

AUDITOR-GENERAL'S REPORT

FINANCIAL AUDITS

Volume Four 2005



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 2005 Report.

R J Sendt
Auditor-General

November 2005

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 includes special reviews, Two comments on financial audits of government agencies and Three summarises recently published performance audits.

Section Two 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 audit opinion' 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 errors and the scope of our audit has not been limited. If any of these aspects are not met we issue a 'qualified audit opinion' and explain why we did this.

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

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

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

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

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

Control Issues outline any shortcomings we have observed in the agency's internal checking mechanisms. These mechanisms should exist to ensure the effective safeguard of assets and resources.

Compliance Issues summarise whether the agency has complied with selected legislation and other relevant government requirements.

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 summarise the agency's purpose, services, structure, relevant legislation, and its web address.

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

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

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Section One



Privately Financed Projects - Contract Summaries

Privately Financed Projects - Contract Summaries

BACKGROUND

Privately financed projects (PFPs), such as the Cross City Tunnel, involve creating an asset through private sector financing and ownership for a concession period. The Government contributes through aspects such as land, associated capital works, risk sharing, revenue diversion or purchase of agreed services.

Details of recent and proposed Privately Funded Projects are available on the Treasury website at www.treasury.nsw.gov.au/wwg/projects.htm. Projects for which contracts have been recently awarded (and contract summaries are being prepared) or which are yet to be awarded are:

- Newcastle Community Health Centre
- Chatswood Transport Interchange
- Police Property Portfolio
- New Schools Project 2
- Bonnyrigg Living Communities Project (Social Housing)
- Replacement of RailCorp's Electric Passenger Rollingstock
- Long Bay Prison and Forensic Hospitals
- Newcastle Mater Hospital Redevelopment
- Newcastle Multi-Purpose Terminal.

In November 2001, the Government issued "Working with Government: Guidelines for Privately Financed Projects". The Guidelines are designed to "provide a framework that enables both sectors to work together to improve public service delivery through private sector provision of infrastructure and related non-core services".

PFPs typically involve complex and voluminous contractual documents that may not be readily accessible and may be difficult to analyse and interpret.

Because of this, the Guidelines require the relevant government agency to prepare a contract summary for all projects designated as PFPs. There is a standing request from the Treasurer to the Audit Office, asking us to check each summary against the source contracts, deeds, etc and report whether the summary complies with the disclosure requirements of the Guidelines.

Under the Guidelines, the relevant Minister is then required to table the contract summary in Parliament.

KEY AREAS OF CONCERN

Over the course of the contract summaries we have reviewed, we have noted a number of concerns. Given the public interest in PFPs, we believe that disclosure processes need to be improved, as indicated below.

Unclear Status of the Guidelines

While titled "guidelines", the language used strongly suggests that the Government intends them to be seen as mandatory requirements. However the Guidelines were not issued as a Premier's Memorandum and they have no legislative basis. Occasionally, agencies have indicated to us that they do not see themselves as bound by all aspects of the Guidelines.

Format of the Contract Summaries

The contract summaries we have reviewed have been highly individualised, with varying structures and degrees of supporting information. This variation may lessen their effectiveness in informing Parliament and the public.

In April this year we wrote to the then Premier suggesting that there be a standard template for contract summaries. This would assist those who prepare contract summaries by providing them with a framework for organising the information. It would also assist parliamentary and other readers by standardising the contents, layout and presentation of information.

Tabling of the Audit Office Report

There is no clear requirement in the Guidelines for the Minister to table the Audit Office report of its findings with the contract summary. If there were any negative findings in the Audit Office report, it is important that Parliament be advised at the same time it receives the summary. While we have the ability to include advice of any negative findings in a subsequent report to Parliament, this may involve a delay of some months.

Late Tabling of the Contract Summaries

Ministers have generally failed to table the contract summary within the required 120 days of the contract being signed. For recent projects, relevant dates are as follows:

Project	Date Contract Signed	Date Audit Report Signed	Date Contract Summary Tabled by Minister
Cross City Tunnel	18 December 2002	30 June 2003	19 February 2004
New Schools PFP	13 December 2002	15 August 2003	30 March 2004
Westlink M7 Motorway	13 February 2003	26 August 2003	19 February 2004
Eastern Creek Alternative Waste Technology Facility	11 March 2003	4 December 2003	24 February 2004
Lane Cove Tunnel	4 December 2003	2 July 2004	31 August 2004

Tabling may be delayed for reasons that are outside the control of Ministers. These include:

- delays by the agency in completing the summary
- delays by the Audit Office in completing its review
- some doubt as to Ministers' ability to table the summaries when Parliament is not sitting. This stems from the non-statutory basis for the tabling (ie it is a governmental, rather than legislative requirement) and hence the lack of any legislative provision that would allow for summaries to be deemed to be tabled on non-sitting days.

Except for the last reason, Ministers should have tabled most of the contract summaries significantly earlier than dates shown.

Amendments to PFP Contracts

As the Cross City Tunnel has demonstrated, changes to PFPs can occur after the initial contracts are entered into, and after the contract summary is tabled in Parliament. If these changes are significant, parliamentary and other readers may be relying on a summary that is no longer accurate.

RECOMMENDATIONS

The Government should:

- make it clear to all Ministers and agencies that the Guidelines are mandatory
- introduce a standard template for contract summaries
- introduce legislation to:
 - o cover key aspects of the Guidelines, particularly those relating to contract summaries and other disclosures
 - o require Ministers to table the Audit Office review of a PFP contract summary at the same time they table the summary in Parliament
 - o require the timely tabling of contract summaries, preferably within 30 days of the Audit Office report being signed
 - o clarify the ability of Ministers to table contract summaries if Parliament is not sitting
 - o require Ministers to table revised contract summaries in Parliament if any significant changes take place. This revised summary should also be subject to review by the Audit Office before tabling.

AUDIT OFFICE REVIEWS OF PFPS

Apart from reviewing new PFP contract summaries as they are completed, the Audit Office can also review aspects of PFPS under our performance audit mandate. In June 2005, we announced that we would be examining the Cross City Tunnel and New Schools PFPS as part of our 2005-06 performance audit program.

Our performance audit on the Cross City Tunnel, which has just commenced, is likely to examine three specific aspects:

- the appropriateness of the arrangements surrounding the upfront payment of some \$96 million to the RTA by the successful consortium
- the robustness of the RTA's decision-making processes as to road closures
- the circumstances surrounding the amendments to the contract in December 2004.

We expect to present this report to Parliament in mid 2006.

Section Two



Special Reviews

Compliance Review of Appointment to and the Operations of Boards
Compliance Review of Salary Packaging for Graded Officers

Compliance Review of Salary Packaging for Graded Officers

Most employees may 'package' their salary and take part of their remuneration as non-cash benefits

The employer becomes liable under Fringe Benefits Tax (FBT) legislation for any tax on the benefits the employees receive in lieu of cash salary. The cash portion is subject to Income Tax.

We reviewed the policy and practices of 19 agencies to verify compliance with Premier's Department requirements.

CONCLUSION

The majority of agencies reviewed have satisfactorily implemented the Premier's Department policy on non-SES salary packaging. However, some departments do have matters to be resolved.

KEY FINDING

Two agencies are using service providers not approved under the Government Contract (Contract 6036).

RECOMMENDATIONS

Public sector agencies not included in this review should ensure that their salary packaging arrangements comply with Premier's Department policy.

DETAILED FINDINGS

Delay in Implementation

The Department of Energy, Utilities and Sustainability commenced salary packaging for non-SES employees in February 2005. This was more than two years after the Premier's Department policy on packaging was announced. The Department explained that the delay was because there was no demand from staff for salary packaging.

A small number of employees have since commenced packaging.

Department of Community Services

At the time of this audit over four hundred non-SES employees of the Department of Community Services had taken the opportunity to package their salaries. The Government contractor (a private sector company) manages all aspects of packaging for the department.

The audit highlighted a number of issues, including:

- some advices of payroll deductions supplied by the contractor were not found. Further, the deduction advices do not tell the Department when deductions from employee salaries are to cease
- some compliance verification documents supplied by managers of private superannuation funds were not found

- there is no process in place to advise the contractor that the employee's pay is to be reduced because of leave without pay, worker's compensation or conversion to part-time work
- the Department's policy on salary packaging does not limit the employee to one motor vehicle (as required by the Premier's Department policy) nor contain guidance on the preparation of reconciliations for Fringe Benefits Tax purposes
- deeds of novation from employees having a packaged motor vehicle have not been retained on file.

Responsibility for Monitoring Packaging Arrangements

The policy contains restrictions on the type of benefits that employees can package. We noted that neither the Premier's Department, nor its corporate service provider, are monitoring the packaging arrangements. Each agency was under the impression that the other was responsible for this.

Fringe Benefit Tax Reconciliations

The Government contract requires that reconciliations be undertaken between the amount of Fringe Benefits Tax provided for by the employee and the amount actually incurred by each employee. Presumably the intention is for the reconciliations to be performed to enable each Department to meet its FBT obligations. At the time of this review in late July at the Department of Commerce, 80 per cent of reconciliations had not been completed.

Use of Non-Approved Contractor

Both the Public Trustee and the South Eastern and Illawarra Area Health Service use a service provider other than the approved contractor. See comments under the following heading in regard to Area Health Services generally.

GENERAL MATTER

Area Health Services

We noted that the salary packaging arrangements at the South Eastern and Illawarra Area Health Service follow guidelines issued by the Department of Health. These guidelines differ from those applicable to other Departments and were agreed with the Premier's Department in October 2001.

BACKGROUND

Salary packaging for non-SES employees came into effect for New South Wales government departments, agencies and other authorised users of Department of Commerce contracts from 1 January 2003.

Benefits that may be packaged are:

- superannuation
- motor vehicle (novated lease for 100% private use only)
- housing - remote areas only
- child care (on employer's premises only)
- priority of access fee for child care
- professional subscriptions
- taxi expenses
- bus/rail ticket loans
- education (self/professional)
- laptops, e-organisers and briefcases

Packaging is eligible to the following employees of the NSW public service:

- permanent officers including permanent part-time officers
- temporary employees where appropriate and subject to department/agency convenience
- employees covered by the *Crown Employees Wages Staff (Rates of Pay) Award 2002*.

Agencies had the choice of either administering salary packaging in-house (provided it is cost-neutral to the agency) or using one of the two successful contractors that had been approved by the State Contracts Control Board. In mid 2003, however, one contractor withdrew from the contract, leaving agencies with only the one contractor to use.

The contract was approved to commence from 1 January 2003 and is operative for a period of three years up to 31 December 2005, with an option to extend for a further twelve-month period.

The agencies in the review were:

Department of Commerce	NSW Maritime Authority
Department of Community Services	NSW Rural Fire Service
Department of Energy, Utilities and Sustainability	NSW Treasury
Department of Gaming and Racing	Premier's Department
Department of Health	Public Trustee
Department of Juvenile Justice	Roads and Traffic Authority
Department of Primary Industries	Royal Botanic Gardens and Domain Trust
Department of State and Regional Development	South Eastern and Illawarra Area Health Service
Ministry of Transport	State Transit Authority
NSW Fire Brigades	

COMPLIANCE REQUIREMENTS

Public Service agencies are required to comply with Premier's Department Circular No. 2002-61 'Salary Packaging for Non-SES Employees' and State Procurement Contract 6036 - Flexible Salary Packaging for non-SES Public Sector Employees.

PREMIER'S DEPARTMENT RESPONSE

The Premier's Department approved the implementation of different salary packaging guidelines for Area Health Services in 2001 because these agencies are entitled to Fringe Benefits Tax (FBT) exemptions given their status as Public Benevolent Institutions.

In relation to comments concerning the Department of Community Services (DOCS), the Premier's Department sought advice from DOCS' corporate services provider. The advice indicates that many of the issues raised have been addressed or will be addressed following the implementation of new payroll software or improved administrative processes. Premier's Department will continue to liaise with the provider to ensure that appropriate administrative procedures are in place.

The Report also raised some broader issues concerning the implementation of the salary packaging policy and guidelines by agencies. The Premier's Department intends to issue a Circular to ensure that all eligible agencies are aware of the principles of the policy including those applying to the packaging of motor vehicles. The Circular will also remind agencies that they must use the approved salary packaging provider if they outsource their salary packaging arrangements.

In relation to FBT reconciliation issues, the contractor has advised that it established a free reconciliation service for employers in 2004. Where employers provide data on the amount of FBT collected, the contractor will reconcile this with the actual FBT liability. It would be appropriate to provide this information in the proposed Circular as the contractor advises that not many employers are using the service.

The Department intends to discuss the comments made about monitoring the policy with the Government contractor, corporate service providers and central agencies.

Compliance Review of Appointment to and the Operations of Boards

People appointed to the boards of Government organisations should observe standards of behaviour, be ethical in their decision-making and be accountable to the Parliament and citizens of New South Wales. The process of appointing these people should be able to withstand similar scrutiny.

We reviewed the policy and practices of 19 State-owned corporations (SOCs) and statutory authorities to verify their compliance with relevant legislative requirements and Premier's Memoranda.

CONCLUSION

We found that overall, boards substantially complied with requirements, but some have aspects of their operations that can be improved.

KEY FINDINGS

- SOC boards largely complied with relevant legislation. Some delays occur in the finalisation of their annual statements of corporate intent.
- The common area of non-compliance by statutory authority boards are:
 - members not signing their agreement to a code of conduct
 - that code not reflecting all requirements of Premier's Memoranda
 - a lack of policy and/or register of gifts or benefits
 - details of member disclosures not sent to the Minister.

RECOMMENDATIONS

We recommend that Premier's Department encourage the boards of individual agencies to develop a checklist so that they can review annually their compliance with legislation and Premier's Memoranda.

DETAILED FINDINGS

State Owned Corporations

We found that the boards of the SOCs generally complied with legislation. While there were no issues to report in five of the corporations, some did arise in the other two. They are:

<p>Sydney Water Corporation</p>	<ul style="list-style-type: none"> ▪ The appointment of directors to the Sydney Water Corporation Board is the responsibility of the voting shareholders. Legislation requires that there be ten board members. A vacancy has existed on the board since 2004. ▪ The Statement of Corporate Intent (SCI) is required to be completed by 30 September each year. In order to achieve the objective of the SCI process, full agreement was obtained from NSW Treasury, the shareholders' agents, to allow the 2004-05 SCI to be completed so as to incorporate the outcomes of Sydney Water's pricing submission to the Independent Pricing and Regulatory Tribunal and the 2004 Metropolitan Water Plan. This resulted in the 2004-05 SCI being finalised on 23 November 2004.
<p>Transport Infrastructure Development Corporation</p>	<ul style="list-style-type: none"> ▪ The Corporation's SCI for 2004-05 was not finalised by 30 September 2004 or before the end of the 2004-05 financial year. This is attributed to 2004-05 being the Corporation's first full year of operation. ▪ As the Corporation's half yearly report of operation requires information from the SCI, the report could not be prepared by 31 January 2005.

Statutory Authorities

We found that three agencies (Film and Television Office, Historic Houses Trust and the Museum of Applied Arts and Sciences) fully complied with the Premier's guidelines and the code of conduct for board members. Issues noted for the other agencies are summarised below:

<p>Centennial Park and Moore Park Trust</p>	<ul style="list-style-type: none"> ▪ Members have not signed the code of conduct ▪ The Trust's corporate governance manual and code of conduct do not reflect all the requirements of the Premier's Memorandum. ▪ The Minister is not advised of board vacancies and subsequent appointments in a timely manner. ▪ The Trust does not maintain a register of gifts and hospitality.
<p>Coal Compensation Board</p>	<ul style="list-style-type: none"> ▪ Members have not signed the code of conduct.

Dust Diseases Board	<ul style="list-style-type: none"> ▪ Members have not signed the code of conduct. ▪ The code does not include a policy for when members receive gifts. <p>The Board does not maintain a register of gifts and hospitality.</p>
Greyhound and Harness Racing Regulatory Authority	<ul style="list-style-type: none"> ▪ One member of the Board had not signed the code of conduct. ▪ Declared interests of Board members are not forwarded to the Minister
Motor Accidents Authority	<ul style="list-style-type: none"> ▪ The Authority does not have a code of conduct for Board members.
NSW Casino Control Authority	<ul style="list-style-type: none"> ▪ The Board does not maintain a register of gifts and hospitality. ▪ Board members do not sign the code of conduct.
State Records Authority	<ul style="list-style-type: none"> ▪ A Board position became vacant in August 2004 and was not filled for almost twelve months.
Sydney Harbour Foreshore Authority	<ul style="list-style-type: none"> ▪ The Authority had not forwarded to its Minister details of disclosures of interests made by members.
Zoological Parks Board	<ul style="list-style-type: none"> ▪ The declaration of members' interests had not been reported to the Minister.

Some agencies have advised us that they have since addressed our findings.

BACKGROUND

In the New South Wales public sector, boards govern the operations of SOCs and statutory authorities.

The *State Owned Corporations Act 1989* (the Act) contains specific requirements for SOCs about the constitution, composition and operations of boards and the duties and liabilities of directors. However, legislation enacted to set up individual SOCs may contain provisions that vary from the Act. Where this was the case, the individual legislation prevails, so our review checked compliance with these provisions.

For instance, while the Act says a board will consist of no fewer than three directors and no more than seven, individual legislation may set the number of directors outside these parameters.

The requirements for members of the boards of statutory authorities are in guidelines issued from time to time by the Premier to all Ministers. As well as the general matters mentioned above, the guidelines also require board members to follow a Code of Conduct, the contents of which are specified.

To assess how the boards of both types of entities are functioning, we looked at the operations of the boards of seven SOCs, and twelve statutory authorities. This review did not look at the payment of fees to board members. The agencies reviewed were:

Statutory Authorities	State Owned Corporations
Centennial Park and Moore Park Trust	Newcastle Port Corporation
Coal Compensation Board	Port Kembla Port Corporation
Dust Diseases Board	Rail Corporation
Film and Television Office	Rail Infrastructure Corporation
Greyhound and Harness Racing Regulatory Authority	Sydney Ports Corporation
Historic Houses Trust	Sydney Water Corporation
Motor Accidents Authority	Transport Infrastructure Development Corporation
Museum of Applied Arts and Sciences	
NSW Casino Control Authority	
State Records Authority	
Sydney Harbour Foreshore Authority	
Zoological Parks Board	

COMPLIANCE REQUIREMENTS

SOCs are required to comply with the *State Owned Corporations Act 1989* and their own legislation.

Statutory authorities must comply with Premier's Memorandum No. 2001-17 'Conduct Guidelines for Members of Boards and Committees' and Premier's Memorandum No. 2004-10 'Government Boards and Committees'.

PREMIER'S DEPARTMENT RESPONSE

The Department will have regard to the recommendation when the "Guidelines for NSW Board and Committee Members: Appointments and Remuneration" are next reviewed.

Section Three



Commentary on Government Agencies

Minister for Education and Training

Department of Education and Training

NSW Adult Migrant English Service

TAFE Global Pty Ltd

Technical and Further Education Commission

Department of Education and Training

AUDIT OPINION

The audit of the financial report of the Department of Education and Training (the Department), including its controlled entities, for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

PERFORMANCE ISSUES

The Department monitors its objectives using performance indicators, such as:

- Literacy and numeracy
- Class sizes
- Year 12 completion rates
- Achievement gap for Aboriginal students
- Government school enrolments

Literacy and Numeracy

The Department aims to achieve equitable literacy and numeracy outcomes for students by setting standards of achievement. The Basic Skills Test (BST) is a tool used by the Department to evaluate literacy and learning outcomes for primary school students. Students are placed in bands depending on the results of their test.

The table below shows literacy and numeracy outcomes from 2002 to 2004 school years and compares them to the Department's 2004 targets.

Year ended 31 December	2004 Actual**	2004 Target*	2003 Actual**	2002 Actual**
Year 3 Literacy at band 2 or higher (%)	89.2	88.0	87.8	89.3
Year 3 Numeracy at band 2 or higher %	89.9	92.0	91.9	90.7
Year 5 Literacy at band 3 or higher (%)	93.1	94.0	94.0	94.6
Year 5 Numeracy at band 3 or higher (%)	93.6	94.0	94.0	93.7

* Source - Department of Education and Training (DET) Resource and Service Plan

**Source - DET Annual Report 2004

The Department has met or is close to achieving its targets. However, since 2002 the measures have slightly declined. The Department spent \$119 million on the literacy and numeracy plan in 2003-04 compared to \$124 million in 2002-03.

Reduced Class Sizes in Kindergarten to Year 2

In 2004, the Department completed phase one of its Class Size Reduction Initiative. The following table illustrates the progress since 2002.

Year ended 31 December	2004 Actual	Target by 2007	2003 Actual	2002 Actual
Kindergarten	22.1	20.0.	22.9	23.5
Year 1	24.6	22.0	24.5	25.0
Year 2	25.4	24.0	25.3	25.6

Source DET Annual Report 2004

The Department is making progress to its 2007 target. However, the position may be influenced by the reduction in the number of enrolments over the past few years.

In New South Wales, full-time enrolments in government schools have been reducing every year since 2000. We will continue to monitor the effectiveness of the Department's class size reduction program.

