date.

Year ended 30 June 2010	Target Completion Date	Completion Date	Initial Project Estimate* \$m	Cost to 30 June 2010 \$m	Final Cost \$m	Variance \$m
Mayfield Berth	November 2009	November 2009	28.4	28.1	28.3	0.1

Source: Newcastle Ports Corporation (unaudited).

* The initial project estimate was approved by the Budget Cabinet Committee and Board of Directors

Property Management

Year ended 30 June	2010	2009	2008	2007	2006
Value of rental properties (\$m)	164.4	68.2	60.0	59.8	54.1
Rental revenue (\$m)	20.4	8.0	7.2	6.7	6.2
Return on rental properties (%)	12.4	11.7	12.0	11.2	11.5

The increase in the value of properties and rental revenue are due to the receipt of parcels of land with existing leases from other agencies during the year.

Human Resources

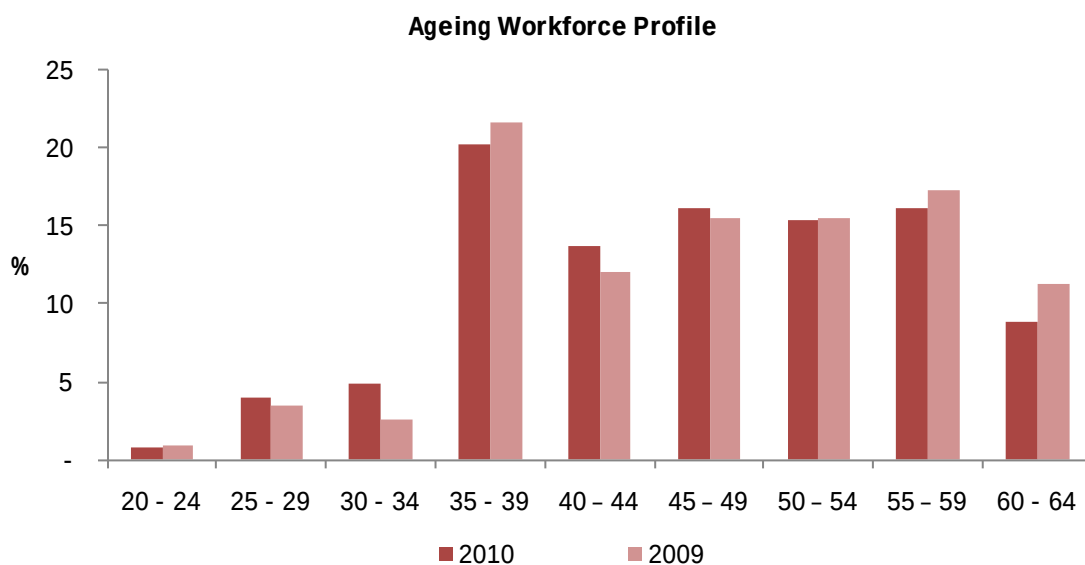
This year I reviewed the following areas relating to human resources:

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities.

Workforce Ageing

I recommend the Corporation review the effectiveness of its policies for managing its ageing workforce.

Twenty five per cent of the Corporation's employees are over 55 years of age and 40.3 per cent are over 50. A large number of these employees are likely to retire over the next five years to ten years increasing the risk of a significant loss of knowledge and skills for the Corporation. The age profile of the Corporation's employees is shown below.

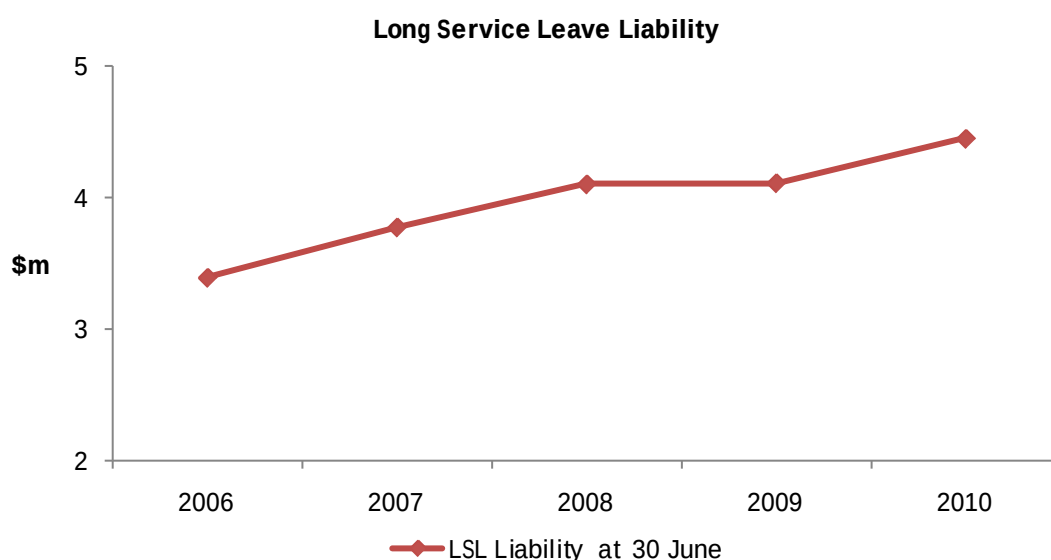


At 30 June Age Group	2010		2009	
	No. of Staff	%	No. of Staff	%
20 - 29	6	4.9	5	4.3
30 - 39	31	25.0	28	24.1
40 - 49	37	29.8	32	27.6
50 - 54	19	15.3	18	15.5
55 - 59	20	16.1	20	17.3
60 - 64	11	8.9	13	11.2
Total	124	100	116	100

Management advised it does not regard the ageing of its workforce as a major issue. As part of succession planning, junior staff are trained by experienced staff members, who have the relevant skills and knowledge.

Long Service Leave Liability

Long service leave liability increased by 32.3 per cent over the past four years from \$3.4 million to \$4.5 million.



The increase largely resulted from the impact of a reduced Government bond rate used to discount the liability to present value.