Year 12 Completion Rates

The Department has put in place a range of strategies designed to encourage students to complete year 12. These strategies have seen an overall increase in year 12 retention rates for New South Wales since 2000. Retention (completion) rates have increased from 2000 for all students by 4.8 per cent, the most significant increase being 11.0 per cent for students from non-English speaking backgrounds. Aboriginal students and geographically isolated student retention rates have decreased by 1.9 per cent and 2.6 per cent respectively.

Completion Rates from Years 7 to 12

Year ended 31 December	2004 %	2003 %	2002 %	2001 %	2000 %
All students	65.8	65.0	63.8	62.0	61.0
Aboriginal students	29.9	29.2	29.0	28.4	31.8
Students from language backgrounds other than English	108.2	104.6	102.3	103.1	97.2
Students from low socio-economic status backgrounds	57.2	56.3	54.0	53.1	52.9
Geographically isolated students	43.7	48.8	47.5	47.2	46.3

Source DET Annual Report 2004

Notes: Retention rates are "apparent" as they do not track individual students through their secondary schooling.

Retention rates for full-time students by State (2000-2004) for Years 7/8 to 12

Years	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Aust
2000	61.0	71.1	72.2	56.2	66.0	69.8	58.9	104.8	66.6
2001	62.0	73.7	73.6	57.4	65.9	68.5	59.7	107.6	67.8
2002	63.8	74.4	76.5	56.9	69.0	72.9	63.1	98.7	69.5
2003	65.0	74.9	76.1	56.8	64.8	74.5	69.0	101.0	69.6
2004	65.8	74.4	75.3	58.0	65.9	70.7	72.0	100.5	69.8

Source: DET Annual Report 2004

Notes: Retention rates are "apparent" as they do not track individual students through their final years of 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

Apparent retention rates can exceed more than 100% due to a number of factors including migration of students from interstate and overseas.

Despite an improvement in apparent retention of year 7 to year 12 students, New South Wales ranks seventh amongst all States and Territories.

The Achievement Gap for Aboriginal students

The comparison of Year 3 and Year 5 Aboriginal students' Basic Skills Test results for numeracy and literacy against all student peers show significant gaps. Since 2000, BST results for Year 5 Aboriginal students have shown a gradual improvement, reducing the gap from 16.9 per cent to 13 per cent for numeracy and from 15.8 per cent to 13.8 per cent for literacy. The gap in Year 3 results for numeracy has reduced but widened for Year 3 literacy.

The Department has allocated funding, including an additional \$53 million over the next four years to improve the academic achievements for Aboriginal school students. The Department is committed to designing specialised teaching programs in order to reduce the gap.

Government Schools

	NSW	National	NSW Ranking amongst all States and Territories ^d	NSW Ranking Previous Year
Recurrent Expenditure per student on Government Schools 2003-04^a				
Primary	\$9,247	\$9,015	4	7
Secondary	\$11,905	\$11,553	5	5
Overall	\$10,334	\$10,003	5	6
Student to Teaching Staff Ratios - Government Schools 2004^b				
Primary	17.0	16.2	8	8
Secondary	12.5	12.4	5	5
Overall	14.8	14.5	8	8
Full-Time Student Enrolment - Government Schools as a percentage of all schools 2004^c				
Primary	70.6	71.4	5	5
Secondary	62.9	62.2	4	5
Overall	67.2	67.5	5	5

^a Source: Ministerial Council on Education, Employment, Training and Youth Affairs (MCEETYA). Incorporates both salaries and non-salary costs. Includes actual or notional pay-roll tax and notional 8 per cent user cost of capital

^b Source: Australian Bureau of Statistics, Schools Australia 2004 (Table 54)

^c Sources: Based on Figures from Australian Bureau of Statistics, Schools Australia 2004 (Table 5)

^d The rankings below range from one to eight, with eight being the worst ranked.

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

New South Wales expenditure per student was higher than the national average for both primary and secondary schools in 2003-04. It ranked eighth for the government primary student-to-teacher ratio and fifth for government secondary students. The overall average student-teacher ratio for New South Wales government schools was slightly below the private sector ratio of 14.1 students per teacher.

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

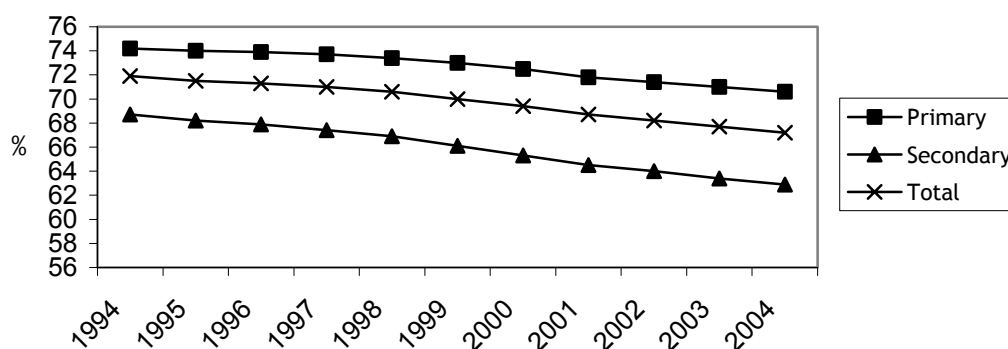
The following table shows the continued movement in students from government to non-government schools:

NSW Student Numbers	Government			Non-Government		
	2004	2003	2002	2004	2003	2002
Primary	440,309	444,854	449,482	183,670	181,529	179,930
Secondary	303,920	305,026	304,218	179,150	175,927	171,151
Total	744,229	749,880	753,700	362,820	357,456	351,081

Source: Australian Bureau of Statistics, Schools 2004 (Table 5)

As illustrated in the chart below, the government proportion of all students enrolling in schools has been declining over the last decade. The most significant decline has been in secondary schools, falling from 68.7 per cent to 62.9 per cent. Overall for both primary and secondary government schooling, the reduction has been 4.7 per cent.

NSW Government Schools - Proportion of Full Time Enrolments



Source: DET Annual Report 2004

The number of teachers employed in New South Wales government schools during the last three years is illustrated below on a full-time equivalent (FTE) basis:

Teaching Classification	2005	2004	2003
Permanent and temporary teachers	50,905	50,514	48,842
Long term casual teachers	2,809	2,709	4,409
Short term relief casuals	1,933	1,822	1,926
	55,647	55,042	55,177

Source: DET Statistics

The reduction in casual teachers is mainly a result of changes to the definition of casual teachers that continues to move some into the temporary category.

Computers in Schools

A key initiative of the Department is to provide sufficient numbers of up-to-date computers and related technology to schools, train teachers and to enhance the computer skills of all students.

The expenditure in this area was as follows:

Year ended 30 June	2005 \$'000	2004 \$'000	2003 \$'000
Computers in schools leasing	34,438	44,189	41,732
Internet and related expenditure	29,763	25,482	24,606
Salaries	4,140	6,508	11,394
Computer co-ordinator funding to schools	46,173	38,124	35,698
Provision of email accounts to students and teachers	47	14	3,335
Computer software and software licences	905	--	365
Buy-back of computers previously leased	11,777	5,049	7,326
Grants to schools	--	--	381
Other	953	2,873	9,568
Total	128,196	122,239	134,405

Source: DET Statistics

The approximate ratio of students to computers in New South Wales government schools has improved from 22:1 in 1995 to around 4.5:1 in 2005.

On 8 November 2004 the then Minister announced a new \$544 million Technology for Learning Program, of which \$140 million will be spent on providing 100,000 new computers to NSW public schools over the next four years. This includes the provision of Internet services and technology support. To September 2005 the Department has completed the delivery and installation of 30,000 computers at a cost of \$44 million. It is anticipated that a further 9,000 computers will be delivered by December 2005.

CONTROL ISSUES

Department

We identified some minor opportunities for improvement and have discussed these with the Department and included them in a letter to management.

Schools

For the school financial year ended 30 November 2004, we audited 32 high schools' and 40 primary schools' financial reports.

We identified opportunities for schools to improve their internal controls and general compliance with Departmental guidelines. We have written to the relevant school Principals about these matters.

COMPLIANCE ISSUES

This year, we examined:

- compliance with aspects of the Public Sector Management (Goods and Services) Regulation 2000 and the Premier's Department Circular No. 2004-17, 'Guidelines for the Engagement and Use of Consultants'
- the Department's preparedness in adopting Australian Equivalents to International Financial Reporting Standards.

The results of the reviews were satisfactory with minor opportunities to improve being reported to management.

OTHER ISSUES

Workers Compensation Claims

	2005*	2004*	2003*
Workers compensation premium (\$'000)	128,507	94,151	86,651
Total number of claims lodged	7,274	6,960	7,014
Number of working days lost	52,990	118,744	163,421
Number of stress claims lodged	1,043	1,072	1,081
Number of working days lost due to stress claims	24,176	61,509	85,839

Source: DET Statistics

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

The number of workers compensation claims has risen 3.7 per cent since 2002-03 causing insurance premiums to significantly increase over the past four years. The premiums paid for financial years 2003-04 and 2004-05 exceeded the benchmark set by the Treasury Managed Fund by \$32.2 million and \$36.6 million respectively. The Department had to fund this excess. The Department attributed the increases in claims to deficiencies in its safety program and recognised the need to achieve safety improvements. We understand the Department has established strategies to improve its overall safety performance and minimise the financial cost arising from work place incidents.

Over the last three years, 15 per cent of all claims have been stress related and have accounted for over 50 per cent of all working days lost. The number of days lost in 2003-04 and 2004-05 is expected to increase with the passage of time due to further claims in respect of the incidents in these years.

Privately Financed Projects for New Schools

The Department is progressing with its program to privately finance NSW government schools. The new project involves an additional nine schools and a thirty-year contract to design, finance, construct and provide certain operational services. These schools are to be located in the western, north-western and south-western sectors of Sydney as well as the Hunter and Central Coast regions.

The first two schools under this project are to be completed in January 2007, a further four schools by January 2008 and the remaining schools in January 2009.

Of the initial nine privately financed schools, four became operational in 2003-04 and the remainder in 2004-05. To date the Department has recognised \$86.2 million as assets, along with a corresponding liability. Under the agreement, the Department pays the contractor \$9.7 million per annum CPI indexed, which includes the repayment of finance lease liability, financing costs and regular service costs until conclusion of the thirty-year contract. At the conclusion of the contract, the schools become the property of the Department.

During the year the Department and NSW Treasury conducted a post implementation review of the initial program. The review was to consider the process undertaken in relation to the "Working with Government: Guidelines for Privately Financed Projects" and to identify areas of learning and improvement for future projects. At the time of this Report, the results of the review were not available.

Our performance audit will examine whether the processes for awarding the first privately funded partnership schools contract, including the framework for assessing bids and allocating project risks and performance standards (rewards/penalties), were adequate to maximise the potential for value for money. This report is due around June 2006.

School Building Maintenance

While the overall budget for education increased in 2004-05, there was a \$28.2 million reduction in funding for maintenance work. The reduction was due partly to many items in the maintenance backlog requiring capital replacement and therefore requiring capital funding.

The Department received capital funding of \$364 million in 2004-05 as part of a four year \$1.2 billion Schools Improvement package and spent \$289 million on land and buildings, \$70.6 million on plant and equipment and \$4.5 million on minor assets. The expenditure on land and buildings includes the value of privately financed projects of \$57.7 million completed during the year. The Department met its target spending.

In the past we have reported that the Department's maintenance plans for school buildings have been hampered by significant maintenance backlogs. The trends over the last three years indicate that the Department's maintenance plans are still not being achieved, with maintenance backlogs remaining virtually constant. Based on an analysis at June 2005, the Department has estimated that the current maintenance backlog is \$116 million (\$115 million at June 2004). Total school maintenance expenditure in 2004-05 was \$187 million compared to \$209 million in 2003-04.

Planned Computer Systems Replacement

In May 2005 the Minister for Education and Training, approved the formal commencement of the Learning Management and Business Reform (LMBR) Program. Under the program the Department will replace its finance, payroll and human resources systems and the Oasis school management system over the next four years. The project will incorporate all New South Wales' government schools, Regional and State Office locations and TAFE Institutes. The total cost of the project is yet to be determined.

A significant benefit expected from the LMBR program is to simplify the corporate service delivery practices that support schools, TAFE and other Departmental operations, by removing duplicated and manual based work practices.

School Financial Transactions

We reviewed the methodology adopted to include the financial transactions of schools in the Department's financial report. The methodology used is consistent with the previous year and is based on a number of assumptions and estimates. Because of certain inadequacies there is uncertainty over the completeness and accuracy of school transactions in the financial report. We do not consider that these inaccuracies have any material impact on the Department's financial report. If the uncertainties result in material impact on future financial reports, our audit opinion may be impacted.

The Department has advised us that the above mentioned planned computer system replacement may assist it to implement an integrated accounting system that would incorporate school financial management practices with the rest of the Department.

School Principals' Assessment

The Department has introduced a number of strategies to better support principals in meeting high levels of educational leadership and management expertise required in New South Wales Public Schools.

The Principal Assessment and Review Schedule (PARS) is one strategy, which requires School Education Directors to review principal performance annually incorporating the major accountabilities for principal positions. This process is currently being undertaken. We will monitor the outcome of this process.

The Performance Improvement Program for Principals (PIPP) is another strategy, to address issues where principals do not meet the required performance standards. The process has a prescribed time period in which the Principal, with support, must demonstrate efficiency. Failure to meet efficiency targets could see the principal dismissed or demoted. The decision of placing the principal on this program is made by the School Education Director.

Annual School Reports

Last year, we conducted a performance audit and made recommendations to improve the effectiveness of School Annual Reports in providing school performance information to the community and enhance public accountability.

During the year the Minister for Education and Training announced new reporting requirements for government schools and a new format for Annual School Reports. A sample of New South Wales government schools will pilot the new format when reporting on the 2005 school year. However the New South Wales Teachers Federation has advised schools not to participate in the pilot program and has raised the issue before the Industrial Relations Commission (IRC). The Federation has expressed concern that the pilot format will not use information in a manner consistent with the Protocols agreed to by the Department and the NSW Teachers Federation in 1997 as part of the salaries and conditions agreement.

This matter is currently the subject of on-going negotiations between the Department, Teachers' Federation and the IRC.

Leave Recording - Repeat Finding

The Department introduced a new online leave system in 2004-05. Its aim is to improve leave recording to ensure that all leave is correctly recorded and that leave applications are recorded on a timely basis. In the past, delays in recording leave taken have resulted in salary overpayments that were difficult to recover.

The new system became available in all schools from September 2004 and to staff in regional offices, state office and corporate service centres from 1 July 2005 at a cost of \$750,000.

The Department advised us that only around 8 per cent of leave applications were being processed through the new system. We will continue to monitor the usage of the system.

Financial Report Requirements

Paragraph 13 of the Australian Accounting Standard AAS 29 'Financial Reporting by Government Departments' requires the financial report of a government department to be 'made available to users on a timely basis'.

The Department's 2003-04 financial report was not available to its stakeholders until May 2005, which is almost eleven months after year-end. Because the Department is required to prepare its annual report on a calendar year basis, it could not publish the report earlier than this date.

The Department plans to overcome this problem by placing its, and each of its controlled entities' financial reports on its website as soon as they are available for publication.

FINANCIAL INFORMATION**Abridged Statement of Financial Performance**

Year ended 30 June	2005 \$'000	2004 \$'000
Employee related	5,471,778	4,934,844
Operating expenses	1,177,044	1,135,421
Depreciation and amortisation	200,797	189,507
Grants and subsidies	201,756	203,313
Other expenses	194,655	214,510
TOTAL EXPENSES	7,246,030	6,677,595
TOTAL REVENUE	420,029	390,700
Loss on disposal of non-current assets	(1,486)	(972)
NET COST OF SERVICES	6,827,487	6,287,867
Government Contributions	6,899,697	6,360,172
SURPLUS FOR THE YEAR	72,210	72,305
Net decrease in asset revaluation reserve	(48)	(49,966)
TOTAL CHANGES IN EQUITY	72,162	22,339

Employee related expenses represent 75.5 per cent of total expenditure of the Department. The \$536.9 million increase is primarily due to a 6.5 per cent salary increase to teachers in June 2004 and 4 per cent salary increase to administrative staff effective 1 July 2004.

Abridged Statement of Financial Position

At 30 June	2005 \$'000	2004 \$'000
Current assets	391,928	406,917
Non-current assets	12,903,112	12,763,983
TOTAL ASSETS	13,295,040	13,170,900
Current liabilities	283,320	294,476
Non-current liabilities	227,051	163,917
TOTAL LIABILITIES	510,371	458,393
NET ASSETS	12,784,669	12,712,507

The rise in non-current assets is largely due to purchases and the capitalisation of privately funded school projects.

Abridged Program Information

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

Program Description	2005		2004	
	Revenues \$'000	Expenses \$'000	Net Cost * of Services \$'000	Net Cost of Services \$'000
Pre-school education services in government schools	2,254	24,880	22,626	18,727
Primary education services in government schools	184,372	3,620,418	3,434,291	3,108,755
Secondary education services in government schools	201,150	3,322,888	3,124,978	2,893,768
Non-government schools assistance	--	7,450	7,450	6,893
TAFE education services	218,962	1,447,173	1,223,517	1,167,061
Grants for education and training services	31,005	207,491	176,486	204,744
AMES	33,584	27,245	(6,339)	280
TAFE Global Pty Ltd	5,935	4,863	(1,072)	(1,283)
Total (all programs)	<u>677,262</u>	<u>8,662,408</u>	<u>7,981,937</u>	<u>7,398,945</u>

*Includes loss on sale of non-current assets

Cost of Providing Government School Education

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

Year ended 30 June	2005	2004	2003
Actual enrolments (a):			
Primary students	435,309	440,309	444,854
Secondary students	306,326	<u>305,199</u>	<u>306,331</u>
Total	742,112	<u>745,508</u>	<u>751,185</u>
Program costs (b):			
Primary \$m	3,434	3,109	3,061
Secondary \$m	3,125	<u>2,894</u>	<u>2,837</u>
Total \$m	6,559	<u>6,003</u>	<u>5,898</u>
Cost per student:			
Primary \$	7,880	7,000	6,881
Secondary \$	10,201	9,455	9,261
Average \$	9,040	8,227	8,071

(a) Estimated for 2005. Actual enrolment figures were not available at the time of the preparation of this Report. 2004 and 2003

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

Cost of Funding Non-Government School Education by the Department

In 2004-05, the NSW Government provided funding to 930 non-government schools (954 in 2003-04). Funding is mainly a per student allowance, a secondary textbook allowance and an interest subsidy scheme. Under the *Education Act 1990*, schools must register to be eligible for State funding assistance.

Using departmental statistics of non-government school enrolments and relevant program costs, some broad trends of funding per student over the past three years were:

Year ended 30 June	2005	2004	2003
Average enrolments (a):			
Primary Students	184,598	182,545	180,650
Secondary Students	179,063	<u>175,934</u>	<u>171,883</u>
Total	<u>363,661</u>	<u>358,479</u>	<u>352,533</u>
Program costs (b):			
Primary \$m	268.7	244.4	223.8
Secondary \$m	363.0	<u>329.0</u>	<u>303.3</u>
Total \$m	<u>631.7</u>	<u>573.4</u>	<u>527.1</u>
Funding per student:			
Primary \$	1,455	1,339	1,239
Secondary \$	2,027	1,870	1,765
Average \$	1,737	1,599	1,495

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

(b) Program costs used in calculating cost per student included per student grants, interest rate subsidies, textbook allowances and assistance to families in meeting costs of students attending non-government schools

DEPARTMENT ACTIVITIES

The Department co-ordinates 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.

Unless otherwise stated, the financial information included above is for the parent entity only. The economic entity on which the Independent Audit Report was issued incorporates the Department (parent entity) and its controlled entities: the Technical and Further Education Commission (TAFE), the NSW Adult Migrant English Service (AMES) and. Separate comments on TAFE, TAFE Global Pty Ltd and AMES are included elsewhere in this Report.

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

NSW Adult Migrant English Service

AUDIT OPINION

The audit of the NSW Adult Migrant English Service's (AMES) financial report for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

COMPLIANCE ISSUES

We tested whether AMES complied with the *Fringe Benefits Tax Assessment Act 1986*. The Service substantially complied with the requirements.

FINANCIAL INFORMATION

Year ended 30 June	2005 \$'000	2004 \$'000
Revenue	33,579	29,351
Employee related expenses	14,488	14,303
Other expenses	15,291	14,990
Operating surplus/(deficit)	3,800	58
Net assets (at 30 June)	8,256	4,456

Revenue increased \$4.2 million mainly from a rise in fees for services rendered. This was largely due to additional student demand for higher intensity courses and the availability of e-learning via the internet.

Net assets increased \$3.8 million mainly due to a rise in prepaid superannuation contributions of \$2.5 million.

Displaced Staff (Repeat Issue)

At 30 June 2005 AMES still has two displaced staff resulting from a change in operations in 1998. The salaries and associated on-costs for retaining these staff are estimated at \$160,000. It is not known when these staff will be placed in permanently funded positions.

AGENCY ACTIVITIES

AMES is a controlled entity of the Department of Education and Training. It provides English language learning opportunities for adult migrants and job seekers. The Commonwealth Government primarily funds AMES.

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

TAFE Global Pty Ltd

AUDIT OPINION

The audit of TAFE Global's financial report for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

CONTROL ISSUES

We identified opportunities for TAFE Global to improve its internal controls and these have been reported to management for corrective action.

TAFE Global and its parent entity TAFE NSW, do not agree billings in a timely manner. We raised this matter with both entities last year.

FINANCIAL INFORMATION

Year ended 30 June	2005 \$'000	2004 \$'000
Income	6,267	7,645
Expenses	6,200	7,437
Income tax	--	--
Operating (deficit)/surplus	67	208
Net assets	1,795	1,729

TAFE Global's income is mainly derived from international training projects that it bids on. The nature of the work is relatively short term and the income and expense of the company fluctuates depending on the bids that the company wins.

COMPANY ACTIVITIES

TAFE Global project manages the delivery of the TAFE NSW's services to the international market and manages selected projects in the national market.

The company was established in June 2000, as a wholly owned subsidiary of the TAFE Commission. The company is subject to the control and direction of the Minister of Education and Training.

For further information on TAFE Global, refer to www.tafeglobal.com.au.

Technical and Further Education Commission

AUDIT OPINION

The audit of the financial report of the Technical and Further Education (TAFE) Commission and its controlled entity for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

PERFORMANCE ISSUES

Size and Scope of TAFE in NSW

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

The following table shows the Commission's enrolments and annual student hours, and its net cost of services over the three years 2002 to 2004 (Enrolments and student hours for 2005 are not available until mid 2006).

Year ended 30 June	Years			% Change
	2004	2003	2002	2002-2004
Total enrolments	506,930	541,970	526,083	-3.6%
Annual student hours * (ASH) ('000)	98,989	103,683	102,881	-3.8%
Net cost of services * (\$'000)	1,111,277	1,178,039	1,077,338	3.2%
ASH per enrolment	195	191	196	(0.5%)
Net cost of services per enrolment (\$)	2,192	2,174	2,048	7.0%
Net cost of services per ASH (\$)	11.23	11.40	10.50	7.0%

*Net Cost of Services is for the financial year ended 30 June whereas Enrolments and Student Hours are for the calendar year

Enrolments fell from 541,970 in 2003 to 506,930 in 2004, a drop of 6.5 per cent. This may be due to the significant fee increases in 2004. Increases ranged from 15.4 per cent for short courses, to 34.6 per cent for Graduate Certificates and 40.8 per cent for Diploma Courses.

Year ended 30 June	Years		
	2004	2003	2002
Administration fees (\$'000)	61,789	43,758	45,149
% change	41.2%	(3.1%)	12.5%
Certificate fee per annum (\$)	350	260	250
% increase	34.6%	4.0%	13.6%
Diploma fee per annum (\$)	1,000	710	690
% increase	40.8%	2.9%	9.5%

*Enrolments and Course Fees are for the calendar year whereas Administration fees are for the financial year ended 30 June.

NSW Cost per Student Hour over Time

The table below shows Government recurrent expenditure per publicly funded student hour for the years 2000 to 2004. Government expenditure per hour has actually decreased by 9.9 per cent since 2000 and is at its lowest cost in the last five years.

Year ended 30 June	Years				
	2004	2003	2002	2001	2000
Government recurrent expenditure* (\$m)	1,315	1,463	1,386	1,359	1,384
Student hours (million)	95.1	98.3	98.3	98.0	90.7
Expenditure per student hour (\$/hour)	14.03	15.17	14.45	14.21	15.58
Change in expenditure per student hour since 2000	(9.9%)	(2.6%)	(7.3%)	(8.8%)	--

Source: National Centre for Vocational Education Research, 2000-2004 Australian vocational education and training statistics - financial information. Unpublished data from Australian National Training Authority. The costs noted in the tables above have been adjusted to 2004 dollars to exclude the effect of inflation.

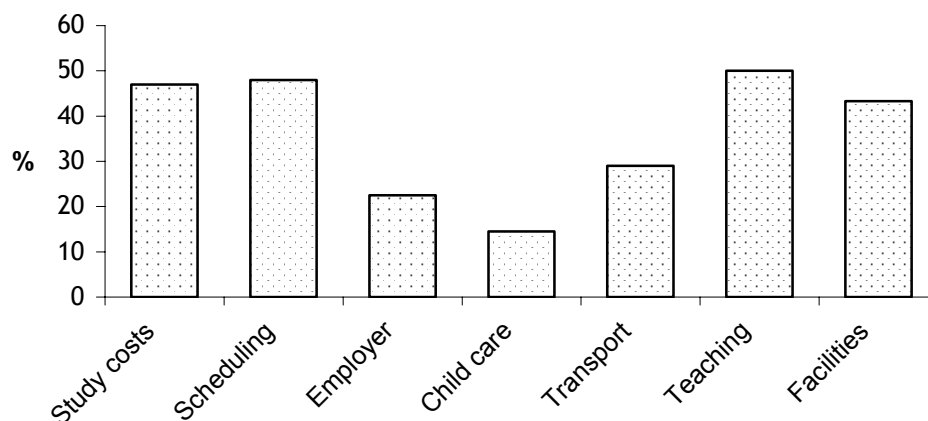
* Government Recurrent Expenditure is made up of:

- NSW TAFE (about 95% of total), VET programs within NSW DET, agricultural colleges and
- NSW Adult Migrant English Service

The Effect of Study Costs on Decisions to Study at TAFE

A survey was conducted by the Commonwealth Department of Education, Science and Training into the influence of TAFE costs on study decisions for current, past, and potential TAFE students. The survey consisted of 4,760 people and was carried out between mid-March and the end of April 2004.

Factors influencing TAFE study decisions



Source: 'Summary of - Australian Government- Department of Education, Science and Training'

Study costs were rated as the third highest factor affecting the decision to undertake study at TAFE, with 46.5 per cent viewing the issue as an "important" or "very important" factor. When comparing responses from other jurisdictions, New South Wales respondents more commonly identified study costs as an important or very important factor. The survey also asked past or potential students whether they were studying for personal interest or job related reasons. Personal interest was the motivator for approximately 70 per cent of those surveyed.

Comparison of NSW to National Graduates in Training Outcome Measures

Year ended 30 June	Graduates	
	NSW %	Australia %
Employment and further study outcomes		
Students employed	71	75
Employed or in further study after the training	84	86
Reason for Training		
Employment-related	73	75
Further study-related	7	7
Personal development related	20	19
Satisfaction Outcomes		
Students who were satisfied with the overall quality of their training	86	85
Students who fully or partly achieved their main reason for doing the training	80	81

Source: 'Australian Vocational Education and Training, Statistics 2004: Student Outcomes Survey, National Report', published by National Centre for Vocational Education Research Ltd. for the Australian National Training Authority.

The above findings relate only to students who studied at a TAFE institute in Australia and were awarded a qualification. NSW graduates were 4 per cent less likely to be employed after training compared to the national average.

Graduates in NSW were less likely to pursue TAFE studies for employment related reasons and more likely for personal development reasons when compared to the National average.

Compared to the National average, students in NSW were more satisfied with the quality of training.

CONTROL ISSUES

Bank Reconciliations

Bank reconciliations have not been carried out effectively and on a timely basis by some TAFE Institutes. This resulted in approximately 400 transactions being identified as reconciling items on the bank reconciliations at year end. This matter was previously raised in our 2004 management letter. The Commission has told us that this problem is due to the shortcomings in the TAFE computer system which will be replaced in the medium term.

Minor opportunities for the Commission to improve internal controls were also identified. We have referred these to management.

COMPLIANCE REVIEWS

We examined the Commission's:

- preparedness for the introduction of Australian Equivalents to International Financial Reporting Standards
- compliance with aspects of the *Public Sector Management (Goods and Services) Regulation 2000* and the Premier's Department Circular No. 2004-17 "Guidelines for the Engagement and Use of Consultants"

The results of the reviews were generally satisfactory.

There has been some discussion with officers at TAFE as to whether the *Public Sector Management (Goods and Services) Regulation 2000* applies to TAFE. We believe that the requirements do apply to TAFE or at the very least they should be followed as best practice to ensure that value for money is obtained.

We noted in our review that one purchase for \$167,007 was placed prior to obtaining proper approval. Further, the supplier was not contracted to the State Control Board.

OTHER ISSUES

Unused Facilities: Seaforth TAFE

As previously reported, the Commission closed Seaforth TAFE in 1999 and its future is still to be determined. The site is vacant and has been declared surplus to the Commission's requirements. The Commission is considering the future use of the Seaforth site. The site has a value of \$2.2 million as recorded in the Department's Asset Register. Redevelopment options suggest that the site has an indicative land value of between \$3.5 million and \$8.0 million. Landcom is currently managing a master planning exercise with a view to rezoning the site.

Restructure

Last year we commented that the TAFE Commission was restructured with 12 Institutes reduced to 10. Voluntary redundancies were accepted by 101 staff last financial year at a cost of \$5.2 million with a further 186 redundancies paid this year at a cost of \$9.3 million. The restructure was largely completed in 2004-05.

TAFE Online Project

The TAFE Online project began in 1998 as a response to increased demand by users of TAFE NSW services for greater choice and convenience. The project was due for completion in June 2004 at a budgeted cost of \$48.8 million. As at 30 June 2005, \$18.8 million costs had been capitalised as an asset and \$30.0 million had been written off as expenses.

TAFE Online engaged the Department of Commerce for project tracking and financial reporting services. The project was largely completed in 2004-05 and all financial reporting is expected to be finalised by March 2006.

Grafton Music Laboratory

A music facility was built at Grafton by the Department of Commerce at a cost of \$2.1 million and was completed in December 2004. At June 2005 it was largely unused due to a number of design faults. Alternative accommodation has been rented at a cost of \$13,000 since the start of the year so that TAFE could still run its music courses. TAFE expects to spend a further \$400,000 rectifying the faults. The Commission has told us that they were not responsible for the design faults of the building and they will seek to recover rectification costs.

Stress and Workers Compensation Claims

Year Ended 30 June	2005*	2004*	2003*
Number of claims - all injuries	689	717	665
Number of stress claims	112	84	84
Estimated cost for all workers compensation claims (\$m)	7.8	10.2	8.7
Estimated cost for stress claims (\$m)	3.4	3.2	2.5
Days lost - all Injuries	8,589	17,085	17,230
Days lost - stress claims	3,422	4,415	5,559

*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.

In 2004-05 TAFE had 14,140 full time equivalent employees and there were 112 stress claims made, 33 per cent more than in 2003-04. This equates to one stress claim being made for every 126 employees. The average cost per stress claim in 2004-05 was \$30,085 compared to \$11,265 for all types of injuries.

The cost and days lost can be expected to increase for the 2005 claims with the passage of time, as the earlier years have more accumulated data.

Workers compensation premiums for the Department have significantly increased during the past four financial years in both the TAFE and the Schools sector and further increases are expected for the coming financial year. The Department of Education and Training has recognised the need to improve its systems to achieve safety improvements to control the escalating costs of workers compensation premiums and has developed a three year strategy titled "Safe Working and Learning". The Strategy has been approved and is in the process of being implemented. It maps out proposed actions from 2005 to 2008 to better manage safety in the Department and TAFE.

As noted in the following table, there has been an increase in the workers compensation premium from \$14.9 million in 2002-03 to \$18 million in 2005-06, during a time when staff numbers have been relatively stable. There is a direct relationship between the cost of workers compensation premiums and the number and cost of claims made.

TAFE Workers Compensation Premiums Benchmark

Year ended 30 June	2006	2005	2004	2003
Equivalent full time employees (EFT)	Na	14,140	14,595	14,585
Premium cost (\$m)	18.0	16.4	15.0	14.9
Benchmark* (\$m)	14.0	12.6	13.4	13.5
Excess** (\$m)	4.0	3.8	1.7	1.6

*Benchmark paid by Treasury ** Excess paid by TAFE

The above table shows the worker compensation premiums and benchmarks from 2003 to 2006. The Insurer sets a benchmark for agencies that determines the level of NSW Treasury funding. If an agency's premiums exceed the benchmark, the agency needs to fund the excess. This is an encouragement for agencies to actively manage their workers compensation costs and minimise workplace injuries. For the four years noted above, the premium has exceeded the benchmark by a significant amount.

Overtime

The overtime cost incurred in 2004-05 totalled \$25.2 million (\$21.5 million in 2003-04), an increase of 17.2 per cent over 2003-04.

Year ended 30 June	Years		
	2005	2004	2003
Overtime (\$m)	25.2	21.5	23.6
Salaries (\$m)	858.3	829.6	818.9
Overtime as % of salary	2.9%	2.6%	2.9%

A review of permanent full time teachers showed about 17 per cent of permanent teachers earned at least 15 per cent on top of their base salary as overtime. The employees listed below had the highest overtime for those reviewed, and are employed as Permanent Full Time Teachers. Permanent Full Time Teachers work 30 hours per week and are paid overtime for hours in excess of 30.

Employee	Annual overtime \$	Base Salary \$	Annual Gross \$	Overtime to Base Salary %
Employee 1	35,861	64,104	94,936	56%
Employee 2	31,344	75,027	120,703	42%
Employee 3	30,417	64,104	100,783	47%
Employee 4	28,867	64,104	96,856	45%
Employee 5	28,315	64,104	96,475	44%
Employee 6	26,803	69,052	101,154	39%
Employee 7	26,537	64,104	97,087	41%
Employee 8	26,529	75,027	107,374	35%
Employee 9	26,286	64,104	100,528	41%
Employee 10	25,252	69,052	99,719	37%

The Commission told us the management of overtime is based on business decisions and is affected by:

- industry trends directly affecting availability of suitably qualified teachers
- variations in type of courses run per semester and associated demand for particular teaching skill sets
- need to utilise full-time teachers at short notice to cover for sick leave and other staff shortages where part-time teachers are not readily available.

FINANCIAL INFORMATION

Abridged Statement of Financial Performance

Year ended 30 June	2005 \$'000	2004 \$'000
Employee related	1,062,870	1,020,934
Other expenses	<u>378,845</u>	<u>338,619</u>
TOTAL EXPENSES	<u>1,441,715</u>	<u>1,359,553</u>
TOTAL REVENUE	<u>278,557</u>	<u>249,879</u>
(Loss)/Profit on sale of non-current assets	(4,695)	1,603
NET COST OF SERVICES	<u>1,158,463</u>	<u>1,111,277</u>
Add Government Contributions through parent	<u>1,145,449</u>	<u>1,092,773</u>
DECREASE IN ACCUMULATED FUNDS	<u>13,014</u>	<u>18,504</u>

Financial statements exclude the transactions of TAFE Global (a subsidiary) which are reported elsewhere

Abridged Statement of Financial Position

At 30 June	2005 \$'000	2004 \$'000
Current assets	113,533	85,425
Non-current assets	<u>2,387,928</u>	<u>2,405,433</u>
TOTAL ASSETS	<u>2,501,461</u>	<u>2,490,858</u>
Current liabilities	119,633	96,367
Non-current liabilities	<u>16,430</u>	<u>16,079</u>
TOTAL LIABILITIES	<u>136,063</u>	<u>112,446</u>
NET ASSETS	<u>2,365,398</u>	<u>2,378,412</u>

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 technical and further education services which are relevant to the needs of industry, business, students and other client groups, by ensuring that these services recognise the changing nature of the working environment and the need for new skills and re-training.

The Commission provides vocational and pre-vocational education and training services through its 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.

Minister for Health

Health Overview

Department of Health

Health Services:

Greater Southern

Greater Western

Hunter and New England

North Coast

Northern Sydney and Central Coast

South Eastern Sydney and Illawarra

Sydney South West

Sydney West

Other Health Services:

Ambulance Service of New South Wales

Clinical Excellence Commission

New South Wales Health Foundation

The Royal Alexandra Hospital for Children

Health Overview

THE HEALTH GROUP

This commentary covers the Department of Health and the entities it controls. These are:

Area Health Services	Other Entities
Greater Southern	Ambulance Service of NSW
Greater Western	Clinical Excellence Commission
Hunter and New England	HealthQuest
North Coast	Justice Health
Northern Sydney and Central Coast	The Royal Alexandra Hospital for Children
South Eastern and Illawarra	
Sydney South West	
Sydney West	

AUDIT OPINION

The audit of the consolidated financial report of the Department and its controlled entities for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report. The audits of the financial reports of each of the controlled entities also resulted in unqualified Independent Audit Reports.

KEY ISSUES

NSW Health Reforms

In previous Reports we commented on a review of NSW Health Services by the Independent Pricing and Regulatory Tribunal (IPART). The review recommended streamlining health administration and reducing duplication between the Department, Area Health Services and hospitals. It also recommended improvements to accountability in the administration structure and increased clinician and community involvement in health service decision-making processes.

On 1 January 2005 the 17 Area Health Services were amalgamated into 8 larger Areas. The Boards of Area Health Services and the Children's Hospital at Westmead were dissolved. A Chief Executive now manages these organisations.

The restructure also established a Health Care Advisory Council as the peak clinical and community advisory group for the Health Minister and Director-General. It advises the Government on how the health system can best meet the current and emerging health needs of the community. Local Area Health Advisory Councils have also been established to involve the local community and clinicians. They will advise the Chief Executives on the planning and delivery of health services. The Councils will assess the performance of the amalgamated Health Services using a dashboard of high-level indicators developed by the Department.

Management of Information Management and Technology (IM&T) Projects

The Department's many information technology (IT) systems are critical to good patient outcomes. They cover a range of health functions from patient administration and clinical care to human resources and finance. If problems arise they could affect the Department's capacity to plan and support the provision of health care.

IT projects represent very substantial expenditures, often with high risks of project failure - a common issue with IT projects in many organisations. For example, our review of Sydney Water's Customer Billing and Information System (Volume 1, 2003) highlighted the significance of an IT project failure, with most of the \$61 million invested in that project expected to be written off.

The Department of Health has not had instances of waste of this magnitude with IT projects to our knowledge. However, problems have occurred at times, for example:

- the direct appointment of a project manager in 2002, whose contract was later terminated due to performance issues (cost of \$284,000)
- the rollout of a Patient Administration System was aborted in 1995 due to insufficient stakeholder consultation (valued at \$20 million).

In both cases, decisions to terminate were made to prevent further waste. However, potential process issues were exposed. In 2002 the Department's internal audit branch reviewed project management practices for IM&T projects funded under the Government Action Plan for Health. It found a lack of project management practices and competencies, and problems with the governance model and operation of IT management committees.

In 2004 we received three IT-related protected disclosures. They related to:

- IT projects managed by the Department's IM&T Branch from 1991 to 2004
- the initial engagement of a major IT provider by the former Institute of Clinical Excellence in 2002
- procurement process associated with the Clinical Services Reform Program in 2004.

The Department engaged external consultants to review each disclosure. We reviewed the consultants' reports to determine whether there had been serious and substantial waste of public money. As the Independent Commission Against Corruption (ICAC) and NSW Ombudsman handle complaints about corruption and maladministration, we did not assess these aspects of the allegations.

The reviews made no findings of serious or substantial waste in recent projects, and did not conclude that major systemic weaknesses existed. The reviews did, however, outline a pattern of poor procurement and project management practices. ICAC did not find corruption in any of the matters raised, and commended the Department on its action to investigate the complaints. However, ICAC also raised what it considered were a number of process weaknesses.

The Department reacted promptly to develop a range of improvements to procurement and project management processes. If implemented they should address what we consider to be the key issues requiring improvement, namely:

- planning for multi-staged projects
- a heavy reliance on particular consultants for planning and project implementation
- the use of singly invited tenders and direct appointments without competitive selection processes
- inconsistent procurement practices which could pose probity risks
- contract and vendor management
- project management documentation
- evaluation of consultant performance including post implementation reviews.

Governance Structures

The Department has decided that the most appropriate methods for dealing with the variety of recommendations and observations that it has received about ways to improve the management of IM&T projects are:

- establishing a NSW Health Procurement Advisory Panel, to be the principal source of advice on all major NSW Health procurement projects (except for those matters dealt with by the State Contracts Control Board and the Board of Reference and Advice, Department of Commerce)
- revising the Supply Procedures Manual
- running information sessions for staff who have authority to incur expenditure and enter into contracts, and including training on procurement processes in the regular staff induction program.

This is a positive outcome. While the specific allegations in the various protected disclosures were not substantiated by any of the reviews, or by ICAC, weaknesses in the control environment have been identified and action taken to effect improvements.

The Department considers that the restructuring that has occurred through the creation of the Strategic Information Management Branch and Health Technology will further improve procurement processes and the governance of IM&T across the NSW Health System.

We will monitor the implementation of these improvements as part of our ongoing financial audit of the Department of Health.

PERFORMANCE ISSUES

The Department measures the performance of Health Services using indicators aligned with its goals, these being healthier people, fairer access to health services, quality health care and better value.

The tables on the following pages are based on the financial and operational indicators used by the Department to assess the performance of the new Area Health Services for the 6-month period ended 30 June 2005.

While the Department has established overall benchmarks, it also enters into performance agreements with individual Health Services, which include targets that may vary from the benchmark. The agreements set out key Government priorities and the level of performance and deliverables expected from Health Services. The Department annually reviews and evaluates the performance of Health Services against agreed targets.

Our review of financial and operational indicators of other health entities is contained in individual comments within this Volume.