Although the Corporation has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities as they fall due. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

FINANCIAL INFORMATION**Abridged Statement of Comprehensive Income**

Year ended 30 June 2010	2010 \$'000	2009 \$'000
Port revenue	43,662	39,906
Rental revenue	20,351	7,963
Other revenue	1,551	3,998
TOTAL REVENUE	65,564	51,867
Employee benefits	15,654	14,013
Depreciation and amortisation	4,589	3,311
Finance costs	7,066	1,833
Other expenses	26,591	23,534
TOTAL EXPENSE	53,900	42,691
PROFIT BEFORE TAX	11,664	9,176
Income tax equivalent expense	3,671	3,052
PROFIT AFTER TAX	7,993	6,124
OTHER COMPREHENSIVE INCOME		
Gain on revaluation of property, plant and equipment, net of tax	30,255	17,709
Superannuation actuarial loss, net of tax	(646)	(671)
Deferred tax movement	--	104
TOTAL OTHER COMPREHENSIVE INCOME	29,609	17,142
TOTAL COMPREHENSIVE INCOME	37,602	23,266

The increase in port revenue reflects the growth in trade activities.

The drop in other revenue resulted from lower interest revenue from reduced cash balances.

The increase in borrowings for land acquisition pushed up the finance costs for the year by \$5.2 million.

The gain on revaluation of land represents the movement in land values for parcels of properties received during the year.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	11,322	38,796
Non-current assets	392,836	158,753
TOTAL ASSETS	404,158	197,549
Current liabilities	22,737	18,552
Non-current liabilities	134,374	53,885
TOTAL LIABILITIES	157,111	72,437
NET ASSETS	247,047	125,112

Cash applied for the acquisition of land decreased cash and current assets.

The increase in non-current assets was largely due to the \$175 million property acquisition and land contributions from other agencies.

Non-current liabilities increased largely due to additional borrowings of \$68.6 million to fund the land acquisition.

CORPORATION ACTIVITIES

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The Corporation's principal objectives, as amended by the *Ports and Maritime Administration Amendment (Port Competition and Co-ordination) Act 2008 No 89*, are to:

- operate at least as efficiently as any comparable businesses
- maximise the net worth of the State's investment in the Port Corporation
- exhibit a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate these when able to do so
- promote and facilitate trade through port facilities
- ensure port safety functions are carried out properly
- promote and facilitate a competitive commercial environment in port corporations and
- improve productivity and efficiency in the ports and the port related supply chain.

For further information on the Corporation, refer to www.newportcorp.com.au.

Port Kembla Port Corporation

AUDIT OPINION

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

PERFORMANCE INFORMATION

The Corporation provided the following information regarding its performance:

Trade Volumes

Year ended 30 June	Target*	Actual				
	2010	2010	2009	2008	2007	2006
Operational Performance						
Total Trade ('000 tonnes)	23,823	31,045	26,405	27,309	25,438	25,925
Total Chargeable vessel visits	900	1,001	862	760	607	591
Total Chargeable vessel gross tonnage ('000s)	na	38,888	29,665	23,219	17,987	17,575

Source: Port Kembla Port Corporation (unaudited)

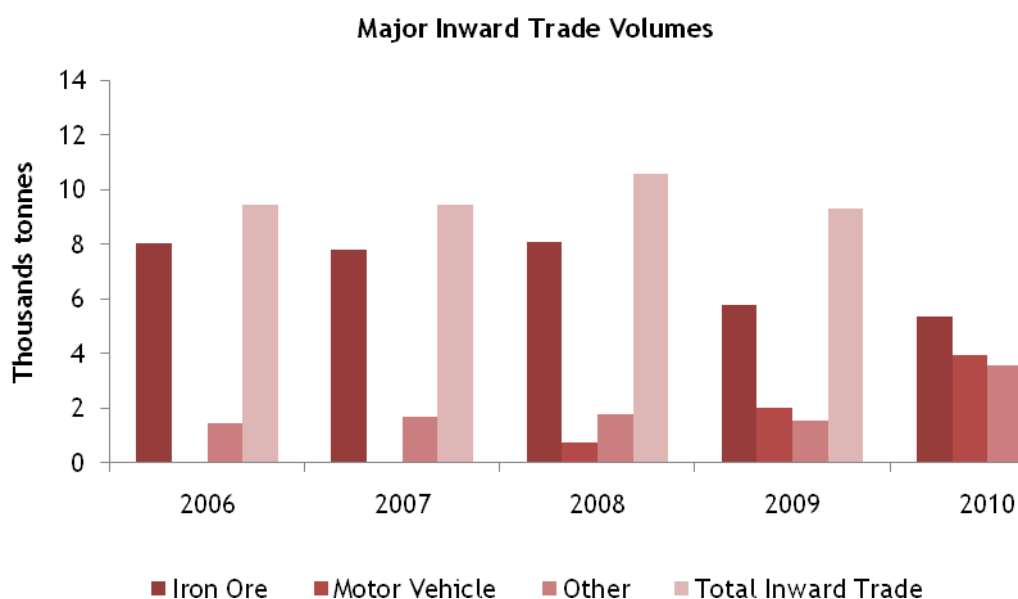
* Target agreed with shareholder Ministers in the Statement of Corporate Intent

na: not available

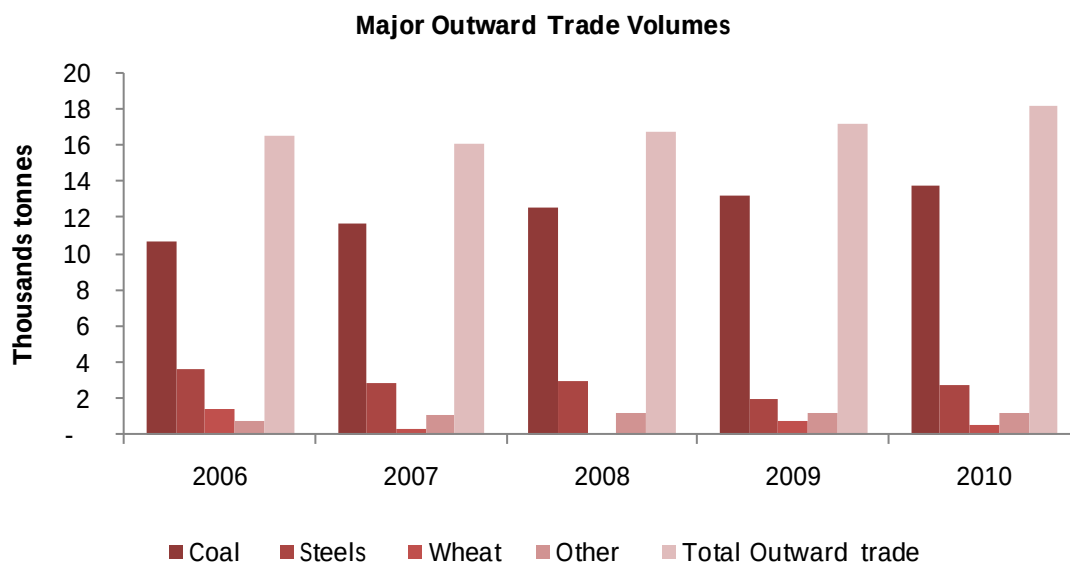
The Corporation advised that total trade and vessel visits increased mainly due to the improving economic climate and strong demand for coal from China and India.

Major Commodities Trade

The Corporation's major inward and outward trade commodities were:



Source: Port Kembla Port Corporation (unaudited)



Source: Port Kembla Port Corporation (unaudited)

Outer Harbour Development

In 2008, the Minister for Ports and Waterways announced a \$700 million outer harbour development project. This will include 42.0 hectares of port area and 1.8 kilometres of berths. The development will be constructed in stages by 2037.

Works completed so far include:

- acquisition of 23.4 hectares of land assets at \$5.7 million from the Maritime Authority of NSW
- purchase of 1.0 million tonnes of blast furnace slag for land reclamation
- site investigation at a cost of \$1.2 million
- lodgement of development application with the Department of Planning.

Financial Performance

Year ended 30 June	Target*	Actual				
	2010	2010	2009	2008	2007	2006
Return on equity (%)	8.0	12.6	16.7	9.5	9.5	12.2
Return on assets (%)	7.1	11.3	13.2	8.1	7.7	6.7
Interest cover (times)	6.3	8.2	12.4	6.3	4.1	2.8
Debt to equity ratio (%)	23.5	18.2	19.9	26.5	44.3	56.6
Dividend to government (\$m)	--	--	--	--	--	--

Source: Port Kembla Port Corporation (unaudited)

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

The decrease in return on equity is largely due to an \$8.0 million drop in profit before tax and \$28.7 million increase in equity.

Return on assets decreased mainly due to an increase in cash assets of \$34.8 million.

Interest cover decreased as a result of the reduced profit.

OTHER INFORMATION

Property Management

Year ended 30 June	2010	2009	2008	2007	2006
Value of rental properties \$m	133.2	126.2	106.8	69.9	42.4
Rental revenue (\$m)	8.3	7.0	4.3	4.0	2.8
Return on rental properties (%)	6.2	5.5	4.0	5.7	6.6

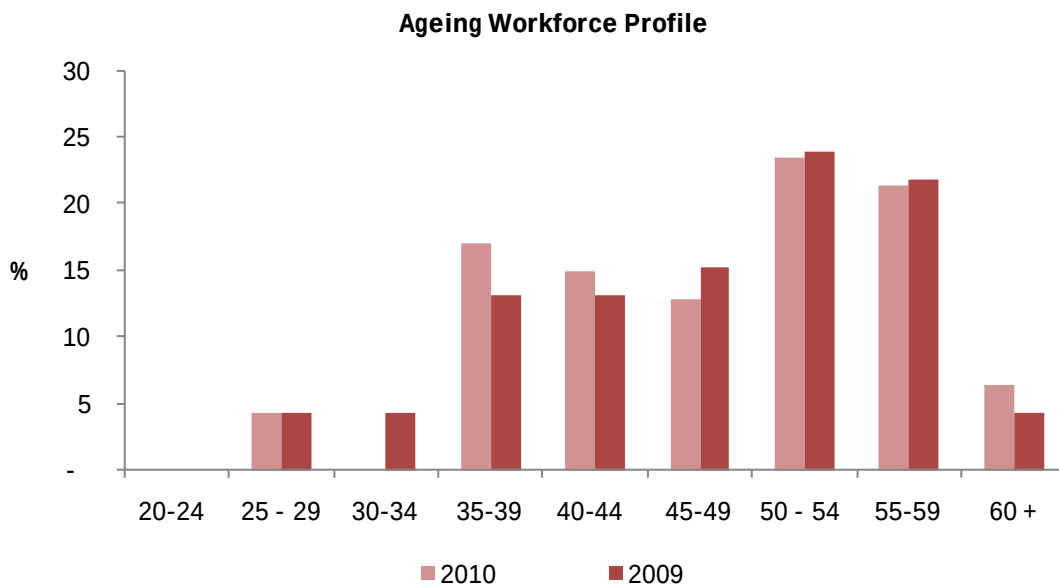
Source: Port Kembla Port Corporation (unaudited).

Increase in rental revenue was mainly due to a general rent rise of 3.5 per cent.

Workforce Ageing

I recommend the Corporation review the effectiveness of its policies for managing its ageing workforce.

Twenty seven per cent of the Corporation's employees are over 55 years of age and 51.0 per cent are over 50. A large number of these employees are likely to retire over the next five years to ten years increasing the risk of a significant loss of knowledge and skills for the Corporation. The age profile of the Corporation's employees is shown below.



Source: Port Kembla Port Corporation (unaudited).

As at 30 June Age Group	2010		2009	
	No. of Staff	%	No. of Staff	%
20 -49	23	49	23	50
50 - 54	11	24	11	24
55 - 59	10	21	10	22
60+	3	6	2	4
Total	47	100	46	100

Source: Port Kembla Port Corporation (unaudited).

Management advised it has implemented succession planning as part of a broader strategy to address this issue.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Port revenue	32,033	25,294
Rental Income	31,045	21,185
Other Income	9,508	31,323
TOTAL REVENUE	72,586	77,802
Employee benefits expense	7,049	5,951
Depreciation and amortisation	5,771	3,740
Other expense	17,748	18,083
TOTAL EXPENSE	30,568	27,774
PROFIT BEFORE TAX	42,018	50,028
Income tax equivalent expense	17,089	19,002
PROFIT AFTER TAX	24,929	31,026
OTHER COMPREHENSIVE INCOME		
Gain on revaluation of property, plant and equipment	5,897	43,376
Superannuation actuarial losses	(1,552)	(2,465)
Income tax expense on other comprehensive income	(1,304)	(12,329)
TOTAL OTHER COMPREHENSIVE INCOME	3,041	28,582
TOTAL COMPREHENSIVE INCOME	27,970	59,608

The increase in port revenue is largely due to growth in car and iron ore imports resulting from the improving economic climate.