	Area Health Services		
	Greater Southern	Greater Western	Hunter New England
	2005 \$m	2005 \$m	2005 \$m
Abridged Operating Statement (six month period ended 30 June)			
Employee related	175.7	167.0	373.0
Other expenses	<u>166.5</u>	<u>135.0</u>	<u>253.6</u>
Total expenses	342.2	302.0	626.6
Total revenues	<u>49.5</u>	<u>46.2</u>	<u>95.6</u>
Net cost of services	292.7	255.8	531.0
Government contributions	<u>277.2</u>	<u>228.2</u>	<u>537.5</u>
Result for period	(15.5)	(27.6)	6.5
Abridged Balance Sheet (at 30 June)			
Total assets	316.9	397.1	1,052.3
Total liabilities	<u>143.2</u>	<u>130.7</u>	<u>280.4</u>
Net assets	173.7	266.4	771.9
Performance Indicators			
General creditors > 45 days (\$m) (a)	7.5	--	--
Average available beds (June)	2,057	1,821	3,073
Bed occupancy (%) (June)	75.9	73.2	86.4
Non-admitted patient occasions of service (000's) (d)(e)	1,400	1,192	2,536
Total admissions (d)(e)	93,753	80,467	175,782
Unweighted separations (d)(e)	93,912	80,574	175,858
Case-weighted separations in episode funded hospitals (e)	56,407	38,209	147,551
Average length of stay (days)	3.1	3.0	3.5
Average staff numbers (EFT) (e)	5,241	4,800	10,811
Emergency triage treatment categories (b)(e)			
T1 (%)	100	100	100
T2 (%)	73	79	86
T3 (%)	78	75	67
T4 (%)	79	84	63
T5 (%)	91	95	86
Emergency access block (c)(e)	14	11	16

Key: Unless otherwise indicated all data is based on statistics provided by the Department of Health:

- (a) total creditors less amounts owing to Visiting Medical Officers and other Government agencies.
- (b) T1 immediately life threatening - treatment required within 2 minutes - benchmark - 100%
- T2 imminently life threatening - treatment required within 10 minutes - benchmark - 80%
- T3 potentially life threatening - treatment required within 30 minutes - benchmark - 75%
- T4 potentially serious - treatment required within 1 hour - benchmark - 70%
- T5 less urgent - treatment required within 2 hours - benchmark - 70%
- (c) percentage of patients not admitted 8 hours after active treatment starts
- (d) includes services contracted to private sector.
- (e) Includes former Area Health Service statistics from 1 July 2004 to 31 December 2004

	Area Health Services		
	North Coast	Northern Sydney and Central Coast	South Eastern and Illawarra
	2005 \$m	2005 \$m	2005 \$m
Abridged Operating Statement (six month period ended 30 June)			
Employee related	196.7	438.3	539.2
Other expenses	<u>160.6</u>	<u>276.8</u>	<u>355.7</u>
Total expenses	357.3	715.1	894.9
Total revenues	<u>52.2</u>	<u>133.0</u>	<u>176.7</u>
Net cost of services	305.1	582.1	718.2
Government contributions	<u>304.6</u>	<u>559.5</u>	<u>673.4</u>
Result for period	(0.5)	(22.6)	(44.8)
Abridged Balance Sheet (at 30 June)			
Total assets	453.1	1288.0	1,710.6
Total liabilities	<u>149.7</u>	<u>310.7</u>	<u>453.2</u>
Net assets	303.4	977.3	1,257.4
Performance Indicators			
General creditors > 45 days (\$m) (a)	--	3.8	--
Average available beds (June)	1,602	2,795	3,391
Bed occupancy (%) (June)	88.5	94.9	98.0
Non-admitted patient occasions of service (000's) (d) (e)	1,717	2,973	4,843
Total admissions (d) (e)	123,789	181,948	265,948
Unweighted separations (d) (e)	123,921	182,208	275,132
Case-weighted separations in episode funded hospitals (e)	75,145	153,529	221,581
Average length of stay (days) (e)	3.2	3.6	3.5
Average staff numbers (EFT)	5,103	11,461	15,866
Emergency triage treatment categories (b)(e)			
T1 (%)	100	100	100
T2 (%)	76	63	76
T3 (%)	62	59	60
T4 (%)	65	66	62
T5 (%)	87	86	85
Emergency access block (c)(e)	19	34	36

Key: unless otherwise indicated all data is based on statistics provided by the Department of Health:

- (a) total creditors less amounts owing to Visiting Medical Officers and other Government agencies.
- (b) T1 Immediately life threatening - treatment required within 2 minutes - benchmark - 100%
- T2 Imminently life threatening - treatment required within 10 minutes - benchmark - 80%
- T3 Potentially life threatening - treatment required within 30 minutes - benchmark - 75%
- T4 Potentially serious - treatment required within 1 hour - benchmark - 70%
- T5 Less urgent - treatment required within 2 hours - benchmark - 70%
- (c) percentage of patients not admitted 8 hours after active treatment starts
- (d) includes services contracted to private sector.
- (e) Includes former Area Health Service statistics from 1 July 2004 to 31 December 2004

	Area Health Services		
	Sydney South West	Sydney West	Total
	2005 \$m	2005 \$m	2005 \$m
Abridged Operating Statement (six month period ended 30 June)			
Employee related	615.1	462.3	2,967.3
Other expenses	<u>392.3</u>	<u>313.5</u>	<u>2,054.0</u>
Total expenses	1,007.4	775.8	5,021.3
Total revenues	<u>214.3</u>	<u>127.8</u>	<u>895.3</u>
Net cost of services	793.1	648.0	4,126.0
Government contributions	<u>787.3</u>	<u>686.8</u>	<u>4,054.5</u>
Result for period	(5.8)	38.8	(71.5)
Abridged Balance Sheet (at 30 June)			
Total assets	1,880.7	1,565.5	8,664.2
Total liabilities	<u>482.4</u>	<u>342.7</u>	<u>2,293.0</u>
Net assets	1,398.3	1,222.8	6,371.2
Performance Indicators			
General creditors > 45 days (\$m) (a)	1.9	--	13.2
Average available beds (June)	3,784	3,006	21,529
Bed occupancy (%) (June)	94.1	90.0	90.7 (f)
Non-admitted patient occasions of service (000's) (d) (e)	4,004	3,195	21,860
Total admissions (d) (e)	264,324	188,212	1,374,223
Unweighted separations (d) (e)	264,464	190,898	1,386,967
Case-weighted separations in episode funded hospitals (e)	237,951	149,590	1,079,963
Average length of stay (days) (e)	3.8	3.7	3.5(g)
Average staff numbers (EFT)	15,660	12,843	81,785
Emergency triage treatment categories (b)(e)			
T1 (%)	100	100	100(f)
T2 (%)	79	73	75(f)
T3 (%)	56	53	60(f)
T4 (%)	65	61	65(f)
T5 (%)	86	88	87(f)
Emergency access block (c)(e)	38	35	30(f)

Key: unless otherwise indicated all data is based on statistics provided by the Department of Health:

- (a) total creditors less amounts owing to Visiting Medical Officers and other Government agencies.
- (b) T1 Immediately life threatening - treatment required within 2 minutes - benchmark - 100%
- T2 Imminently life threatening - treatment required within 10 minutes - benchmark - 80%
- T3 Potentially life threatening - treatment required within 30 minutes - benchmark - 75%
- T4 Potentially serious - treatment required within 1 hour - benchmark - 70%
- T5 Less urgent - treatment required within 2 hours - benchmark - 70%
- (c) percentage of patients not admitted 8 hours after active treatment starts
- (d) includes services contracted to private sector.
- (e) Includes former Area Health Service statistics from 1 July 2004 to 31 December 2004
- (f) Statistics include the Children's Hospital at Westmead
- (g) Statistics include the Children's Hospital at Westmead and Justice Health

Financial Performance

The two key indicators used by the Department to monitor the financial performance of Area Health Services are net cost of services (adjusted to exclude special purpose and specific project funds) and general creditor levels. The Department told us that only two Areas achieved both benchmarks (South Eastern Sydney and Illawarra and Hunter and New England). Sydney West, North Coast and Greater Western achieved the creditors benchmark. Sydney South West achieved the net cost of services benchmark. Northern Sydney and Central Coast and Greater Southern failed to meet either benchmarks.

Net Cost of Services

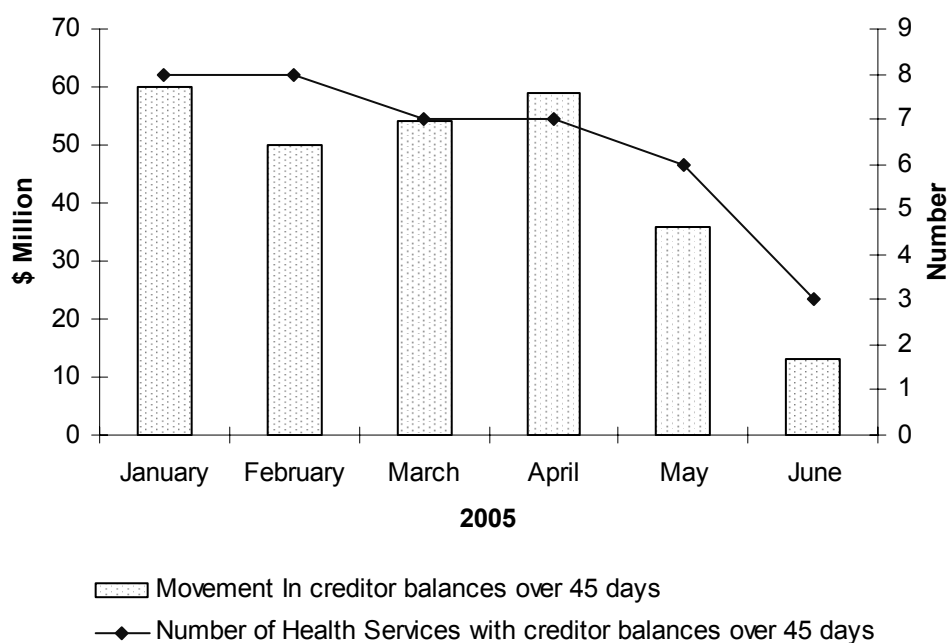
The adjusted net cost of services for two of the eight Areas were higher than the budget approved by the Department. The over-runs for Northern Sydney/Central Coast and Greater Southern were \$10.0 million and \$8.3 million respectively.

The Northern Sydney/Central Coast's unfavourable result is attributed to budgetary problems emanating from the former Northern Sydney Area. Greater Southern's result is largely due to issues relating to the former Greater Murray Area. The Department is assisting the Areas in developing strategies to address this issue.

Creditor Levels

The Department requires creditor payments to be made within contract terms and monitors Area performance against a benchmark of 45 days. Despite the Department continually monitoring creditor levels and providing additional financial assistance (including loans), some Areas continue to regularly have creditors over 45 days.

We have previously commented on fluctuations in both the value of creditors greater than 45 days and the number of Areas with creditors greater than 45 days. Notwithstanding the establishment of the new Areas, the fluctuations continued. This is illustrated in the following graph.



At 31 January 2005 the balance was \$60.1 million (across all eight Areas) before falling to \$13.2 million at 30 June 2005 (three Areas). The Areas with creditors in excess of 45 days at the end of the financial year were Sydney South West, Northern Sydney and Central Coast, and Greater Southern.

Consistent with previous years, the level of creditors greater than 45 days increased to \$34.1 million (across four areas) at 31 August 2005. This suggests that 30 June figures are an artificial measure of Areas' performance in paying creditors on time. The Department advised that creditor performance is reviewed on an ongoing basis. The Department has established individual benchmarks ranging between 35 and 45 days by which Health Service performance will be assessed. Strategic financial plans are required in respect of any creditors reported in excess of benchmark.

Operational Performance and Activity Levels

The Department also uses indicators to monitor operational performance and activity levels. These indicators include bed occupancy rates, total admissions and separations, 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, and is a measure of the use of hospital resources by inpatients. The bed occupancy rate includes only June 2005 data and covers only major facilities. In March 2005 a new beds information collection system was introduced. Because of the limited time that the new system has been in place the average number of beds for the period is not available.

The June bed occupancy rate ranged from a high of 98.0 per cent (South Eastern and Illawarra) to a low of 73.2 per cent (Greater Western). It also indicates that the metropolitan bed occupancy rate is significantly higher than rural areas.

Total Admissions

Total admissions for 2004-05 increased by 1.8 per cent. The largest percentage increases were in the Greater Southern and North Coast Areas.

Average Length of Stay

The Statewide average length of stay for acute separations in acute hospitals was 3.5 days, a slight decrease from the previous year's 3.6 days. Generally metropolitan areas registered a slightly higher average length of stay than rural areas.

Emergency Department Patients

- ***Triage***

Triage is a mechanism used to assess and treat emergency department patients. Triage ensures that patients are treated in a timely manner according to clinical urgency.

In its 2005 performance agreements with Areas the Department set triage targets that aligned with those recommended by the Australasian College of Emergency Medicine (ACEM).

This increased the previous benchmark for triage category three (68 per cent to 75 per cent) and decreased the benchmark for triage category two (83 per cent to 80 per cent) and triage category five (75 per cent to 70 per cent).

Critical care triage categories T1 to T3 relate to life threatening situations. While all health services met the benchmark for the most urgent life-threatening category (T1), a significant number of Areas again did not meet the benchmark for the other life threatening categories (T2 and T3).

The following table indicates the number of Area Health Services meeting triage benchmarks.

Triage Category	Total (eight) 2005
Triage Category 1	8
Triage Category 2	1
Triage Category 3	2
Triage Category 4	2
Triage Category 5	8

▪ **Access Block**

Access Block measures the delay in moving patients from the emergency department to an inpatient bed. It is expressed as a percentage of patients not admitted to an inpatient bed (who require to be) within eight hours of first being seen by a doctor or nurse.

Metropolitan health services had a higher access block than rural services. Sydney South West recorded the highest access block (38 per cent) and the lowest was Greater Western (11 per cent).

Non-admitted Patient Occasions of Service

Non-admitted patient occasions of service (NAPOOS) are instances where the patient receives a health service without undergoing a formal admission process. Services provided through emergency departments, community health centres, outpatient clinics, day centre programs, home assessments, diagnostic services and chemotherapy are counted as NAPOOS.

NAPOOS decreased 1.3 per cent over the previous year.

Separations

Separations are episodes of care from admission to discharge, transfer or death. Target separation levels form part of the performance agreement between Areas and the Department and are one of the factors in determining funding at hospital levels. Total separations for 2004-05 increased by 1.9 per cent over the previous year.

To recognise the various levels and complexities of separations, a weighting is applied. Total case weighted separations increased by 3.2 per cent over the previous year.

Interstate Comparisons

The following information 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 information provided is also based on 2003-04 statistics. The data should be considered in this context.

		NSW	National
Average available beds per 1,000 population		2.7	2.5
Separations per 1,000 population		191.1	206.8
Average cost weight per separation		1.07	1.0
Average length of stay (including day surgery) (days)		4.1	3.8
Emergency Department Waiting Times by Triage Category			
	T1	100	99
	T2	76	76
	T3	58	62
	T4	65	61
	T5	86	82

Source: Australian Institute of Health and Welfare (AIHW) 2004 Australian Hospital Statistics 2003-2004

The number of beds per 1,000 population was highest in South Australia and the Northern Territory (2.9) and lowest in the Australian Capital Territory (2.1). The New South Wales public hospital system was slightly higher than the national average.

The AIHW continues to maintain that '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 considers that different casemixes in hospitals affect the comparability of bed numbers.

Both nationally and in New South Wales, there tends to be more beds per 1,000 population in rural areas than in metropolitan areas.

Separations per 1,000 population for New South Wales during 2003-04 were less than the national average. The Steering Committee for the Review of Government Service Provision identified that care should be taken when interpreting differences in separation rates. Variations may be caused by the nature of the conditions being treated and differences in clinical practice. Higher/lower rates do not necessarily mean inappropriate care.

The average cost weight information provides a guide to the relative complexity and resource use of admissions and is based on the average cost per separation at a Diagnostic Related Group (DRG) level (DRG is based on principal diagnosis complexities and comorbidities procedures performed, age and sex, transfer and discharge status). A value of 1.0 represents the theoretical average for all separations. Most States and Territories had average cost weights close to the national average.

The Department told us that NSW's average cost weight of 1.07 reflected a higher complexity of patients treated in hospital. This is consistent with the lower than average hospital separation ratio and higher average length of stay. It reflects the increased proportion of lower acuity patients treated on an ambulatory basis and not admitted to hospital.

The triage figures suggest that NSW continued to equal or better the national average in four of the five triage categories.

CONTROL ISSUES

Other Control Issues

The audit of the Department and its controlled entities highlighted opportunities for improvement in internal controls. These opportunities have been identified in letters issued to or to be issued to the relevant health entity. The more significant items have been referred to in individual comments within this Volume.

COMPLIANCE ISSUES

Compliance reviews were undertaken at the Department and Area Health Services. The results of these reviews are contained in individual comments within this Volume.

Last year our reviews included compliance with payment of account requirements contained in the Public Finance and Audit Regulation 2000, Treasurer's Directions and annual reporting legislation. We noted instances of non-compliance with these requirements. The Department told us that Treasurer's Directions did not apply to Area Health Services and undertook to obtain legal advice to clarify the matter. The Department told us that it has not yet provided additional information requested by the Crown Solicitor.

OTHER ISSUES

Private Sector Infrastructure Projects

We have previously reported to Parliament that Health entities do not account for private sector infrastructure projects consistently. Some recognise the value of the right to receive an asset at the end of the lease period but others do not. Departmental officers told us they discussed this issue with Treasury to identify the most appropriate accounting treatment. We also reported that because this issue extends beyond health entities, NSW Treasury was discussing the issue with other jurisdictions with a view to issuing a Treasury Circular that had Australia-wide consensus. While this inconsistency has not materially impacted financial reports, it is possible that the value will become material in a future period.

In July 2005 NSW Treasury told us that it would soon release guidance/policy on accounting for these arrangements. To date this guidance has not been formally issued.

Australian Equivalents to International Financial Reporting Standards (AEIFRS)

Earlier this year we surveyed public sector agencies to assess the impact of AEIFRS on them. We reported that, depending on the nature of their operations, their assets and their liabilities, there may be little impact or it may be significant.

The initial financial reporting period of the 8 new Area Health Services commenced on 1 January 2005. This meant that the new Areas were amongst the first entities in Australia to prepare their financial reports under the AEIFRS framework.

Following our survey at the Department of Health we reported that, together with the amalgamation issues they faced, the new Area Health Services may not be adequately prepared to meet this challenge. The Area Health Services did not obtain significant specialist advice and relied on guidance provided by the Department of Health and the analysis of the standards undertaken by Treasury. The Areas were able to successfully manage the preparation of their initial financial reports. This was largely because the new framework (as it applied to the Areas) did not differ significantly from the requirements of Australian Generally Accepted Accounting Principles.

FINANCIAL INFORMATION

Abridged Consolidated Statement of Financial Performance

Year ended 30 June	2005 \$'000	2004 \$'000
Employee related	<u>6,380,846</u>	5,893,330
Other expenses	<u>4,009,008</u>	<u>3,793,197</u>
TOTAL EXPENSES	<u>10,389,854</u>	<u>9,686,527</u>
TOTAL REVENUES	<u>1,348,807</u>	<u>1,250,249</u>
Gain/(loss) on disposal of non-current assets	<u>4,469</u>	<u>5,371</u>
NET COST OF SERVICES	<u>9,036,578</u>	<u>8,430,907</u>
Add: Government Contributions		
Recurrent appropriation	<u>8,027,362</u>	7,447,711
Capital appropriation	<u>453,230</u>	416,840
Acceptance by the Crown Entity of employee entitlements and other liabilities	<u>516,666</u>	<u>465,743</u>
Total Government Contributions	<u>8,997,258</u>	<u>8,330,294</u>
RESULT FOR THE YEAR FROM ORDINARY ACTIVITIES	<u>(39,320)</u>	<u>(100,613)</u>

Employee related expenses represent 61.4 per cent of total expenditure of the Department and its controlled entities. The \$487.5 million increase in employee related expenses is largely due to higher award rates and employee entitlements.

Government Contributions

The Consolidated Fund appropriation to the Department of Health increased by \$616.0 million, a rise of 7.8 per cent, to \$8,481 million in 2004-05.

Government contributions included Commonwealth assistance of \$2,997 million (\$2,822 million), the major component being the \$2,662 million (\$2,536 million) paid under the Australian Health Care Agreement.

Abridged Consolidated Statement of Financial Position

At 30 June	2005 \$'000	2004 \$'000
Current assets	<u>1,131,601</u>	888,511
Non-current assets	<u>8,460,278</u>	<u>7,491,595</u>
TOTAL ASSETS	<u>9,591,879</u>	<u>8,380,106</u>
Current liabilities	<u>1,297,436</u>	1,114,847
Non-current liabilities	<u>1,238,317</u>	<u>1,109,353</u>
TOTAL LIABILITIES	<u>2,535,753</u>	<u>2,224,200</u>
NET ASSETS	<u>7,056,126</u>	<u>6,155,906</u>

The rise in non-current assets is largely due to purchases and revaluations of property, plant and equipment.

The increase in current liabilities reflects higher employee entitlements including accrued salaries and wages. It also reflects an 11.8 per cent increase in creditors (from \$404 million to \$452 million).