The movement in rental income reflects the increase in the coal terminal lease revenue resulting from increasing throughput.

The drop in other income represents a lower valuation gain for investment properties.

Increase in employee benefits expense was mainly due to a larger long service leave expense as a result of a formal actuarial assessment.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	55,649	34,653
Non-current assets	392,881	377,739
TOTAL ASSETS	448,530	412,392
Current liabilities	24,861	18,773
Non-current liabilities	95,767	94,382
TOTAL LIABILITIES	120,628	113,155
NET ASSETS	327,902	299,237

The increase in current assets is primarily due to additional cash generated from profit.

Current liabilities increased due to movements in tax liabilities.

CORPORATION ACTIVITIES

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- operate at least as efficiently as any comparable businesses
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- exhibit a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate these when able to do so
- promote and facilitate trade through port facilities
- ensure port safety functions are carried out properly
- promote and facilitate a competitive commercial environment in port corporations
- improve productivity and efficiency in the ports and the port related supply chain.

For further information on the Corporation, refer to www.kemblaport.com.au.

Sydney Ports Corporation

AUDIT OPINION

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

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

KEY ISSUES

Recoverable Amount for Assets

I recommend the Corporation identify appropriate cash generating units within its business.

The Corporation annually assesses the recoverable amount of its assets to determine whether the carrying value of those assets needs to be impaired. This is done on the basis that the Corporation only has one cash generating unit within its business. My review of the Corporation's activities indicates there may be multiple cash generating units, which should be valued separately.

I understand the Corporation is in the process of developing a full business segmentation model for corporate planning purposes and once implemented it will reassess its cash generating units to ensure its approach complies with the accounting standards.

Lease Rental for Corporate Office

In August 2009, the Corporation relocated its corporate office, which was supported by a comparative cost benefit analysis. The analysis assumed the Corporation would be able to sublease the entire premises it was vacating at commercial rates for the remainder of the lease term, which expires on 31 October 2015.

Unfortunately, this has not eventuated largely as a result of the global financial crisis and the softening of the commercial property market. The comparative benefit analysis estimated the additional costs of the relocation at \$1.2 million. Despite the Corporation securing another sublease arrangement in April 2010, it has had to recognise additional costs of \$6.8 million, over the last two years.

The Corporation continues to explore opportunities to sublease the remainder of the premises.

PERFORMANCE INFORMATION

The Corporation provided the following information regarding its trade performance:

Trade Volumes

Year ended 30 June	Target*	Actual				
	2010	2010	2009	2008	2007	2006
Total container trade ('000 TEUs**)	1,709	1,928	1,784	1,778	1,620	1,445
Total trade*** ('000 mass tonnes)	27,900	28,200	27,800	29,200	27,800	26,700
Total chargeable vessel visits	1,920	1,940	2,275	2,583	2,564	2,596
Total chargeable vessel gross tonnage ('000)	58,800	61,000	67,700	77,400	74,000	72,000

Source: Sydney Ports Corporation (unaudited)

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

** TEU (20-foot equivalent unit) represents the cargo capacity of a standard shipping container

*** Including containerised and non-containerised cargo

The increase in container trade was mainly due to economic recovery following the global financial crisis.

The decrease in vessel visits and gross tonnages was due to the transfer of the car import trade to Port Kembla from 28 November 2008.

Financial Performance

Year ended 30 June	Target*	Actual				
	2010	2010	2009	2008	2007	2006
Return on average equity (%)	6.6	6.6	7.1	12.5	9.2	10.4
Return on average assets (%)	5.8	6.1	7.1	12.5	9.3	10.5
Interest cover (times)	3.0	2.8	7.5	11.5	8.6	13.2
Debt to equity ratio (%)	71.4	64.8	41.1	21.3	25.4	27.0
Dividend to Government (\$m)	--	--	--	20.2	29.0	22.2

Source: Sydney Ports Corporation (unaudited).

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

The decrease in return on average assets was mainly due to the increase in the value of total assets resulting from the Port Botany Expansion.

The decrease in interest cover and the increase in the debt to equity ratio, was due to an increase in borrowings to fund the Port Botany Expansion. Management advised that due to funding requirements for major projects, no dividend was included in the Statement of Corporate Intent.

OTHER INFORMATION

Human Resources

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

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies.

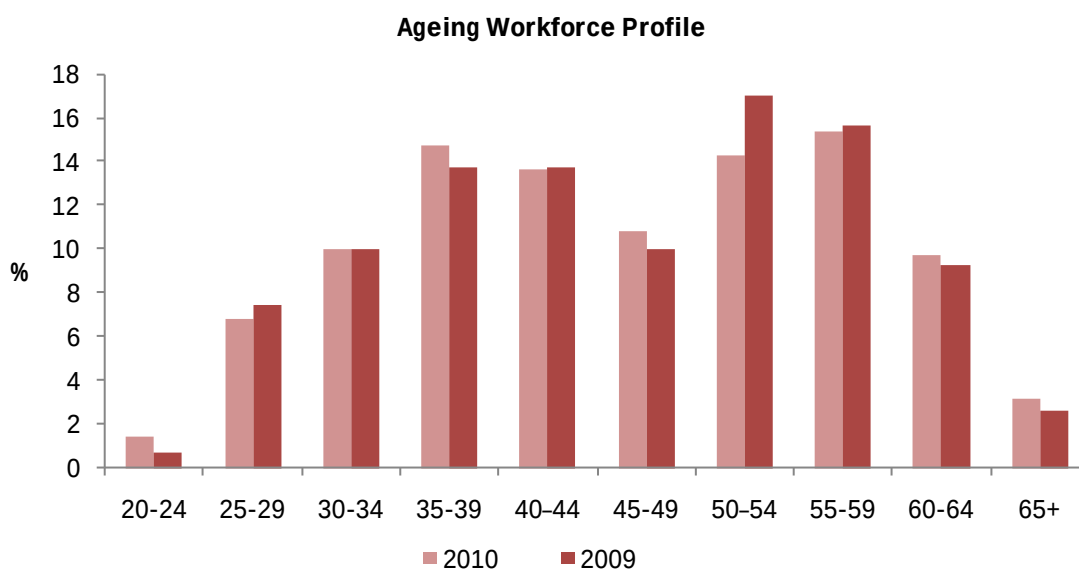
A summary of the results of my review follows.

Workforce Ageing

I recommend the Corporation review the effectiveness of its policies in managing its ageing workforce.

The Corporation is facing challenges from the potential loss of knowledge and skills as retiring staff leave the organisation. This is supported by the following statistics:

- 28.3 per cent of the Corporation's employees are aged 55 years and over
- 42.6 per cent are aged 50 years and over.



The age profile of the Corporation's employees shown below:

At 30 June Age Group	2010		2009	
	No. of Staff (FTE)*	%	No. of Staff (FTE)*	%
20 – 49	160	57.4	150	55.6
50 – 54	40	14.3	46	17.0
55 – 59	43	15.4	42	15.5
60 – 64	27	9.7	25	9.3
65+	9	3.2	7	2.6
Total	279	100	270	100

* Full Time Equivalent (FTE).

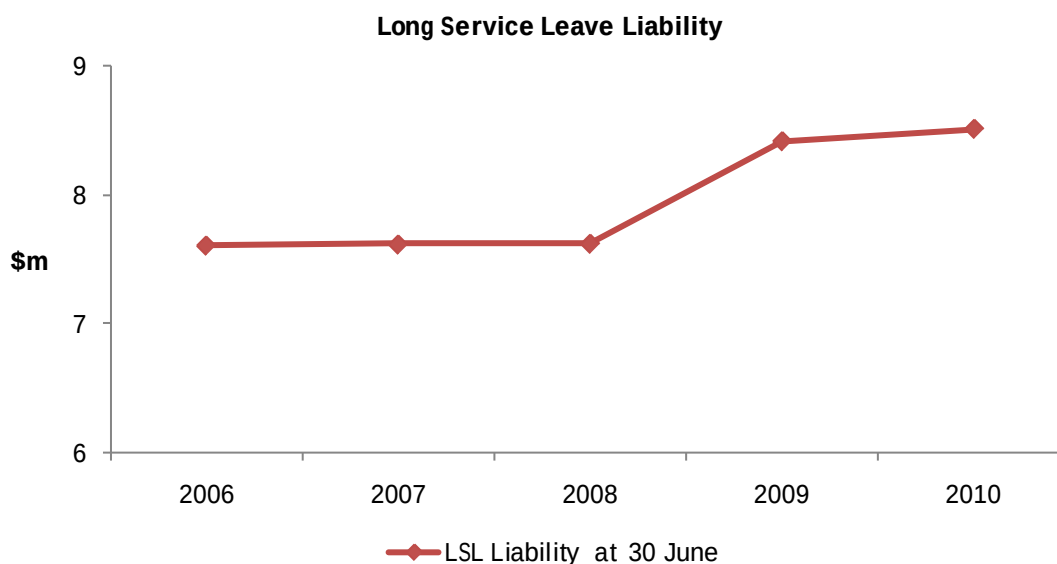
Source: Sydney Ports Corporation (unaudited).

To ensure sufficient, appropriately skilled and experienced staff in the future, the Corporation should actively monitor its workforce age profile and develop and implement strategies to attract and retain staff whose skills are aligned with the strategic direction of the Corporation.

Management advised that it is cognisant of the potential loss of knowledge and skills as retiring staff leave the Corporation. The Corporation constantly evaluates its workforce to ensure appropriate succession planning, skills and experience meets the specialised needs of the business.

Long Service Leave Liability

Long service leave liabilities increased by 11.6 per cent over the past three years to \$8.5 million in 2009-10 (\$8.4 million in 2008-09).



The increase largely resulted from the impact of a reduced Government bond rate used to discount the liability to present value and increases in rates of pay.

Although the Corporation has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities as they fall due. This will be compounded as other liabilities arise from the retirement of a significant portion of the ageing workforce.

Annual Leave Balances

I recommend the Corporation continues with its individual staff plans to reduce excessive annual leave balances within an acceptable timeframe.

Of its total workforce of 279 people, 58 (20.8 per cent) had annual leave balances in excess of 40 days. Annual leave liabilities generally increases as staff remuneration levels increase over time workforce health may decline if employees are not taking sufficient breaks from work.

The Corporation continues to apply the measures it implemented to reduce leave balances. These have resulted in the number of staff with balances exceeding 40 days decreasing by a further nine employees this year.

Port Botany Expansion

The Port Botany Expansion is a \$725 million project in progress to commence operation in 2013.

Management advised that the expansion will:

- contribute a substantial net return to New South Wales economy over the next 30 years, an estimate of the net return has not been made available to me
- provide five additional shipping berths with extra 1.6 million TEUs
- create approximately 9,000 new direct and indirect jobs by 2025
- provide additional rail sidings with rail access to the new terminal area
- provide over \$30.0 million in community facilities including Penrhyn Estuary rehabilitation, foreshore beach enhancement, a public boat ramp and a pedestrian rail overpass.

Passenger Terminal

The Corporation expects to receive reimbursement from Barangaroo Delivery Authority for the cost of relocating its passenger terminal to White Bay. It has not recognised a receivable yet as construction of the terminal has not commenced, and although the plan to construct the terminal has been approved, the Corporation is unable to reliably measure the value of the receivable asset.

Major Projects

The table below provides the completion dates and costs for the Corporation's projects over \$20.0 million.

Year ended 30 June 2010	Initial Estimated Completion Date	Forecast Completion Date	Initial Project Estimate* \$m	Cost to 30 June 2010 \$m	Forecast Final Cost \$m	Forecast Variance \$m
Port Botany Expansion	July 2011	July 2011	725.5	497.5	725.5	--
Intermodal Logistics Centre at Enfield	June 2011	June 2012	under tender	66.5	na	na
Second Bulk Liquids Berth	August 2011	February 2013	under tender	3.1	na	na

Source: Sydney Ports Corporation (unaudited).