Non-current liabilities rose because of an increase in the value of employee entitlements.

Abridged Program Information

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

Year ended 30 June	2005		2004	
	Revenues	Expenses	Net Cost* of Services	Net Cost of Services
	\$'000	\$'000	\$'000	\$'000
Overnight acute inpatient services	588,612	4,174,287	3,576,137	3,260,483
Outpatient services	92,522	1,067,437	975,222	901,709
Rehabilitation and extended care services	187,312	927,060	743,959	678,384
Primary and community based services	63,939	795,249	731,784	707,108
Aboriginal health services	5,005	49,235	44,243	46,205
Emergency services	94,384	1,093,573	999,125	972,071
Same day acute inpatient services	67,188	649,141	582,015	562,789
Mental health services	54,754	841,167	786,356	695,512
Population health services	22,689	305,567	283,141	284,897
Teaching and research	<u>172,402</u>	<u>487,138</u>	<u>314,596</u>	<u>321,749</u>
Total all programs	<u>1,348,807</u>	<u>10,389,854</u>	<u>9,036,578</u>	<u>8,430,907</u>

*Includes gain on disposal of non-current assets

Program Statement

All controlled entities within NSW Health are required to measure expenses and revenues in accordance with a standard methodology developed by the Department. This is to ensure consistency in reporting. The Department requires the use of relatively current activity data in apportioning overheads over the ten program areas. Our audit again identified some health services that were incorrectly preparing program statements.

The existing program structure has been in place since 1995-96. We understand that these programs are still under review to ascertain whether they best demonstrate the key objectives of the Department, the resources applied and measurable outputs and outcomes.

PUBLIC HEALTH SECTOR ACTIVITIES

Structure

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. The Corporation is the legal employer of health system staff.

Area Health Services are Public Health Organisations scheduled under the *Health Services Act 1997* (the Act). The Services are subject to the control and direction of the Director-General. They provide health services for the residents of New South Wales.

Justice Health, the Royal Alexandra Hospital for Children, Institute for Clinical Excellence, Stewart House Preventorium and HealthQuest are Statutory Health Corporations scheduled under the Act. These corporations are also subject to the control and direction of the Director-General.

The Ambulance Service of New South Wales is constituted under the *Ambulance Services Act 1990*. The Service is subject to the control and direction of the Director-General.

Other entities are the eleven professional boards. These boards are constituted under various Acts to license and control practitioners of medicine, nursing, dentistry, optical services, pharmacy, podiatry, chiropractic, physiotherapy and psychology. All Boards (apart from Medical, Pharmacy and Dental) are subject to the control and direction of the Minister for Health through the Health Administration Corporation.

The financial results of all Boards (apart from Medical, Pharmacy and Dental) form part of the Department of Health parent entity financial report commented on elsewhere in this Report. The Medical, Pharmacy and Dental Boards will be included in later Reports to Parliament.

While the Department cooperates with the Institute of Psychiatry, the New South Wales Health Foundation and the Health Care Complaints Commission, it does not control these entities.

Department of Health

AUDIT OPINION

The audit of the Department of Health's financial report for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

CONTROL ISSUES

We identified some opportunities to improve internal controls and are discussing them with Departmental officers.

COMPLIANCE ISSUES

We tested whether the Department:

- complied with Premier's Department policy on Salary Packaging for Non-SES Staff.
- was prepared for the introduction of Australian Equivalents to International Financial Reporting Standards (AEIFRS)
- complied with Premier's Memorandum No. 2000-11, "Disclosure of Information on Government Contracts with the Private Sector".

The Department offered its non-SES staff superannuation salary packaging and complied with relevant requirements.

There were no major issues regarding the Department's preparedness for AEIFRS. We also enquired about the new Area Health Services. Because their first reporting period commenced on 1 January 2005, they prepared their financial report under the new accounting framework. This is twelve months earlier than the majority of other agencies. Together with the amalgamation issues they faced, we were concerned that they may not have been adequately prepared to meet this challenge. Few Area Health Services sought specialist advice and relied on guidance provided by the Department of Health and the analysis of the standards undertaken by Treasury. The Areas were able to successfully manage the preparation of their financial reports. This was largely because the new framework (as it applied to the Areas) did not differ significantly from the requirements of Australian Generally Accepted Accounting Principles.

We noted minor areas where the Department did not comply with disclosure requirements regarding Government contracts. The Department is reviewing its website to address this matter.

OTHER ISSUES

Port Macquarie Base Hospital

In 1992 the Department of Health entered into an arrangement with the private sector for the construction and operation of the Port Macquarie Base Hospital (PMBH) for 20 years. A company PMBH Pty Ltd was established to own the site and buildings. In January 2005 the Department acquired the company and the service agreement for \$44.6 million and \$36.3 million respectively. Under the purchase arrangements the Department also assumed responsibility for employee entitlements of \$6.1 million.

The Department subsequently transferred the net assets acquired to the North Coast Area Health Service.

HealthTechnology

HealthTechnology was established on 1 April 2005. It is responsible for Information Management and Technology (IM&T) strategy and providing operational and other support services to Area Health Services. HealthTechnology's first financial reporting period will be for the 15 months ending 30 June 2006. Under an administrative restructuring arrangement the Department of Health transferred 37 staff with leave entitlements totalling \$932,000 to the new entity. The Department expects to transfer information technology assets to HealthTechnology during 2005-06.

Cancer Institute

The Cancer Institute was established under the *Cancer Institute (NSW) Act 2003*. In 2004-05 the Institute was established as a separate reporting entity and the Department transferred plant and equipment with a carrying value of \$1.0 million to it.

FINANCIAL INFORMATION

Abridged Statement of Financial Performance

Year ended 30 June	2005 \$'000	2004 \$'000
Employee related	106,937	99,157
Grants and subsidies	8,044,119	7,503,598
Other expenses	461,159	431,033
TOTAL EXPENSES	<u>8,612,215</u>	<u>8,033,788</u>
TOTAL REVENUE	<u>144,939</u>	<u>134,834</u>
Loss on disposal of non-current assets	<u>22</u>	<u>3,667</u>
NET COST OF SERVICES	<u>8,467,298</u>	<u>7,902,621</u>
Add Government Contributions	<u>8,493,767</u>	<u>7,899,817</u>
RESULT FOR THE YEAR FROM ORDINARY ACTIVITIES	<u>26,469</u>	<u>(2,804)</u>

Grants and subsidies include payments to controlled entities (mainly Area Health Services). These payments rose from \$7.4 billion in 2003-04 to \$7.9 billion in 2004-05.

Abridged Statement of Financial Position

At 30 June 2005	2005 \$'000	2004 \$'000
Current assets	242,151	120,472
Non-current assets	<u>210,829</u>	<u>214,881</u>
TOTAL ASSETS	<u>452,980</u>	<u>335,353</u>
Current liabilities	208,069	78,638
Non-current liabilities	<u>39,744</u>	<u>50,323</u>
TOTAL LIABILITIES	<u>247,813</u>	<u>128,961</u>
NET ASSETS	<u>205,167</u>	<u>206,392</u>

Cash assets increased by \$122.3 million in 2004-05 mainly due to appropriations received towards year-end for the payment of nurses' award increases and changes in the timing of Superannuation Guarantee Contribution payments. There was a corresponding increase in accounts payable.

DEPARTMENT ACTIVITIES

For further information on the Department of Health, refer to www.health.nsw.gov.au.

Greater Southern Area Health Service

AUDIT OPINION

The audit of the Service's financial report for the six-month period ended 30 June 2005 resulted in an unqualified Independent Audit Report.

HEALTH RESTRUCTURE

On 27 July 2004 the Minister for Health announced changes to the health system, including a statewide restructure of health administration. The restructure took effect from 1 January 2005.

The Greater Murray Area Health Service merged with Southern Area Health Service to create the Greater Southern Area Health Service.

PERFORMANCE ISSUES

(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 3.1 days. This is the second lowest in the State.

The Area's bed occupancy rate was 75.9 per cent. This is the second lowest in the State and comparable to the rates of the former Greater Murray and Southern Area Health Services.

The Department has directed that Areas should not have any creditors (excluding amounts owing to visiting medical officers, government agencies and contracted patient services) over 45 days. The Service did not meet this requirement. During the year the Department provided repayable advances of \$10.0 million to help the Area address its liquidity. Nevertheless the total level of these creditors at 30 June 2005 was \$7.5 million. The Department told us that the Service's financial performance would be monitored and subject to ongoing assessment.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in four of the five triage categories.

The Service's access block was 14 per cent. This was the second lowest of all Health Services.

CONTROL ISSUES

Last year we reported difficulties that the former Greater Murray Area Health Service had in preparing its program statement. The program statement submitted for audit by the new Area was again prepared using incorrect information pertaining to the former Greater Murray Area. The program statement was subsequently amended.

We also noted that some of the Service's Special Purpose and Trust Funds were overdrawn. We understand that the Service has taken action to reduce the amount overdrawn. Other less significant items have been discussed with Service officers and included in our management letter.

Cross Border Agreement

Effective from 1 July 2003, the Service and Victoria's Wodonga Regional Health Service (WRHS) integrated hospital and health services between the WRHS and Albury Base Hospital. Our understanding of the agreement is that although the Greater Southern Area Health Service appears to have limited input into the management of the facility, it carries the financial risk because it is responsible for expenditure in excess of agreed budgeted amounts. The Service told us that the Department has expressed concerns over the arrangements and that these matters would be considered during a review of the cross border agreement to be conducted in or before December 2004. We understand that the review is currently underway.

Cash Flow

Cash flow difficulties are placing a significant strain on resources within the finance division and elsewhere within the Service. Considerable resources are being devoted to handling the volume of creditor enquiries due to slow payment of invoices. Some creditors have placed the Service on 'stop supply' and many practical difficulties are being encountered in acquiring critical goods and services needed for running the Health Service.

FINANCIAL INFORMATION

Abridged Statement of Financial Performance

Period ended 30 June	2005 \$'000
Employee related	175,663
Visiting medical officers	24,640
Other expenses	<u>141,842</u>
TOTAL EXPENSES	<u>342,145</u>
TOTAL REVENUE	<u>49,478</u>
Loss on disposal of non-current assets	<u>7</u>
NET COST OF SERVICES	<u>292,674</u>
Add Government Contributions	
Department of Health recurrent payments	257,166
Department of Health capital payments	5,216
Acceptance by the Crown Entity of Superannuation liability	<u>14,801</u>
Total Government Contributions	<u>277,183</u>
RESULT FOR THE PERIOD FROM ORDINARY ACTIVITIES	<u>(15,491)</u>

Abridged Statement of Financial Position

At 30 June	2005 \$'000
Current assets	27,414
Non-current assets	<u>289,470</u>
TOTAL ASSETS	<u>316,884</u>
Current liabilities	72,725
Non-current liabilities	<u>70,501</u>
TOTAL LIABILITIES	<u>143,226</u>
NET ASSETS	<u>173,658</u>

Abridged Program Information

The table below details the Service's net cost of services by program:

Period ended 30 June	2005		
	Revenues \$'000	Expenses \$'000	Net Cost of Services* \$'000
Overnight acute inpatient services	27,376	164,481	137,107
Emergency services	2,478	41,478	39,000
Rehabilitation and extended care services	11,231	47,430	36,200
Same day acute inpatient services	4,033	26,505	22,474
Primary and community based services	1,767	23,405	21,638
Other	<u>2,593</u>	<u>38,846</u>	<u>36,255</u>
Total all programs	<u>49,478</u>	<u>342,145</u>	<u>292,674</u>

*includes loss on disposal of non-current assets

SERVICE ACTIVITIES

For further information on the Service, refer to www.gsahs.nsw.gov.au.

Greater Western Area Health Service

AUDIT OPINION

The audit of the Service's financial report for the period ended 30 June 2005 resulted in an unqualified Independent Audit Report.

HEALTH RESTRUCTURE

On 27 July 2004 the then Minister for Health announced changes to the health system, including a statewide restructure of health administration. The restructure took effect from 1 January 2005.

The Far West Area Health Service merged with the Macquarie and Mid Western Area Health Service to create the new Greater Western Area Health Service. Health services formerly provided within the Lithgow local government area are now provided through the new Sydney West Area Health Service.

PERFORMANCE ISSUES

(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 3.0 days, the lowest in the State.

The Area's bed occupancy rate was 73.2 per cent. This is the lowest in the State and comparable to the former Mid West and Macquarie Area Health Services.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in four of the five triage categories. It was only marginally below the T2 benchmark.

The Service's access block was 11 per cent and the lowest of all Health Services.

CONTROL ISSUES

We identified opportunities for the Service to improve internal controls. These related to the treatment of operating leases and payroll.

FINANCIAL INFORMATION

The financial information presented below relates to the six-month period following the Health restructure. For that reason there is no comparative information.

Abridged Operating Statement

Period ended 30 June	2005 \$'000
Employee related	167,028
Visiting medical officers	18,649
Other expenses	<u>111,008</u>
TOTAL EXPENSES	<u>296,685</u>
TOTAL REVENUE	<u>46,239</u>
Loss on disposal of non-current assets	<u>5,375</u>
NET COST OF SERVICES FOR THE PERIOD	<u>255,821</u>
Add Government Contributions	
Department of Health recurrent payments	223,904
Department of Health capital payments	12,291
Acceptance by the Crown Entity of superannuation liability	13,375
Administrative Restructure	<u>(21,359)</u>
Total Government Contributions	<u>228,211</u>
RESULT FOR THE PERIOD FROM ORDINARY ACTIVITIES	<u>(27,610)</u>

Abridged Balance Sheet

At 30 June	2005 \$'000
Current assets	34,047
Non-current assets	<u>363,096</u>
TOTAL ASSETS	<u>397,143</u>
Current liabilities	70,937
Non-current liabilities	<u>59,854</u>
TOTAL LIABILITIES	<u>130,791</u>
NET ASSETS	<u>266,352</u>

The recent revaluation of assets resulted in \$67.3 million being added to the Asset Revaluation Reserve, bringing equity at 30 June 2005 to \$266 million.

Abridged Program Information

The table below details the Service's net cost of services by program:

Period ended 30 June	2005		
	Revenues \$'000	Expenses \$'000	Net Cost of Services* \$'000
Overnight acute inpatient services	20,950	106,050	85,500
Rehabilitation and extended care services	11,839	45,901	38,582
Primary and community based services	2,212	29,755	27,932
Mental health services	1,347	28,314	26,967
Outpatient services	3,081	28,888	25,807
Other	<u>6,810</u>	<u>57,777</u>	<u>51,033</u>
Total all programs	<u>46,239</u>	<u>296,685</u>	<u>255,821</u>

*Includes loss on disposal of non current assets

SERVICE ACTIVITIES

For further information on the Service, refer to www.gwahs.nsw.gov.au.

Hunter and New England Area Health Service

AUDIT OPINION

The audit of the Service's financial report for the six-month period ended 30 June 2005 resulted in an unqualified Independent Audit Report.

HEALTH RESTRUCTURE

On 27 July 2004 the then Minister for Health announced changes to the health system, including a statewide restructure of health administration. The restructure took effect on 1 January 2005.

The Hunter Area Health Service merged with the New England Area Health Service to create the new Hunter New England Area Health Service. The new Service also assumed responsibility for health services in the local government areas of Greater Taree, Great Lakes and Gloucester.

PERFORMANCE ISSUES

(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 and New England Area was 3.5 days, equal to the State average.

The Area's bed occupancy rate was 86.4 per cent. This is lower than the State average and comparable to the former Hunter Area Health Service.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in three of the five triage categories.

The Service's access block was 16 per cent. This was amongst the lowest of all Health Services.

CONTROL ISSUES

We identified minor opportunities for the Service to improve internal controls and we referred them to management.

OTHER ISSUE

Newcastle Mater Hospital Redevelopment

On 27 July 2005 the NSW government announced its intention to redevelop the Mater Hospital site under a public private partnership with Novacare, subject to completion of contractual negotiations.

The new health facilities at the site will comprise:

- redevelopment of the Newcastle Mater Hospital
- provision of a new 96 bed acute mental health facility and
- expanded radiotherapy services for people with cancer.

FINANCIAL INFORMATION

The financial information presented below relates to the six-month period following the Health restructure. For that reason there is no comparative information.

Abridged Operating Statement

Period ended 30 June	2005 \$'000
Employee related	373,047
Visiting medical officers	26,687
Other expenses	<u>226,968</u>
TOTAL EXPENSES	<u>626,702</u>
TOTAL REVENUE	<u>95,593</u>
Gain on disposal of non-current assets	<u>67</u>
NET COST OF SERVICES	<u>531,042</u>
Add Government Contributions	
Department of Health recurrent payments	472,834
Department of Health capital payments	34,292
Acceptance by the Crown Entity of superannuation liability	<u>30,393</u>
Total Government Contributions	<u>537,519</u>
RESULT FOR THE PERIOD FROM ORDINARY ACTIVITIES	<u>6,477</u>

Abridged Balance Sheet

At 30 June	2005 \$'000
Current assets	114,327
Non-current assets	<u>937,983</u>
TOTAL ASSETS	<u>1,052,310</u>
Current liabilities	129,647
Non-current liabilities	<u>150,803</u>
TOTAL LIABILITIES	<u>280,450</u>
NET ASSETS	<u>771,860</u>

The recent asset revaluation resulted in \$650 million being added to the Asset Revaluation Reserve, bringing equity at 30 June 2005 to \$772 million.

Abridged Program Information

The table below details the Service's net cost of services by program:

Period ended 30 June	2005		Net Cost of Services* \$'000
	Revenues \$'000	Expenses \$'000	
Overnight acute inpatient services	48,886	252,632	203,719
Mental health services	3,510	63,168	59,645
Rehabilitation and extended care services	15,127	71,128	56,016
Outpatient services	5,562	60,512	54,931
Primary and community based services	3,847	48,990	45,133
Other	<u>18,661</u>	<u>130,272</u>	<u>111,598</u>
	<u>95,593</u>	<u>626,702</u>	<u>531,042</u>

* Includes gains and losses on disposal of non-current assets

SERVICE ACTIVITIES

For further information on the Service, refer to www.hneahs.nsw.gov.au.

North Coast Area Health Service

AUDIT OPINION

The audit of the Service's financial report for the six-month period ended 30 June 2005 resulted in an unqualified Independent Audit Report.

HEALTH RESTRUCTURE

On 27 July 2004 the then Minister for Health announced changes to the health system, including a statewide restructure of health administration. The restructure took effect from 1 January 2005.

The Northern Rivers Area Health Service merged with Mid North Coast Area Health Service to create the new North Coast Area Health Service. Health Services formerly provided within the Local Government areas of Greater Taree, Great Lakes and Gloucester are now provided through the new Hunter-New England Area Health Service.

PERFORMANCE ISSUES

(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 was 3.2 days and amongst the lowest in the State.

At 88.5 per cent the Area's bed occupancy rate was slightly below the State average but higher than the former Mid North Coast and Northern Rivers Areas.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in only two of the five triage categories.

The Service's access block was 19 per cent. While slightly higher than other rural Areas it is significantly lower than the State average.

CONTROL ISSUES

We identified opportunities for the Service to improve its internal control and referred them to management. The main areas for improvement related to: accounts receivable and payable, payroll (including leave entitlements), visiting medical officer claims, receipting processes and inventory. We also made recommendations to improve the accuracy of program reporting. Many of the matters are a repeat of issues noted at the former and now merged Areas.

OTHER ISSUE

In 1992 the Department of Health entered into an agreement whereby the private sector was to construct and operate Port Macquarie Base Hospital for 20 years. In January 2005 the Department bought the hospital from the private sector and subsequently transferred net assets of \$67.1 million to the North Coast Area Health Service. Further details regarding the acquisition are included in the Department of Health section of this Report.

FINANCIAL INFORMATION

Abridged Statement of Financial Performance

Period ended 30 June	2005 \$'000
Employee related	196,745
Visiting medical officers	30,185
Other expenses	<u>130,419</u>
TOTAL EXPENSES	<u>357,349</u>
TOTAL REVENUE	<u>52,085</u>
Gain on disposal of non-current assets	<u>145</u>
NET COST OF SERVICES	<u>305,119</u>
Add Government Contributions	
Department of Health recurrent payments	277,158
Department of Health capital payments	10,116
Acceptance by the Crown Entity of superannuation liability	<u>17,361</u>
Total Government Contributions	<u>304,635</u>
RESULT FOR THE PERIOD FROM ORDINARY ACTIVITIES	<u>(484)</u>

Abridged Statement of Financial Position

At 30 June	2005 \$'000
Current assets	49,106
Non-current assets	<u>404,029</u>
TOTAL ASSETS	<u>453,135</u>
Current liabilities	86,179
Non-current liabilities	<u>63,563</u>
TOTAL LIABILITIES	<u>149,742</u>
NET ASSETS	<u>303,393</u>

Abridged Program Information

The table below details the Service's net cost of services on a program basis:

Period ended 30 June	2005		
	Revenues \$'000	Expenses \$'000	Net Cost of Services* \$'000
Overnight acute inpatient services	33,550	157,092	123,493
Same day acute inpatient services	3,667	40,440	36,773
Emergency services	2,195	33,555	31,360
Rehabilitation and extended care services	4,717	35,966	31,249
Primary and community based services	4,896	33,968	28,976
Other	<u>3,060</u>	<u>56,328</u>	<u>53,268</u>
Total all programs	<u>52,085</u>	<u>357,349</u>	<u>305,119</u>

*Includes gain on disposal of non-current assets

SERVICE ACTIVITIES

For further information on the Service, refer to www.ncahs.nsw.gov.au.