* The initial project estimates approved by the Budget Cabinet Committee and Board of Directors

na: not applicable

Management advised the project delays were mainly due to the need to address unplanned technical and design issues.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Corporation	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Port revenue	137,477	127,598	128,247	117,387
Rental revenue	49,287	49,038	49,440	49,219
Other	33,410	32,879	34,844	34,679
TOTAL REVENUE	220,174	209,515	212,531	201,285
Employee benefits expense	38,651	36,234	32,313	29,509
Depreciation and amortisation expense	19,283	18,098	18,998	17,718
Other expenses	62,604	63,538	59,846	61,343
Finance costs	14,489	10,613	14,489	10,613
TOTAL EXPENSES	135,027	128,483	125,646	119,183
PROFIT BEFORE TAX	85,147	81,032	86,885	82,102
Income tax equivalent expense	26,018	24,057	26,539	24,409
PROFIT AFTER TAX	59,129	56,957	60,346	57,693
OTHER COMPREHENSIVE INCOME/ (EXPENSE)				
Superannuation actuarial losses	(5,293)	(15,213)	(5,293)	(15,213)
Gain on revaluation of property, plant and equipment	42,584	14,355	42,584	14,355
Fair value losses on derivatives	(6,543)	(17,866)	(6,543)	(17,866)
Income tax expense/(benefit) on items of other comprehensive income	(9,274)	5,804	(9,274)	5,804
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	21,474	(12,920)	21,474	(12,920)
TOTAL COMPREHENSIVE INCOME	80,603	44,037	81,820	44,773

The increase in port revenue is predominantly due to the recovery in container trade following the global financial crisis.

Finance costs increased mainly due to higher level of New South Wales Government guarantee fee.

Abridged Statements of Financial Position

At 30 June	Consolidated		Corporation	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	274,167	148,363	273,041	146,104
Non-current assets	1,535,691	1,302,885	1,534,113	1,301,154
TOTAL ASSETS	1,809,858	1,451,248	1,807,154	1,447,258
Current liabilities	80,664	78,105	79,008	76,293
Non-current liabilities	798,584	523,136	798,348	522,987
TOTAL LIABILITIES	879,248	601,241	877,356	599,280
NET ASSETS	930,610	850,007	929,798	847,978

The increase in current assets represents an improved cash balance from receipt of \$97.0 million sale proceeds for Barangaroo site from another agency.

The Port Botany Expansion project increased the non-current assets whilst the borrowing to fund this project increased the non-current liabilities.

CORPORATION ACTIVITIES

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- operate at least as efficiently as any comparable businesses
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- exhibit a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate these when able to do so
- promote and facilitate trade through port facilities
- ensure port safety functions are carried out properly
- promote and facilitate a competitive commercial environment in port operations
- improve productivity and efficiency in its ports and the port related supply chain.

For further information on the Corporation, refer to www.sydneyports.com.au.

CONTROLLED ENTITY**Voluntary Winding up of Controlled Entity**

The Board of Directors and shareholders resolved the controlled entity, Sydney Pilot Service Pty Ltd, cease operations on 31 August 2010. It transferred its business to the Corporation on 1 September 2010. The Directors propose to wind up the entity in 2010-11.

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

Entity Name	Website
Sydney Pilot Service Pty Ltd	*

* This entity does not have a website.

Appendices

Appendix 1
Agencies not reported elsewhere in this Volume

Appendix 2
Financial Statements Not Received by Statutory Date
(at 23 November 2010)

Appendix 3
Financial Statements Received but Audit Incomplete by Statutory Date
(at 23 November 2010)

Appendix 4
Qualified Independent Auditor's Reports Issued

Appendix 1 - Agencies not reported elsewhere in this Volume

The following audit resulted in an unqualified Independent Auditor's Report and did not identify any significant issues or risks.

Entity Name	Website	Period/Year Ended
Compensation Authorities Staff Division	*	30 June 2010

* This entity does not have a website

Appendix 2 - Financial Statements Not Received by Statutory Date (at 23 November 2010)

Entity Name	Period/Year Ended	Financial Statement Due Date	Financial Statement Date Received
Chiropractors Registration Board	30 June 2010	11 August 2010	08 September 2010
Dental Board of New South Wales	30 June 2010	11 August 2010	17 November 2010
Dental Technicians Registration Board	30 June 2010	11 August 2010	07 September 2010
New South Wales Medical Board	30 June 2010	11 August 2010	07 September 2010
NSW Vocational Education and Training Accreditation Board	30 June 2010	11 September 2010	Not yet received
Nurses and Midwives Board	30 June 2010	11 August 2010	15 September 2010
Optical Dispensers Licensing Board	30 June 2010	11 August 2010	07 September 2010
Optometrists Registration Board	30 June 2010	11 August 2010	09 September 2010
Osteopaths Registration Board	30 June 2010	11 August 2010	08 September 2010
Pacific Power (Subsidiary No. 1) Pty Limited	30 June 2010	11 August 2010	22 September 2010
Pharmacy Board of New South Wales	30 June 2010	11 August 2010	22 November 2010
Physiotherapists Registration Board	30 June 2010	11 August 2010	09 September 2010
Podiatrists Registration Board	30 June 2010	11 August 2010	08 September 2010
Psychologists Registration Board	30 June 2010	11 August 2010	09 September 2010
Residual Business Management Corporation	30 June 2010	11 August 2010	10 September 2010

Appendix 3 - Financial Statements Received but Audit Incomplete by Statutory Date (at 23 November 2010)

The *Public Finance and Audit Act 1983* requires that we issue an audit opinion within ten weeks of receiving an agency's financial statement. The Act also states that we cannot issue our opinion until the agency has signed its financial statement.

Albury Base Hospital

The audit was completed on 21 October 2010.

Albury Wodonga Health Special Purpose Service Entity

The audit was completed on 21 October 2010.

Anzac Health and Medical Research Foundation and ANZAC Health and Medical Research Foundation - Trust Fund

The audits were completed on 29 October 2010.

Bureau of Health Information and Bureau of Health Information Special Purpose Service Entity

The audits were completed on 29 October 2010.

Clinical Excellence Commission and Clinical Excellence Special Purpose Service Entity

The audits were completed on 20 October 2010.

Compensation Authorities Staff Division

The audit was completed on 19 November 2010.

Corporation Sole 'Minister Administering the *Environmental Planning and Assessment Act, 1979*'

The financial statement submitted to us contained a number of misstatements and this delayed the audit process. We anticipate the audit will be completed shortly.

Crown Entity

The audit was completed on 21 October 2010.

Department of Health

The audit was completed on 13 October 2010.

Forestry Commission of New South Wales (trading as Forests NSW)

The audit was completed on 18 October 2010.

Graythwaite Trust

The audit for the year ended 30 June 2010 is incomplete. The audit has been delayed due to a number of significant accounting matters. We anticipate that the audit will be completed shortly.

Health Administration Corporation and Health Administration Corporation Special Purpose Service Entity

The audits were completed on 22 October 2010.