Northern Sydney and Central Coast Area Health Service

AUDIT OPINION

The audit of the Service's financial report for the six months period ended 30 June 2005 resulted in an unqualified Independent Audit Report.

HEALTH RESTRUCTURE

On 27 July 2004 the then Minister for Health announced changes to the health system, including a statewide restructure of health administration. The restructure took effect 1 January 2005.

The Northern Sydney Area Health Service merged with Central Coast Area Health Service to create the new Northern Sydney and Central Coast Area Health Service.

PERFORMANCE ISSUES

(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 was 3.6 days. This is slightly higher than the State average.

At 94.9 per cent the Area's bed occupancy rate was the second highest in the State.

The Department has directed that Areas should not have any creditors (excluding amounts owing to visiting medical officers, government agencies and contracted patient services) over 45 days. The Service did not meet this requirement. The total level of these creditors at 30 June 2005 was \$3.8 million. The former Northern Sydney Area experienced similar problems and had \$2.4 million owing to such creditors at 30 June 2004. The Department told us that the Service's financial performance would be monitored and subject to ongoing assessment.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in only two of the five triage categories. This was consistent with the performance of the former Areas.

At 34 per cent, the Service's access block was higher than the State average of 30 per cent.

CONTROL ISSUES

We identified minor opportunities for the Service to improve internal controls. The issues related to payroll, assets, reconciliations and leave entitlements. We will provide recommendations for improvement in a letter to the management of the service.

FINANCIAL INFORMATION

The financial information presented below relates to the six-month period following the Health restructure. For that reason there is no comparative information.

Abridged Operating Statement

Period ended 30 June	2005 \$'000
Employee related	438,329
Visiting medical officers	22,220
Other expenses	<u>254,502</u>
TOTAL EXPENSES	<u>715,051</u>
TOTAL REVENUE	<u>133,200</u>
Loss on disposal of non-current assets	<u>214</u>
NET COST OF SERVICES	<u>582,065</u>
Add Government Contributions	
Department of Health recurrent payments	493,679
Department of Health capital payments	28,220
Acceptance by the Crown Entity of superannuation liability	<u>37,614</u>
Total Government Contributions	<u>559,513</u>
RESULT FOR THE PERIOD FROM ORDINARY ACTIVITIES	<u>(22,552)</u>

Abridged Balance Sheet

At 30 June	2005 \$'000
Current assets	141,896
Non-current assets	<u>1,146,151</u>
TOTAL ASSETS	<u>1,288,047</u>
Current liabilities	156,114
Non-current liabilities	<u>154,613</u>
TOTAL LIABILITIES	<u>310,727</u>
NET ASSETS	<u>977,320</u>

The recent asset revaluation resulted in \$204 million being added to the Asset Revaluation Reserve, bringing equity at 30 June 2005 to \$977 million.

Abridged Program Information

The table below details the Service's net cost of services by program:

Period ended 30 June	2005		Net Cost of Services* \$'000
	Revenues \$'000	Expenses \$'000	
Overnight and acute inpatient services	78,817	365,361	286,611
Mental health services	4,061	65,666	61,568
Rehabilitation and extended care services	9,659	64,178	54,520
Emergency services	7,462	56,407	48,946
Outpatient services	7,346	53,397	46,177
Other	<u>25,855</u>	<u>110,042</u>	84,243
Total all programs	<u>133,200</u>	<u>715,051</u>	582,065

* Includes gains and losses on disposal of non-current assets

SERVICE ACTIVITIES

For further information on the Service, refer to www.nscchealth.nsw.gov.au.

South Eastern Sydney and Illawarra Area Health Service

AUDIT OPINION

The audit of the Service's financial report for the six months ended 30 June 2005 resulted in an unqualified Independent Audit Report.

HEALTH RESTRUCTURE

On 27 July 2004, the Minister for Health announced changes to the health system including a statewide restructure of health administration. The restructure took effect from 1 January 2005.

As part of this restructure, the South Eastern Sydney and Illawarra Health Service was created by merging South Eastern Sydney Area Health Service with Illawarra Area Health Service.

The new Service extends from Sydney Harbour in the north to Ulladulla in the south and covers 13 Local Government Areas comprising Botany, Hurstville, Kiama, Kogarah, Randwick, Rockdale, Shellharbour, Shoalhaven, Sutherland, Waverley, Wollongong, Woollahra and part of the City of Sydney. Lord Howe Island is also under the administration of the Service.

The Service has approximately 15,500 staff to serve an estimated population of 1.16 million.

PERFORMANCE ISSUES

(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 and Illawarra Area was 3.5 days and equal to the State average.

At 98.0 per cent the Service bed occupancy rate was the highest in the State and comparable to the rates of the former Services for the prior period.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in only two of the five-triage categories. This was consistent with the performance of the former Areas.

The Service's access block was 36 per cent. This was the second highest of all Services.

CONTROL ISSUES

We identified some minor opportunities to improve the Service's internal controls and practices. These issues have been discussed with Service staff and will be referred to management.

COMPLIANCE ISSUES

We examined whether the Service was complying with the relevant Premier's Department Circulars and Department of Commerce Contract 6036 in relation to Salary Packaging for Non SES Employees.

We found that the Service complied with Department of Health guidelines, which vary from Premier's Department guidelines. Premier's Department has endorsed all Area Health Services to implement the Department of Health guidelines.

OTHER ISSUES

Australian Equivalents to International Financial Reporting Standards (AEIFRS)

The Service's initial Financial Report was prepared under AEIFRS. The Asset Revaluation Reserve reduced by \$45.1 million under the new Standards.

FINANCIAL INFORMATION

Abridged Operating Statement

Period ended 30 June	2005 \$'000
EXPENSES	
Employee related	539,214
Visiting medical officers	25,810
Other expenses	<u>329,353</u>
TOTAL EXPENSES	<u>894,377</u>
TOTAL REVENUE	<u>176,684</u>
Gain on disposal of non-current assets	<u>(498)</u>
NET COST OF SERVICES	<u>718,191</u>
Add Government Contributions	
Department of Health recurrent payments	627,349
Department of Health capital payments	6,143
Asset sale proceeds transferred to NSW Health Department	(2,190)
Acceptance by the Crown Entity of superannuation liability	<u>42,113</u>
Total Government Contributions	<u>673,415</u>
RESULT FOR THE PERIOD FROM ORDINARY ACTIVITIES	<u>(44,776)</u>

Abridged Balance Sheet

At 30 June	2005 \$'000
Current assets	164,115
Non-current assets	<u>1,546,478</u>
TOTAL ASSETS	<u>1,710,593</u>
Current liabilities	234,934
Non-current liabilities	<u>218,216</u>
TOTAL LIABILITIES	<u>453,150</u>
NET ASSETS	<u>1,257,443</u>

The Service revalued its land and buildings on 1 April 2005 resulting in a \$271.4 million increase in the value of non-current assets.

Abridged Program Information

The table below details the Service's net cost of services by program:

Period ended 30 June	2005		Net Cost of Services*
	Revenues \$'000	Expenses \$'000	
Overnight acute inpatient services	112,412	404,109	291,984
Outpatient services	7,107	114,997	107,925
Rehabilitation and extended care services	16,650	82,362	65,759
Emergency services	8,915	70,084	61,184
Teaching and research	12,041	58,260	46,264
Other	<u>19,559</u>	<u>164,565</u>	145,075
Total all programs	<u>176,684</u>	<u>894,377</u>	718,191

*Includes gain on disposal of non-current assets.

SERVICE ACTIVITIES

For further information on the Service, refer to www.sesiahs.nsw.gov.au.

Sydney South West Area Health Service

AUDIT OPINION

The audit of the Service's financial report for the six-month period ended 30 June 2005 resulted in an unqualified Independent Audit Report.

HEALTH RESTRUCTURE

On 27 July 2004 the then Minister for Health announced changes to the health system, including a statewide restructure of health administration. The restructure took effect from 1 January 2005.

The South Western Sydney Area Health Service merged with the Central Sydney Area Health Service to form the new Sydney South West Area Health Service.

PERFORMANCE ISSUES

(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 3.8 days, the highest in the State.

The Area's bed occupancy rate was 94.1 per cent. This is the third highest in the State and higher than the former Central Sydney and South Western Sydney Area Health Services.

The Department has directed that Areas should not have any creditors (excluding amounts owing to visiting medical officers, government agencies and contracted patient services) over 45 days. The Service did not meet this requirement. The total level of these creditors at 30 June 2005 was \$1.9 million. The former South Western Sydney Area experienced similar problems and had \$1.5 million owing to such creditors at 30 June 2004. The Department provided repayable advances of \$14.0 million to help the Area address its liquidity. The Department told us that the Service's financial performance would be monitored and subject to ongoing assessment.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in only two of the five triage categories.

The Service's access block was 38 per cent and is the highest in the State.

CONTROL ISSUES

We identified opportunities for the Service to improve its internal control and are discussing these with Service staff. Where appropriate we will refer our findings to management.

FINANCIAL INFORMATION

Abridged Consolidated Statement of Financial Performance

Period ended 30 June	2005 \$'000
Employee related	615,106
Visiting medical officers	33,171
Other expenses	359,096
TOTAL EXPENSES	<u>1,007,373</u>
TOTAL REVENUE	<u>204,601</u>
Gain on disposal of non-current assets	<u>9,716</u>
NET COST OF SERVICES	<u>793,056</u>
Add Government Contributions	
Department of Health recurrent payments	696,128
Department of Health capital payments	33,034
Acceptance by the Crown Entity of superannuation liability	58,124
Total Government Contributions	<u>787,286</u>
RESULT FOR THE PERIOD FROM ORDINARY ACTIVITIES	<u>(5,770)</u>

Abridged Consolidated Statement of Financial Position

At 30 June	2005 \$'000
Current assets	219,220
Non-current assets	1,661,478
TOTAL ASSETS	<u>1,880,698</u>
Current liabilities	229,696
Non-current liabilities	252,660
TOTAL LIABILITIES	<u>482,356</u>
NET ASSETS	<u>1,398,342</u>

Abridged Program Information

The table below details the Service's net cost of services on a program basis:

Period ended 30 June	2005		
	Revenues \$'000	Expenses \$'000	Net Cost of Services* \$'000
Overnight acute in-patient services	105,234	439,645	324,178
Outpatient services	4,422	133,000	128,600
Primary and community based services	6,792	75,533	68,920
Same day acute inpatient services	18,476	73,496	55,082
Rehabilitation and extended care services	23,930	73,498	49,597
Other	45,747	212,201	166,679
Total all programs	<u>204,601</u>	<u>1,007,373</u>	<u>793,056</u>

*Includes gain on disposal of non-current assets

SERVICE ACTIVITIES

For further information on the Service refer to www.sswahs.nsw.gov.au.

CONTROLLED ENTITIES

Health Research Foundation Sydney South West

The Health Research Foundation Sydney South West was incorporated in February 1997. It is a controlled entity of Sydney South West Area Health Service and is limited by guarantee. Its principal activities are to raise and administer funding for research to improve the health of the population of South Western Sydney.

Year ended 30 June	2005 \$'000	2004 \$'000
Revenue	503	450
Expenses	525	732
Net loss	22	282
Net assets (at 30 June)	3,084	3,107

ANZAC Health and Medical Research Foundation and ANZAC Health and Medical Research Foundation Trust Fund

The principal activity of the ANZAC Health and Medical Research Foundation is acting as trustee for the Health and Medical Research Foundation Trust Fund. The company is limited by guarantee and has not traded in its own right.

The ANZAC Health and Medical Research Foundation Trust Fund principal activity is to promote and facilitate healthcare delivery and research on illness and disease associated with lifestyle and ageing.

Year ended 30 June	2005 \$'000	2004 \$'000
Revenue	4,442	3,997
Expenses	3,467	2,334
Net surplus	975	1,663
Net assets (at 30 June)	12,513	11,538

Sydney West Area Health Service

AUDIT OPINION

The audit of the Service's financial report for the six months ended 30 June 2005 resulted in an unqualified Independent Audit Report.

HEALTH RESTRUCTURE

On 27 July 2004 the then Minister for Health announced changes to the health system, including a statewide restructure of health administration. The restructure took effect on 1 January 2005.

The Western Sydney Area Health Service merged with the Wentworth Area Health Service to create the new Sydney West Area Health Service. The new Service also assumed responsibility for health services for Lithgow and Portland Hospitals, which were previously within the boundaries of the former Mid Western Area Health Services.

PERFORMANCE ISSUES

(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 West Area was 3.7 days, the second highest in the State.

The Area's bed occupancy rate was 90.0 per cent, lower than the former Wentworth and Western Sydney Areas but comparable with the State average of 90.7 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. This was consistent with the performance of the former Areas.

At 35 per cent the Service's access block was higher than the State average of 30 per cent.

CONTROL ISSUES

We identified that the Service needs to improve some basic accounting processes and procedures to strengthen its financial controls. Areas for improvement include reconciliation of account balances, attendance and leave recording and finalisation of a disaster recovery plan. The Service also had to correct several significant errors in the financial report initially submitted for audit. We informed the Service's management of risks associated with having a concentration of operations and systems with one officer. The Service's management has assured us that it will develop an appropriate framework to improve financial operations and address risks.

FINANCIAL INFORMATION**Abridged Operating Statement**

Period ended 30 June	2005 \$'000
Employee related	462,269
Visiting medical officers	16,747
Other expenses	<u>296,792</u>
TOTAL EXPENSES	<u>775,808</u>
TOTAL REVENUE	<u>126,407</u>
Gain on disposal of non-current assets	<u>1,386</u>
NET COST OF SERVICES	<u>648,015</u>
Government Contributions	
Department of Health recurrent allocations	584,845
Department of Health capital allocations	41,964
Administrative restructure	21,359
Acceptance by the Crown Entity of employee superannuation benefits	38,661
Total Government Contributions	<u>686,829</u>
RESULT FOR THE PERIOD FROM ORDINARY ACTIVITIES	<u>38,814</u>

Abridged Balance Sheet

At 30 June	2005 \$'000
Current assets	227,175
Non-current assets	<u>1,338,369</u>
TOTAL ASSETS	<u>1,565,544</u>
Current liabilities	149,631
Non-current liabilities	<u>193,151</u>
TOTAL LIABILITIES	<u>342,782</u>
NET ASSETS	<u>1,222,762</u>

A recent asset revaluation resulted in \$218 million being added to the Asset Revaluation Reserve, bringing equity at 30 June 2005 to \$1,223 million.

Abridged Program Information

The table below details the Service's net cost of services by program:

Period ended 30 June	2005		
	Revenues \$'000	Expenses \$'000	Net Cost of Services* \$'000
Overnight acute inpatient services	76,703	331,136	254,433
Mental health services	3,636	59,650	56,014
Primary and community based services	4,414	75,421	71,007
Outpatient services	7,140	68,867	61,727
Teaching and research	13,519	45,641	32,122
Emergency services	4,269	51,160	46,891
Same day acute inpatient services	7,452	57,201	49,749
Rehabilitation and extended care services	9,371	54,240	44,869
Other	<u>1,289</u>	<u>32,492</u>	<u>31,203</u>
Total all programs	<u>127,793</u>	<u>775,808</u>	<u>648,015</u>

*Includes gain/loss on disposal of non-current assets

SERVICE ACTIVITIES

For further information on the Service, refer to www.wsahs.nsw.gov.au.

Ambulance Service of New South Wales

AUDIT OPINION

The audit of the Service's financial report for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

PERFORMANCE ISSUES

The Service's patient health care record system shows that 763,360 patients were assessed, treated or transported 2004-05, a 1.4 per cent increase over the previous year.

The Service considers the number of incidents and road responses to be its primary measures of activity. (Incidents are single events requiring ambulance services and responses are the total number of ambulances responding to those events. The Service advised us of a 1.0 per cent increase in incidents (786,168 in 2003-04 to 794,030 in 2004-05) and a 2.1 per cent increase in responses (928,073 in 2003-04 to 947,563 in 2004-05).

The Service's performance agreement with the Director-General of the Department of Health set the following targets for statewide response times:

Year ended 30 June	2005		2004	
	Target %	Actual %	Target %	Actual %
Response Times				
<10 mins	53	53	55	52
<15 mins	82	84	83	82

The Service provided the following information regarding its performance:

Year ended 30 June	Sydney		Rural		State-wide	
	2005	2004	2005	2004	2005	2004
Activation Time						
Average (mins)	1.2	1.3	1.5	1.6	1.4	1.4
% ≤ 3 mins	94.6	93.0	91.2	89.1	93.0	91.2
Response Time						
Average (mins)	10.8	11.7	13.5	12.4	12.0	12.0
% ≤ 5 mins	8.5	7.9	10.1	11.0	9.3	9.4
% ≤ 10 mins	53.3	52.6	49.5	50.6	51.4	51.7
% ≤ 15 mins	83.7	83.0	75.0	75.3	79.6	79.3*
% ≤ 20 mins	93.9	93.4	86.4	86.5	90.3	90.1
Time on Scene						
Average (mins)	16.1	17.3	15.3	15.3	15.7	16.3
% ≤ 20 mins	73.5	70.4	77.4	77.0	75.6	73.6
% ≤ 30 mins	91.3	88.6	92.2	91.9	91.8	90.2
Case Cycle Time						
Average (mins)	86.4	83.3*	71.8	71.9*	79.0	77.5*
% ≤ 60 mins	25.3	26.5*	48.2	49.7*	37.0	38.2*

Activation time: time from the call receipt to when an ambulance is despatched

Response time: time from the call receipt to when an ambulance arrives at the scene

Time on scene: length of time an ambulance is at the incident

Cycle time: time from when an ambulance is despatched to when the case has been closed

* The Service told us that the 2004 statistics it provided last year were incorrect. Figures shown are the corrected statistics

Source: Ambulance Service of New South Wales

The Service told us that delays in hospital emergency departments and higher activity levels continued to affect the Service's efforts to improve operational efficiency.

The Service also provided the following national comparisons on the percentage of emergency calls responded to within ten minutes.

State or Territory	2005 %	2004 %
New South Wales	51.4	51.7
Queensland	68.6	66.7
Metropolitan Ambulance (Victoria)	66.5	68.6
Rural Ambulance Victoria	52.4	54.1
South Australia	57.0	61.0
Western Australia	59.3	60.0
Tasmania	46.3	47.1
Australian Capital Territory	74.5	74.5
Northern Territory	56.0	69.0

These results must be considered in context. The Service told us that while it records the time to respond to all '000' calls (no matter how urgent they may be), other States and Territories report only the responses to the most urgent 'Category 1' calls, which account for 60 to 70 per cent of all '000' calls.

CONTROL ISSUES

We noted opportunities where existing procedures could be improved, mainly relating to the general computer control environment. We reported our findings to management.

OTHER ISSUES

During the year, the Independent Pricing And Regulatory Tribunal (IPART) reviewed the Service's fee and funding structure. IPART found that the Service had: a relatively low cost recovery level; funding had not been sufficient to address increasing demand for its services; and an increasing reliance on direct government funding. The Review identified potential reform options operating in other jurisdictions but recognised that some may not be appropriate for New South Wales.

FINANCIAL INFORMATION**Abridged Statement of Financial Performance**

Year ended 30 June	2005 \$'000	2004 \$'000
Employee related	271,606	256,479
Other expenses	114,877	110,314
TOTAL EXPENSES	386,483	366,793
TOTAL REVENUE	84,850	79,299
Loss/(gain) on disposal of non-current assets	(139)	(740)
NET COST OF SERVICES FOR YEAR	301,494	286,754
Add Government Contributions		
Department of Health recurrent payments	258,580	236,905
Department of Health capital payments	15,034	14,245
Asset Sale Proceeds transferred to the NSW Health Department	(968)	--
Acceptance by the Crown Entity of superannuation liability	19,913	18,712
Total Government Contributions	292,559	269,862
RESULT FOR THE YEAR FROM ORDINARY ACTIVITIES	(8,935)	(16,892)

Abridged Statement of Financial Position

At 30 June	2005 \$'000	2004 \$'000
Current assets	13,947	12,404
Non-current assets	163,506	167,541
TOTAL ASSETS	177,453	179,945
Current liabilities	47,547	47,390
Non-current liabilities	56,121	49,835
TOTAL LIABILITIES	103,668	97,225
NET ASSETS	73,785	82,720

Program Information

The table below details the Service's net cost of services by program:

Year ended 30 June	2005		2004	
	Revenues \$'000	Expenses \$'000	Net Cost of Services* \$'000	Net Cost of Services* \$'000
Emergency services	84,827	384,779	299,813	282,677
Teaching and research	23	1,530	1,507	3,947
Other	--	174	174	130
Total all programs	<u>84,850</u>	<u>386,483</u>	<u>301,494</u>	<u>286,754</u>

*Includes gain on disposal of non-current assets

SERVICE ACTIVITIES

For further information on the Service, refer to www.asnsw.health.nsw.gov.au.

Clinical Excellence Commission

AUDIT OPINION

The audit of the Clinical Excellence Commission's financial report for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

FINANCIAL INFORMATION

Year ended 30 June	2005 \$'000	2004 \$'000
EXPENSES		
Employee related	1,606	1,145
Other expenses	1,554	2,063
TOTAL EXPENSES	3,160	3,208
TOTAL REVENUE	123	158
NET COST OF SERVICES	3,037	3,050
Add Government Contributions		
Department of Health recurrent payments	2,580	3,255
Acceptance by the Crown Entity of superannuation liability	97	68
Total Government Contributions	2,677	3,323
RESULT FOR THE YEAR FROM ORDINARY ACTIVITIES	(360)	273
NET ASSETS (at 30 June)	(35)	325

Employee related expenses rose due to higher staff numbers as a result of the expansion in the level of activities conducted by the Commission.

Other expenses decreased due to less activity on the Commission's projects in 2005. Government contributions were similarly reduced as project expenditure was deferred to next financial year.

COMMISSION ACTIVITIES

On 24 August 2004, the Minister for Health launched the Clinical Excellence Commission as part of the New South Wales Patient Safety and Clinical Quality Program. Before then the Clinical Excellence Commission was known as the Institute of Clinical Excellence. This change of name was done in accordance with Amendment No. 154 to the *Health Services Act 1997*.

The Commission builds on the work of the former body and has been tasked with new responsibilities in the Health system's frontline clinical care and improved safety and quality. Part of the role of the Commission is to acquire and share information about how well the NSW health system is performing and to use this information to improve the performance of the system.

The Commission's mission is to identify issues of a systemic nature that affect patient safety and clinical quality in the NSW health system and to develop and advise on implementation strategies to address these issues.

For further information on the Institute, refer to www.cec.health.nsw.gov.au.

New South Wales Health Foundation

AUDIT OPINION

The audit of the Foundation's financial report for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

FINANCIAL INFORMATION

Year ended 30 June	2005 \$'000	2004 \$'000
Revenue	130	122
Expenses	561	771
Deficit for the year from ordinary activities	431	649
Net assets (at 30 June)	31,125	31,556

Last year's Report commented on the Foundation's intention to sell Kamira Farm, a property at Wadalba on the State's Central Coast that accommodates women being treated for drug and alcohol abuse. The sale has yet to occur and is currently being considered in conjunction with other options.

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.

The Royal Alexandra Hospital for Children

AUDIT OPINION

The audit of the Hospital's financial report for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

PERFORMANCE ISSUES

The average length of stay in the Hospital was 3.1 days in 2003-04 and remained the same in 2005.

The bed occupancy rate for the Hospital fell from 93.2 per cent in 2003-04 to 90.3 per cent in 2004-05. However, the total number of patients treated rose from 25,909 to 26,671.

The Hospital met or exceeded the Department of Health's benchmarks for timeliness in treating the two most urgent categories of emergency patients in 2004-05 as well as in the triage five (less urgent cases). The Hospital did not achieve the Department's benchmarks for the remaining two triage categories.

CONTROL ISSUES

We identified some minor opportunities for the Hospital to improve its internal control and reported them to Hospital management.

COMPLIANCE ISSUES

We examined the Hospital's preparedness for introducing Australian Equivalents to International Financial Reporting Standards. The results of this review were satisfactory.

FINANCIAL INFORMATION

Abridged Statement of Financial Performance

Year ended 30 June	2005 \$'000	2004 \$'000
Employee related	168,417	154,322
Visiting medical officers	4,900	4,384
Other expenses	<u>77,506</u>	<u>67,129</u>
TOTAL EXPENSES	<u>250,823</u>	<u>225,835</u>
TOTAL REVENUE	<u>172,070</u>	<u>144,444</u>
(Gain)/Loss on disposal of non-current assets	<u>107</u>	<u>(149)</u>
NET COST OF SERVICES	<u>78,860</u>	<u>81,242</u>
Add Government Contributions		
Department of Health recurrent payments	50,956	52,775
Department of Health capital payments	474	5,741
Acceptance by the Crown Entity of superannuation liability	<u>13,177</u>	<u>11,910</u>
Total Government Contributions	<u>64,607</u>	<u>70,426</u>
RESULT FOR THE YEAR FROM ORDINARY ACTIVITIES	<u>14,253</u>	<u>10,816</u>

Abridged Statement of Financial Position

At 30 June	2005 \$'000	2004 \$'000
Current assets	47,829	40,787
Non-current assets	<u>387,453</u>	<u>400,026</u>
TOTAL ASSETS	<u>435,282</u>	<u>440,813</u>
Current liabilities	34,994	30,215
Non-current liabilities	<u>32,960</u>	<u>30,909</u>
TOTAL LIABILITIES	<u>67,954</u>	<u>61,124</u>
NET ASSETS	<u>367,328</u>	<u>379,689</u>

The Hospital has completed a new research facility with total expenditure to 30 June 2005 of \$17.9 million. The project was funded from donations and funds from Commonwealth and NSW Governments.

Abridged Program Information

The table below details the Hospital's net cost of services on a program basis:

Year ended 30 June	2005		2004	
	Revenues \$'000	Expenses \$'000	Net Cost of Services* \$'000	Net Cost of Services \$'000
Overnight acute inpatient services	108,097	113,330	5,272	17,917
Outpatient services	8,456	52,660	44,228	39,294
Teaching and research	15,090	23,663	8,586	5,869
Other	<u>40,427</u>	<u>61,170</u>	<u>20,774</u>	<u>18,162</u>
Total all programs	<u>172,070</u>	<u>250,823</u>	<u>78,860</u>	<u>81,242</u>

*Includes gain/loss on disposal of non-current assets

HOSPITAL ACTIVITIES

For further information on the Hospital refer to www.chw.edu.au.

Minister for Housing

**Department of Housing trading as New South Wales
Land and Housing Corporation**

Home Purchase Assistance Fund

Department of Housing trading as NSW Land and Housing Corporation

AUDIT OPINION

The audit of the Corporation's financial report for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

KEY ISSUES

Public Equity Partnership (PEP) - Recognition of Assets and Liabilities

In June 1991 and October 1993, the Corporation entered into two complex financing arrangements, known as Public Equity Partnership (PEP) 1 and 2, with a private sector participant (PSP). These arrangements were entered into to enable the Corporation to accommodate public housing tenants in residential properties leased, maintained and managed by it.

A recent analysis of the PEP arrangements identified that an accrued interest liability and an investment in bonds, through a Trust, should be recognised in the Corporation's financial report.

As a result the Corporation has recognised and reported for the first time:

- a liability to the PSP of \$86.7 million for the interest payable from the commencement of the arrangements
- an investment in FANMAC bonds through FANMAC Premier HUL Trust, of \$ 67.9 million, which will be used to partly settle the Corporation's liability to the PSP on maturity
- corresponding interest expenses and revenues.

Based on our review of the PEP arrangements and audit of the information provided to us by management, we believe the Corporation has appropriately accounted for these transactions.

The Corporation is managing the PEP financing arrangements to minimise their cost to the Corporation.

Reshaping Public Housing Reforms

In May 2005 the Corporation announced its 'Reshaping Public Housing' reforms which are designed to 'make sure [the Corporation] has a fair public housing system that helps people who are most in need, well into the future'. The reforms impact:

- who is eligible for public housing
- how long people can stay in public housing
- how much people will pay to live in public housing
- how the Corporation maintains its properties
- who pays the cost of water usage
- how often the Corporation determines the amount of rent tenants pay.

In July 2005 the Corporation implemented the findings of a Market Rent Review of public housing properties as part of these reforms, using market rent values determined as at 30 June 2004.

This is the first Market Rent Review implemented by the Corporation since 2001. In future the Corporation intends conducting these reviews annually to keep tenants' rents and subsidies in line with current market rent values.

The Corporation advised us that the rent review will only affect tenants paying market rent (i.e. 14 per cent of all tenancies) and no tenant will pay more than market rent.

Rents paid by those receiving a rental subsidy are determined as a percentage of household income. Under the reform program, for tenants other than those receiving a Family Tax Benefit, the cap on rents paid will increase from 25 per cent to 30 per cent of household income in November 2005, if that income is considered to be moderate. This generally excludes people receiving Centrelink payments. If a tenant receives a Family Tax Benefit, their rent will increase by 1 per cent every six months, from 11 per cent to 15 per cent of the Family Tax Benefit.

The Corporation advised us that these changes will impact about one third of all tenants receiving a rental subsidy (i.e. 28.7 per cent of all tenancies).

Residential Housing Portfolio Valuation

The Corporation values its residential properties at market value based on field valuations by independent qualified valuers, for a set of benchmark properties, extrapolated over relevant segments of the population. However, if management believes the values so determined are not supported by general market indicators, they adjust property values by movements in the Valuer General's housing index.

During 2004-05, the values of the benchmark properties subject to field valuations were not extrapolated over relevant segments of the population. This was because management did not believe these values were indicative of the general market and, if extrapolated, would have caused distortions within the portfolio.

We have advised management that the Corporation needs to review and enhance its valuation methodology to ensure appropriate values are accurately and consistently determined from year to year so the value of the housing portfolio is not materially misstated. The Corporation has advised us this review is currently in progress.

NSW Businesslink

On 1 July 2004, NSW Businesslink ceased to be a division of the Corporation when NSW Businesslink (a department) and NSW Businesslink Pty Ltd (a State Government owned company established under the *Corporations Act 2001*) were created. NSW Businesslink, the division, was formed in December 2002 to provide the Corporation, the Department of Community Services and the Department of Ageing, Disability and Home Care with shared administrative services, such as human resources and financial services. The division's functions were effectively transferred to NSW Businesslink Pty Ltd (the Company) on 1 July 2004, whilst its employees were transferred to NSW Businesslink (the department) to ensure their continued employment under the *Public Sector Employment and Management Act 2002*. The new department's employees provide employment services to the Company, which has no employees.

The Ministers of the Department of Housing, the Department of Community Services, the Department of Ageing, Disability and Home Care and the Treasurer each own 25 per cent of the Company's shares, and each of the Departments' Chief Executive Officers (CEOs) are its Directors. This gives rise to potential conflicts of interest as the Company's directors are also the CEOs of its only three clients.

Service Level Agreement (SLA) with Businesslink Pty Ltd

An appropriate SLA has yet to be agreed and signed between the Corporation and Businesslink Pty Ltd for the provision of shared corporate services.

Failure to agree an appropriate SLA with Businesslink may result in the parties not having a clear understanding of their responsibilities and accountabilities for the service arrangements. This exposes the Corporation to undesirable risks, which may impair the effectiveness and efficiencies sought from these arrangements including the cost, quality and timeliness of the services provided.

Business Continuity Planning

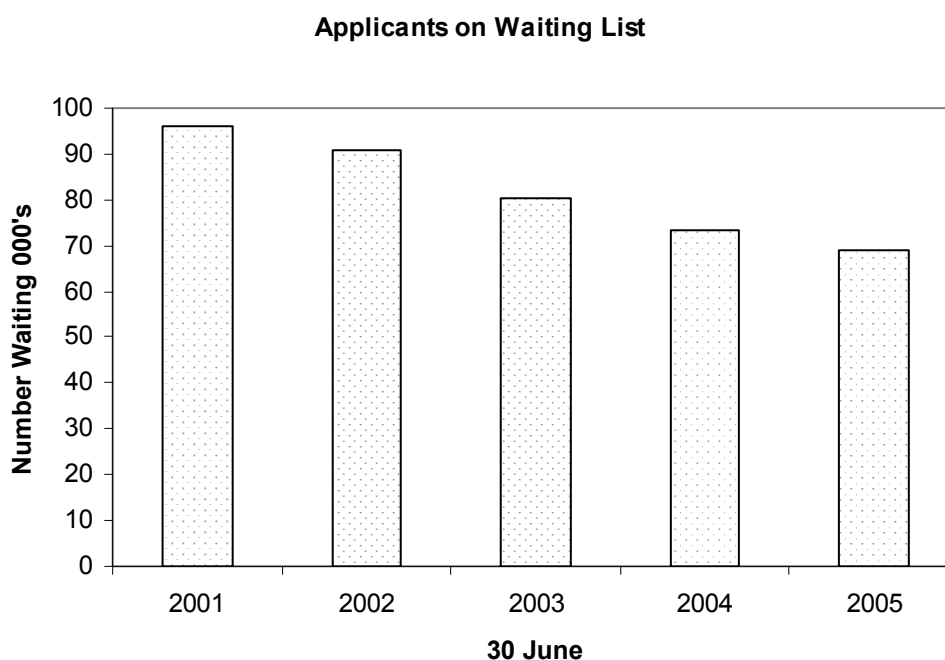
Last year we reported that the Corporation does not have a tested and operational business continuity plan. At that time, management advised that due to the breadth and impact of recent organisational changes, the finalisation of a comprehensive business continuity plan had been delayed.

This year the Corporation endorsed a Business Continuity Management Strategy as the basis for developing Business Continuity Plans (BCPs) for all sites across the organisation. BCPs have been developed and tested for Ashfield Head Office and the Housing Contact Centre. The Corporation expects to finalise BCPs for each of its other 71 sites by March 2006.

PERFORMANCE ISSUES

Waiting Lists

Waiting lists for public housing have decreased over the past five years from 96,000 in 2001 to 69,000 at 30 June 2005, a 28.1 percent reduction. The Corporation advises us that this is mainly due to improved management of the housing register, including regular surveys of applicants to determine their ongoing eligibility and needs.



Source: NSW Land and Housing Corporation

Provision of Social Housing

During the year the Corporation assisted 347,000 people through the provision of social housing. In addition 88,000 people have been assisted through other programs, such as the NSW Government’s RentStart Program. This program assisted approximately 54,000 low income people into the private rental market by assisting with upfront cash for bonds and rent in advance.

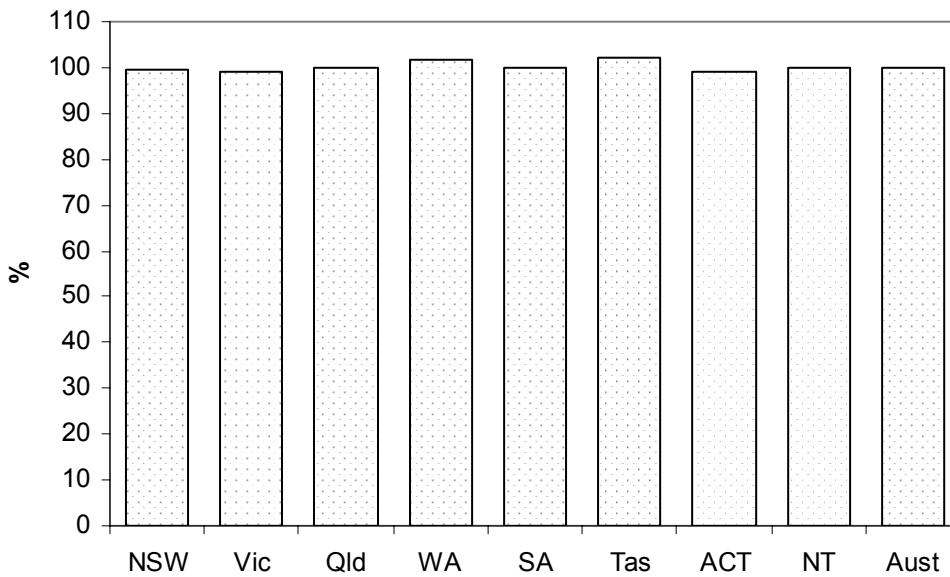
The following information and associated graphs have been extracted from the Report on Government Services 2005, produced by the Productivity Commission, based on information for 2003-04.

Rent Collected as a Proportion of Total Rent Charged

At 99.7 per cent New South Wales is slightly behind the Australian average of 99.9 per cent for rent collected as a proportion of total rent charged. Comparison between jurisdictions is impacted by rental recognition policies, payment arrangements, write-off policies and the treatment of disputed amounts. Payment arrangements of some jurisdictions also mean rent collected can be higher than rent charged for the 12 month period.

At 30 June 2005, the Corporation’s rental debtors amounted to \$33.3 million (\$31.2 million at 30

Rent collected as a Proportion of Total Rent Charged, 2003-04

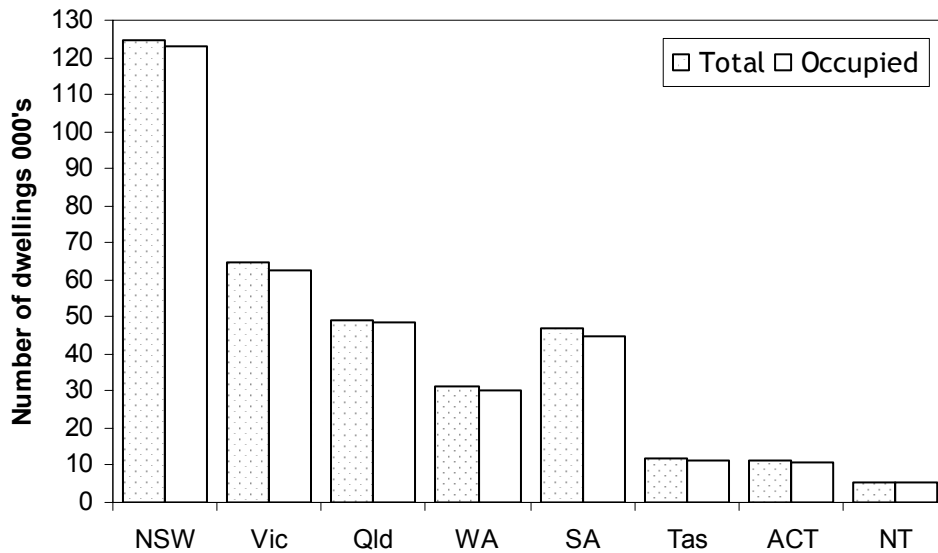


June 2004. This represents 6 per cent (6 per cent) of total rental charged for the year (excluding rental subsidies). The Corporation provided \$29.8 million or 89.5 per cent (\$26.2 million or 84.1 per cent) of this balance as doubtful as it mainly comprises uncollected debts from former tenants.

Number of Public Housing Properties

At 30 June 2004, New South Wales had the greatest number of public housing properties in Australia, 124,735 (125,216 in 2002-03) dwellings. New South Wales, together with Queensland, had the highest occupancy rates of 98.7 (98.3) per cent, slightly higher than the national average of 97.4 (97.1) per cent.

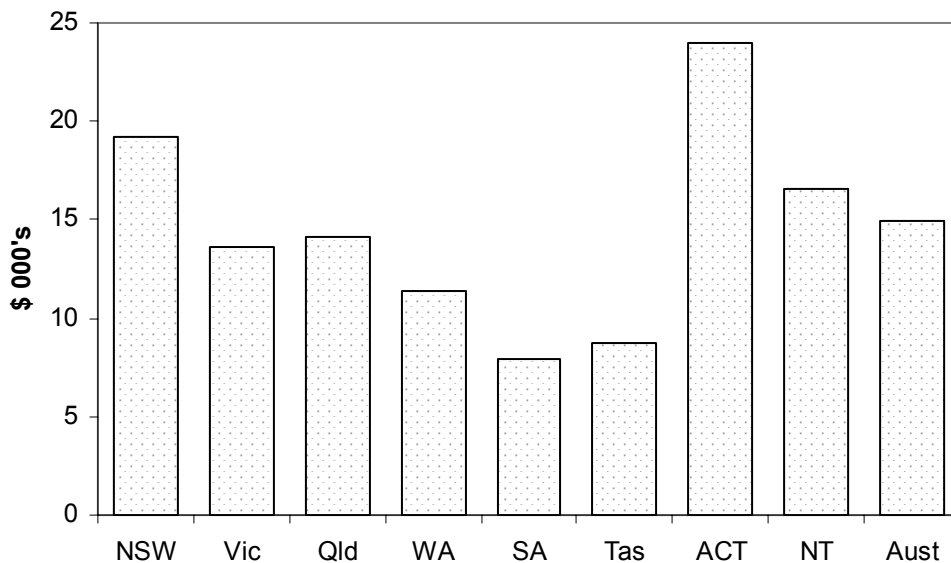
Total Dwellings and Total Dwellings Occupied, 2003-04



Net Cost per Dwelling

In 2003-04, New South Wales had the second highest net cost per dwelling at \$19,218 (\$16,970 in 2002-03):

Net Cost per Dwelling, 2003-04



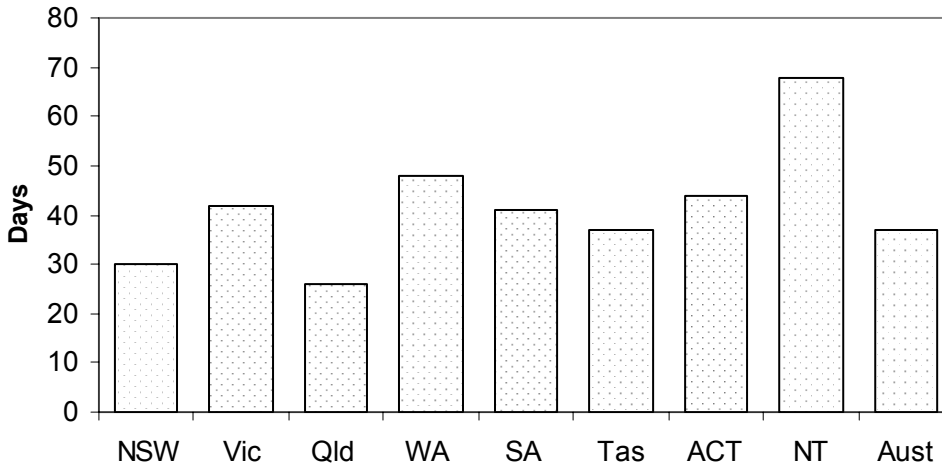
Net cost per dwelling comprises recurrent costs (excluding payroll tax) plus depreciation and cost of capital, less interest paid and rent collected. Issues on the comparability of the cost of capital data include consistency of data collection, completeness of data and the possibility of double counting of items by some jurisdictions.