Health Professional Registration Boards

The audits of the following abolished entities for the year ended 30 June 2010 are incomplete:

- Chiropractors Registration Board
- Dental Board of New South Wales
- Dental Technicians Registration Board
- New South Wales Medical Board
- Nurses and Midwives Board
- Optical Dispensers Licensing Board
- Optometrists Registration Board
- Osteopaths Registration Board
- Pharmacy Board of New South Wales
- Physiotherapists Registration Board
- Podiatrists Registration Board
- Psychologists Registration Board

The financial reporting and audit processes have been delayed as a result of changes arising from the abolition of the entities and transition to a national scheme of registration. We anticipate the audit will be completed shortly.

John Williams Memorial Charitable Trust

This is a first time audit engagement and the audit for the year ended 30 June 2010 is incomplete. The audit has been delayed due to a number of significant accounting matters. We anticipate that the audit will be completed shortly.

Justice Health and Justice Health Special Purpose Service Entity

The audits were completed on 12 November 2010.

Land and Property Management Authority

The audit was completed on 27 October 2010.

Landcom

The audit was completed on 26 October 2010.

Mine Subsidence Board.

The audit was completed on 8 November 2010.

New South Wales Institute of Psychiatry

The audit for the year ended 30 June 2010 is incomplete. The audit has been delayed due to a significant accounting matter. We anticipate that the audit will be completed shortly.

NSW Health Foundation

The audit was completed on 16 November 2010.

Pacific Power (Subsidiary No. 1) Pty Limited

The audit for the year ended 30 June 2010 was delayed by the late submission of the financial statements. We anticipate that the audit will be complete shortly.

Pacific Solar Pty Limited

The audit for the year ended 30 June 2010 is incomplete and was delayed by discussion of accounting and disclosure issues with the Company. We anticipate that the audit will be complete shortly.

Residual Business Management Corporation

The audit for the year ended 30 June 2010 was delayed by the late submission of the financial statements. We anticipate that the audit will be complete shortly.

South Eastern Sydney and Illawarra Area Health Service and South Eastern Sydney Illawarra Area Health Service Special Purpose Service Entity

The audits were completed on 5 October 2010.

Sydney South West Area Health Service and Sydney South West Area Health Service Special Purpose Service Entity

The audits were completed on 4 November 2010.

Sydney West Area Health Service and Sydney West Area Health Service Special Purpose Service Entity

The audits were completed on 7 October 2010.

The Department of Industry And Investment

The audit was completed on 26 October 2010.

NSW Vocational Education and Training Accreditation Board

The audit for the year ended 30 June 2009 has been delayed due to reconciliation problems. We anticipate that the audit will be completed shortly.

Waste Recycling and Processing Corporation

The audit for the year ended 30 June 2010 is incomplete. The audit has been delayed due to a number of significant accounting matters. We anticipate that the audit will be completed shortly.

Water Administration Ministerial Corporation

The audit has been delayed due to a number of significant valuation matters. We anticipate that the audit will be completed shortly.

Workers Compensation Commission

The audit was completed on 18 November 2010.

WorkCover Authority

The audit was completed on 18 November 2010.

Appendix 4 - Qualified Independent Auditor's Reports Issued

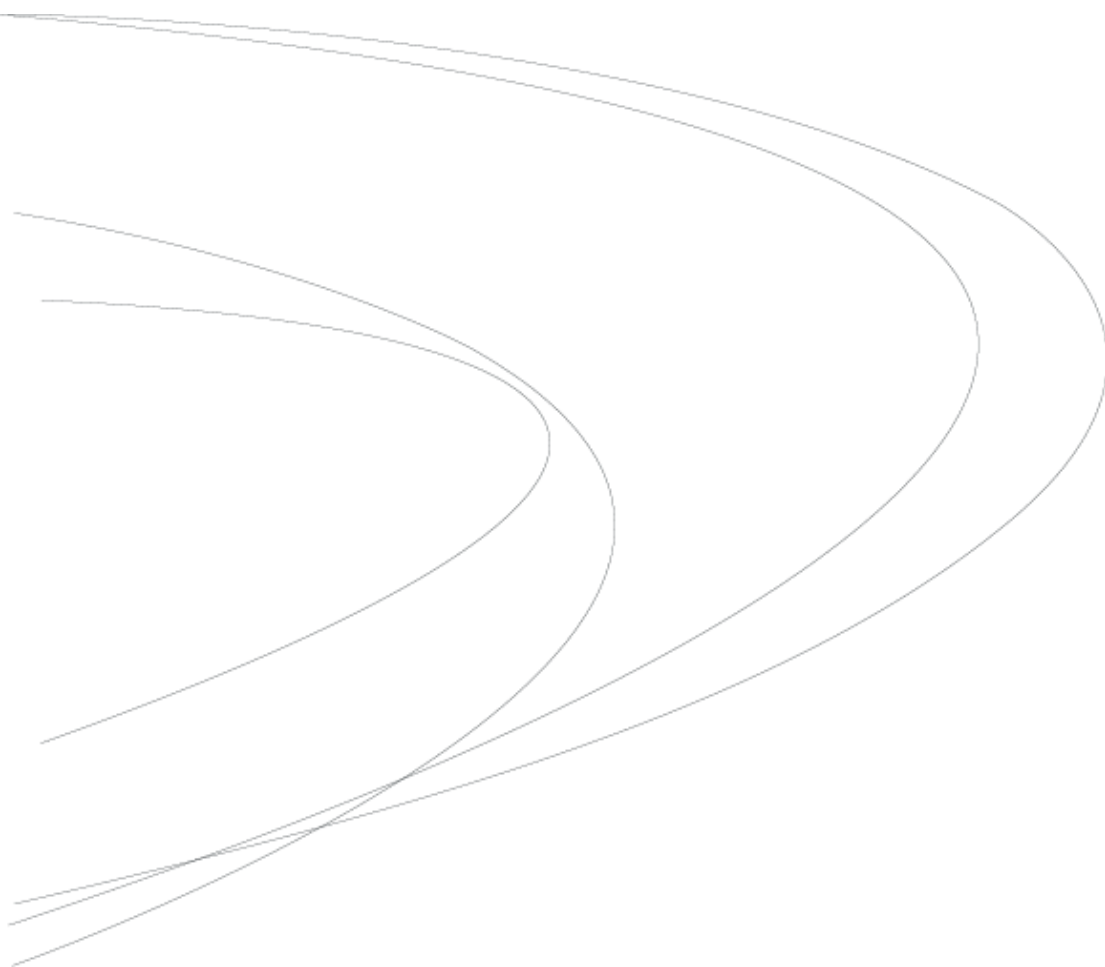
From 9 December 2009 to 11 November 2010 the Audit Office issued 28 qualified Independent Auditor's Reports (24 in the preceding period).

Organisation	Financial Statements Period Ended	Reason for Qualification
ANZAC Health and Medical Research Foundation - Trust Fund	30.06.2009 30.06.2010	It is impractical for the Trust Fund to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry in the financial records. I am therefore unable to express an opinion on whether the Trust Fund has recorded all revenue received from voluntary contributions in its financial records.
Australian School of European Aviation (JAA) Pty Ltd	31.12.2008	I am unable to obtain sufficient appropriate audit evidence to form an opinion on the opening balances and therefore the results of operations and cash flows for the year ended 31 December 2008.
International School of European Aviation Pty Ltd (previously Australian School of European Aviation Pty Ltd)	31.12.2009	Because I am unable to obtain sufficient appropriate audit evidence to form an opinion on the results of operations and cash flows for the year ended 31 December 2008, I am also unable to form an opinion on the comparative information for this year.
Centennial Parklands Foundation	30.06.2010	It is impractical for the Foundation to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry in the financial records. I am therefore unable to express an opinion on whether the Foundation has recorded all revenue received from voluntary contributions in its financial records.
Charles Stuart University Foundation Trust	31.12.2009	It is impractical for the Trust to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry in the financial records. I am therefore unable to express an opinion on whether the Trust has recorded all revenue received from voluntary contributions in its financial records.
Crown Entity	30.06.2010	I am unable to substantiate the value of Crown Reserves reported in comparative information. The Crown Reserves were transferred to the Land and Property Management Authority during the current financial period.
Gosford Water Supply Authority	30.06.2009	Many of the Authority's investments are not widely traded and do not have market values that are independently quoted. I am unable to obtain sufficient appropriate evidence to support the fair value and recoverability of the Authority's investment portfolio.
Greyhound and Harness Regulatory Authority	30.06.2009	The Authority was abolished on 1 July 2009. I am unable to obtain sufficient appropriate audit evidence to form an opinion on receipts, payments and property, plant and equipment.

Organisation	Financial Statements Period Ended	Reason for Qualification
International Film School Sydney Pty Limited	31.12.2008	I am unable to obtain sufficient appropriate audit evidence to form an opinion on the opening balances and therefore the results of operations and cash flows for the year ended 31 December 2008. Comparative information has not been disclosed in the financial report for the comparative period 31 December 2007.
	31.12.2009	Because I am unable to obtain sufficient appropriate audit evidence to form an opinion on the results of operations and cash flows for the year ended 31 December 2008, I am unable to form an opinion on the comparative information for this year.
Land and Property Management Authority	30.06.2010	I am unable to form an opinion on the value of Crown Reserves controlled by the Authority, buildings and infrastructure on those reserves, and coastal infrastructure.
Murrumbidgee River Reach Project	30.06.2009	I am unable to obtain sufficient appropriate audit evidence to form an opinion on Recipient Contributions and Recipient Expenses and Other Contributions and Other Contributors' Expenses.
NSW Self Insurance Corporation (SICorp)	30.06.2009	In accounting for its general insurance contracts, the Corporation applied the incorrect accounting standard. As a result, the Corporation materially understated its liabilities and failed to disclose some required information about these insurance contracts.
	30.06.2010	
Royal Alexandra Hospital for Children	30.06.2010	It is impractical for the Hospital to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry in the financial records. I am therefore unable to express an opinion on whether the Hospital has recorded all revenue received from voluntary contributions in its financial records.
Sydney Water Corporation	30.06.2010	The Corporation incorrectly accounted for contractual arrangements concerning four water filtration plants. As a result, the Corporation materially understated its liabilities.
Total State Sector Accounts	30.06.2010	I am unable to form an opinion on the value of Crown Reserves controlled by the State or the infrastructure on those reserves.
Treasury Managed Fund	30.06.2010	In accounting for its general insurance contracts, the Fund applied the incorrect accounting standard. As a result, the Fund materially understated its liabilities and also failed to disclose some required information about these insurance contracts.
UNE Foundation	31.12.2009	It is impractical for the Foundation to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry in the financial records. I am therefore unable to express an opinion on whether the Foundation has recorded all revenue received from voluntary contributions in its financial records.

Organisation	Financial Statements Period Ended	Reason for Qualification
University of Western Sydney Foundation Trust	31.12.2009	It is impractical for the Trust to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry in the financial records. I am therefore unable to express an opinion on whether the Trust has recorded all revenue received from voluntary contributions in its financial records.
UNSW Foundation Trust	31.12.2009	It is impractical for the Trust to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry in the financial records. I am therefore unable to express an opinion on whether the Trust has recorded all revenue received from voluntary contributions in its financial records.
UNSW Hong Kong Foundation Limited	31.12.2009	It is impractical for the Foundation to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry in the financial records. I am therefore unable to express an opinion on whether the Foundation has recorded all revenue received from voluntary contributions in its financial records.
UNSW & Study Abroad - Friends and US Alumni Inc.	31.12.2009	It is impractical for the Company to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry in the financial records. I am therefore unable to express an opinion on whether the Company has recorded all revenue received from voluntary contributions in its financial records.
UON Foundation Trust	31.12.2009	It is impractical for the Trust to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry in the financial records. I am therefore unable to express an opinion on whether the Trust has recorded all revenue received from voluntary contributions in its financial records.
Waste Recycling and Processing Corporation	30.06.2008 30.06.2009	The Corporation has not developed financial and non-financial comparators against which to assess the efficiency of their performance, as required by the <i>Waste Recycling and Processing Corporation Act 2001</i> . As such, I am unable to obtain sufficient appropriate audit evidence to form an opinion on whether the Corporation operated as efficiently as any comparable businesses for the years ended 30 June 2008 and 30 June 2009.
Whitlam Institute within the University of Western Sydney Trust	31.12.2009	It is impractical for the Trust to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry in the financial records. I am therefore unable to express an opinion on whether the Trust has recorded all revenue from voluntary contributions in its financial records.

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