Average Turnaround Time

Turnaround time indicates how quickly jurisdictions rent housing stock after being vacated or acquired.

New South Wales had the second best turnaround time of 30 days in 2003-04 (33 days in 2002-03). Quicker turnaround allows greater use of available housing stock and contributes to the high NSW occupancy rate.

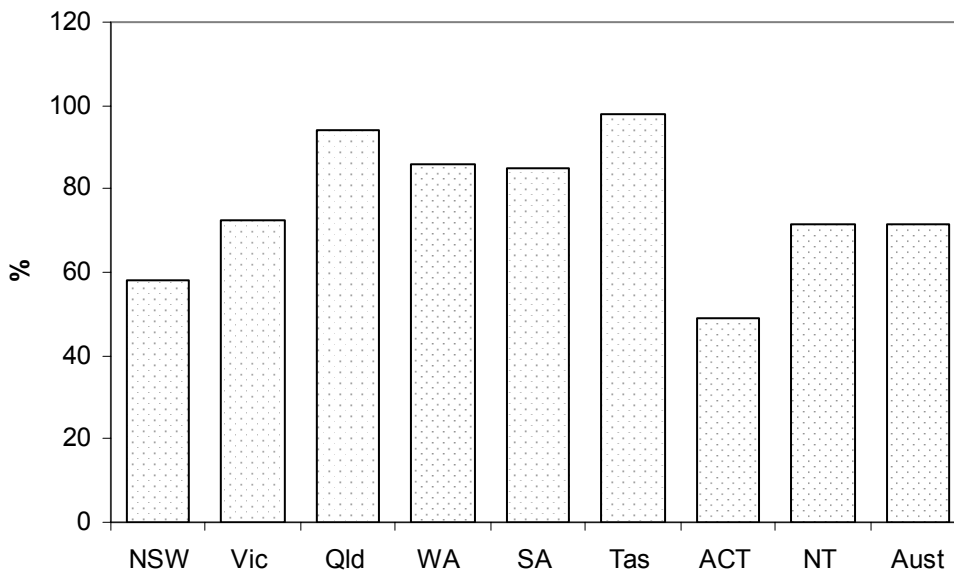
Average Turnaround Times (Days), 2003-04



Rent Charged as a Proportion of Market Rent

At 58.2 per cent in 2003-04 (58.3 per cent in 2002-03), New South Wales had the second lowest level of rent charged as a proportion of the market rent rate for each dwelling. The Productivity Commission’s report observed that a low proportion implies a high level of subsidisation by the State or Territory.

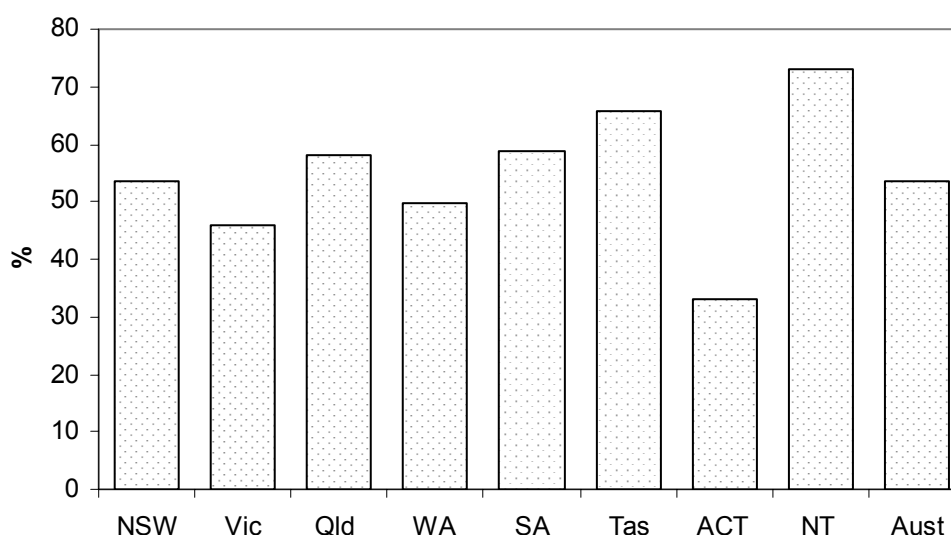
Rent Charged as a Proportion of Market Rent, 30 June 2004



Proportion of New Tenancies to Households With Special Needs

The national average of new tenancies allocated to 'special needs' households in 2003-04 was 53.5 per cent (48.1 per cent in 2002-03). At 53.6 per cent (52.4 per cent in 2002-03), New South Wales was slightly higher than the national average. Special needs categories cover households that have either a member with a disability, a principal tenant aged either 24 years or under or 75 years or over, or a household with one or more indigenous members.

Proportion of New Tenancies to Households with Special Needs, 2003-04



CONTROL ISSUES

Administration of Contractors

The Corporation undertakes post inspections of work performed by contractors to manage and control their performance.

During the year the Corporation undertook approximately 17,000 inspections, which resulted in 3,227 non-compliance notices being issued. Of these, 2,235 were resolved during the year leaving 992 still active.

Maintenance Expenditure

The Corporation distinguishes maintenance expenditure work orders under \$5,000 from those over this amount. While post inspections of work orders are generally being completed we noted:

- analysis of the results of post inspections for work orders above \$5,000 is not performed
- analysis and review of post inspections of work orders under \$5,000 is performed, but not consistently across the organisation
- post inspections are not always recorded on a timely basis making it difficult to monitor and accurately assess the number of post inspections performed
- employees can approve variations to initial work orders as long as the value of each variation does not exceed their authorised delegation.

The Corporation's post inspection policy also requires inspections for 100 per cent of work orders above \$5,000. However, we found examples where these had not been performed or were only performed several months after target date.

Other Expenditure

During our review of other expenditure we found:

- instances where expenditure was incurred without a purchase order being raised (i.e. without prior approval by a delegated officer)
- some employees approved purchase orders without the appropriate delegation to do so
- some employees authorised payments without the delegated authority to do so.

These control issues expose the Corporation to the risk of:

- possible waste and mismanagement within maintenance expenditures.
- receipt of goods and services not being effectively certified
- paying for goods and services not received
- incurring inappropriate expenditures
- payments not being authorised
- non-compliance with the Corporation's delegation policy and the requirements of sections 12 and 13 of the Public Finance and Audit Act 1983.

We have included these matters in a letter to management and management advises it is addressing them.

COMPLIANCE ISSUES

We examined the Corporation's:

- compliance with Premier's Memorandum No. 2000-11, 'Disclosure of Information on Government Contracts with the Private Sector' and found the Corporation is not disclosing information about the awarding of contracts as required by the Premier's Memorandum
- preparedness for introducing Australian Equivalents to International Financial Reporting Standards. The results of this review were satisfactory.

OTHER MATTERS

Living Communities Program

The Corporation launched its Living Communities Program, which is designed to create a stronger community, with a \$500 million redevelopment of Bonnyrigg Estate in Western Sydney. The Corporation plans to work with local councils, private sector partners, other government agencies and community organisations to achieve this.

Backlog Maintenance

In previous reports to Parliament we have commented on the maintenance backlog faced by the Corporation. The Corporation is implementing a significant maintenance reform program to move from a predominantly responsive maintenance delivery service to a planned and systematic maintenance system.

Funding has been approved to address backlog maintenance and fire safety works. These programs are scheduled for completion by 2009-10. The objectives of the reforms are to:

- bring all properties to a consistent and sustainable standard
- reduce the number of responsive maintenance requests
- improve client satisfaction
- achieve better value for money
- improve management of tenant damage
- improve contractor performance.

The plan will be implemented in three phases. The initial phase involves piloting maintenance reforms across approximately 30,000 properties in 17 locations across NSW and includes all the Corporation's existing multi-trade contractors. All 17 pilot projects commenced before 30 June 2005.

The Corporation advises that backlog maintenance, estimated at \$750 million in 2001 has fallen to \$606 million at 30 June 2005. This reflects the cumulative effect of expenditure under the Accelerated Improvement Program and continued spending on planned maintenance. The Corporation received \$105 million in advanced funding for backlog maintenance in 2001-02. We previously reported that 35 per cent of properties are maintained to the Corporation's defined standards. As at July 2005 the Corporation estimates this has increased to 40 per cent.

FINANCIAL INFORMATION

Abridged Statement of Financial Performance

Year ended 30 June	2005 \$'000	2004 \$'000
Rents	1,103,045	1,102,684
Less - rental subsidies	<u>(551,072)</u>	<u>(573,192)</u>
Net rental income	551,973	529,492
Government Grants	394,187	450,248
Other income	<u>167,306</u>	<u>154,477</u>
TOTAL INCOME	<u>1,113,466</u>	<u>1,134,217</u>
Repairs and maintenance	194,936	218,008
Council and water rates	151,059	144,751
Employee related expenses	166,281	207,088
Depreciation and amortisation	248,237	238,176
Grants and subsidies	110,316	109,663
Borrowing cost	149,414	56,031
Assets demolished and written off	12,243	18,134
Other expenses	<u>160,699</u>	<u>141,484</u>
TOTAL EXPENDITURE	<u>1,193,185</u>	<u>1,133,335</u>
Surplus/(deficit) from ordinary activities	(79,719)	882
Revenues, expenses and valuation adjustments recognised directly in equity	<u>(726,212)</u>	3,408,346
TOTAL CHANGES IN EQUITY	<u>(805,931)</u>	<u>3,409,228</u>

Net rental income increased by \$22.5 million, primarily as a result of annual household income reviews and progressive increases in rent charged as a percentage of household income. Households eligible for rental subsidies are not charged market rents. Rental subsidies are calculated as the difference between market rents and actual rents based on household incomes.

Other income increased as a result of the recognition of \$67.9 million investment in bonds related to the PEP financing arrangements.

The decrease in repairs and maintenance expenditure is largely due to a \$15.8 million reclassification of fire safety program expenses from recurrent to capital expenditure.

The fall in employee related expenses is mainly due to the separation and transfer of NSW Businesslink division's staff to NSW Businesslink, the department. This division's employee related expenses amounted to \$52.2 million in 2003-04.

Borrowing costs increased by \$93.4 million mainly due to the recognition of \$86.7 million interest payable on the PEP financing arrangements.

A 14 per cent increase in other expenses is mainly as a result of \$31.4 million management fees being paid to NSW Businesslink for the provision of shared corporate services.

Recurrent and Capital Grants

Commonwealth and State Government grants to the Corporation totalled \$394 million in 2004-05 (\$450 million in 2003-04) and comprised:

Year ended 30 June	2004-05 \$'000	2003-04 \$'000
Commonwealth Grants		
Common State Housing Agreement (CSHA)		
CSHA - General assistance (base funding)	230,977	230,344
CSHA - Community housing	21,735	21,578
CSHA - Crisis accommodation	13,469	13,372
Grants - Interest assistance	<u>1,926</u>	<u>1,926</u>
	<u>268,107</u>	<u>267,220</u>
State Grants		
State matching	113,063	112,754
Other State funding	<u>13,017</u>	<u>70,274</u>
	<u>126,080</u>	<u>183,028</u>
TOTAL GRANTS	<u>394,187</u>	<u>450,248</u>
Comprised of:		
Recurrent Grants	237,075	278,721
Capital Grants	<u>157,112</u>	<u>171,527</u>
	<u>394,187</u>	<u>450,248</u>

Recurrent Grants

Recurrent grants of \$237 million (\$278 million in 2003-04) were used for lease payments, \$63.3 million (\$59.1 million); planned maintenance works, \$82.0 million (\$79.3 million); and rent start and rental assistance subsidies, \$25.3 million (\$28.2 million).

Capital Grants

Capital grants were used to construct and upgrade public housing, \$95.4 million (\$104.7 million) and to support community housing and crisis accommodation programs, \$61.7 million (\$66.8 million).

To help manage cash flows for the Corporation's housing programs in 2003-04, an amount of \$35 million was brought forward from the 2004-05 program to the 2003-04 program. This has had the effect of decreasing grants in 2004-05 by 12 per cent when compared to the previous year.

Abridged Statement of Financial Position

At 30 June	2005 \$'000	2004 \$'000
Current assets	316,057	301,944
Non-current assets	<u>28,459,896</u>	<u>29,223,791</u>
TOTAL ASSETS	<u>28,775,953</u>	<u>29,525,735</u>
Current liabilities	223,381	223,313
Non-current liabilities	<u>1,323,067</u>	<u>1,265,411</u>
TOTAL LIABILITIES	<u>1,546,448</u>	<u>1,488,724</u>
NET ASSETS	27,229,505	28,037,011
Retained earnings	8,549,750	8,548,858
Asset revaluation reserve	<u>18,679,755</u>	<u>19,488,153</u>
TOTAL EQUITY	<u>27,229,505</u>	<u>28,037,011</u>

Current assets increased \$14.1 million due to the recognition of \$67.9 million investments in bonds related to the PEP financing arrangements. This was offset by a fall in cash and other financial assets of \$48.8 million at 30 June 2005 due to a decrease of \$56 million in government grants. Non-current liabilities increased by \$57.7 million due to the recognition of \$86.7 million interest payable on the PEP financing arrangements. This was offset by the transfer of \$14.7 million in employee entitlements to Businesslink Pty Ltd. The decrease in non-current assets and the asset revaluation reserve was due to the value of the housing portfolio falling by 3 per cent in line with the general fall in property prices in 2004-05.

CORPORATION 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 in respect of all the Corporation's operations.

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

RENTAL HOUSING ASSISTANCE FUND

The audit of the financial report of the Rental Housing Assistance Fund for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

The Fund was established by trust deed in 1993, and supports the State's rental housing programs by providing an indemnity to the private sector participant in the PEP 2 financing arrangement. The indemnity covers losses to the participant's investment and the shortfall between the required market rent and the rent collected from tenants. As part of the agreement, the Corporation made a one-off payment of \$20.0 million to establish the Fund. Total capital contributions from the Corporation have amounted to \$30.9 million as at 30 June 2005 (2004: \$30.7 million).

Key Financial Information

Year ended 30 June	2005 \$'000	2004 \$'000
Revenues	4,360	1,594
Expenses	3,448	3,127
Operating surplus/(deficit)	912	(1,533)
Net assets (at 30 June)	2,736	1,624

Revenue comprised the Fund's share of capital profits from PEP 2 property sales of \$4.3 million and interest income of \$106,000. The Fund's share of capital profits increased by \$2.8 million as a result of the sale of 118 PEP 2 properties for \$30.3 million, whereas only 33 properties were sold for \$9.1 million in 2003-04. This resulted in the Fund reporting an operating surplus of \$912,000 for the year (\$1.5 million deficit in 2003-04).

Expenditure of \$3.4 million (\$3.1 million) mainly comprised rental subsidy payments.

At 30 June 2005, the NSW Land and Housing Corporation reported its \$2.7 million (\$1.6 million in 2003-04) investment in the Fund as a non-current investment. The value of the investment equals the value of the Fund's net assets.

Given the financial position of the Fund at year-end, the Corporation has advised it will continue providing funding, as required by the trust deed so the Fund can meet its subsidy commitments. The Corporation provided capital contributions to the Fund of \$201,000 in 2004-05 (\$2.7 million in 2003-04).

Home Purchase Assistance Fund

AUDIT OPINION

The audit of the Fund's financial report for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

KEY FINANCIAL INFORMATION

Abridged Statement of Financial Performance

Year ended 30 June	2005 \$'000	2004 \$'000
TOTAL REVENUE	<u>28,743</u>	<u>29,799</u>
TOTAL EXPENDITURE	<u>117</u>	<u>11,095</u>
OPERATING SURPLUS	<u>28,626</u>	<u>18,704</u>
Beneficiaries' equity at beginning of the financial year	<u>442,280</u>	<u>450,814</u>
TOTAL AVAILABLE FOR DISTRIBUTION	<u>470,906</u>	<u>469,518</u>
DISTRIBUTIONS		
Special beneficiaries	<u>6,909</u>	5,714
NSW Dept of Housing- Housing Reserve Fund	<u>2,762</u>	--
Treasury of New South Wales	<u>21,524</u>	<u>21,524</u>
	<u>31,195</u>	<u>27,238</u>
BENEFICIARIES' EQUITY AT END OF FINANCIAL YEAR	<u>439,711</u>	<u>442,280</u>

Revenue comprised interest earned on investments. Expenditure decreased by \$11 million compared with the previous year largely as a result of:

- a \$3.1 million write off of FANMAC Bonds investment settlement premium in 2003-04
- a \$2.3 million reversal of an investment revaluation decrement expensed in 2003-04
- a \$1.4 million reversal of a provision for defaulting loans no longer required
- a \$2.3 million decrease in operational funding costs paid to NSW Land and Housing Corporation (the Corporation). The Fund paid the operating costs of the Home Purchase Assistance Division (HPAD) of the Corporation up to and including 2003-04, when it was dismantled.

Distributions

The Fund is required under the Trust Deed to make distributions to special beneficiaries to meet revenue shortfalls of individual FANMAC Trusts and Shared Equity Schemes. The shortfalls amounted to \$6.9 million in 2004-05 (\$5.7 million in 2003-04).

With effect from 2004-05 the Fund's Trustee, the Corporation and NSW Treasury agreed the Fund should return some of the capital subscribed by the Housing Reserve Fund during the 1990's. An amount of \$2.8 million was returned to the Corporation on this basis.

Abridged Statement of Financial Position

At 30 June	2005 \$'000	2004 \$'000
Current assets	83,703	61,876
Non-current assets	<u>364,055</u>	<u>388,815</u>
TOTAL ASSETS	<u>447,758</u>	<u>450,691</u>
Current liabilities	6,047	5,511
Non-current liabilities	<u>2,000</u>	<u>2,900</u>
TOTAL LIABILITIES	<u>8,047</u>	<u>8,411</u>
NET ASSETS	<u>439,711</u>	<u>442,280</u>

Total assets decreased mainly due to redemption of investments to repay loans. Movements between current and non-current assets reflect the maturity profile of the investments portfolio.

Included within non-current liabilities is a provision for defaulting FANMAC mortgages of \$1.2 million (\$2.5 million for 2003-04).

FUND ACTIVITIES

A Trust Deed established the Fund in February 1989 to support the State's home purchase assistance program. Under the Trust Deed, the Fund is required to make distributions to meet income shortfalls in the FANMAC Trusts and some shared equity schemes, and principal and interest repayments of the Home Purchase Assistance Account (HPAA). The FANMAC Trusts were established to raise funds on behalf of the State, and to lend funds out under conditions specified by the Government, to a certain class of homebuyers. HPAA borrowings, which have been administered by NSW Treasury since the establishment of the Fund, stood at \$285.5 million (\$293.8 million).

As at 30 June 2005 the only mortgage trusts still operating were the FANMAC Master Trust and the FANMAC HUL Trust.

Funds raised by FANMAC Trusts are not included in the financial reports of the Fund, NSW Treasury or the New South Wales Land and Housing Corporation.

Minister for Justice

Department of Corrective Services

Department of Corrective Services

AUDIT OPINION

The audit of the Department's financial report for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

PERFORMANCE ISSUES

Offender and Imprisonment Rates

The number of persons and length of sentences of offenders managed by the Department of Corrective Services is influenced by the activities of NSW Police and sentencing authorities. These numbers are not performance measures of the Department but they drive a number of departmental performance measures.

In NSW, the proportion of the adult population imprisoned climbed from 2.1 per cent above the national average in 1997-98 to 7.5 per cent in 2003-04. The State experienced a temporary fall in imprisonment rates in 2003-04 when it was 5.4 per cent above the national average.

The NSW trend in the corrective services imprisonment rate (including periodic detention and community supervision) moved from 24.9 per cent below the national average in 1997-98, to 3.9 per cent above the national average in 2003-04.

NSW and national comparatives are given below.

Year ended 30 June	Rate per 100,000 Adult Population		NSW Ranking 2004	NSW Ranking 2003
	NSW 2004	National 2004		
Imprisonment	161.4	150.2	4/8	4/8
Periodic detention*	14.6	--	2/2	2/2
Community corrections	<u>329.4</u>	<u>331.6</u>	6/8	6/8
Total offenders	<u>505.4</u>	<u>481.8</u>	6/8	6/8
Included in the above categories are indigenous Australians. The rates for this group are:				
Imprisonment	2,094.5	1,850.5	2/8	2/8
Community corrections	3,261.8	2,764.1	4/8	4/8

* Only applicable to NSW and ACT

Source: Productivity Commission's *Report on Government Services 2005*
Audit Office of New South Wales

Indigenous Australians are over represented in this segment of the criminal justice system.

Safety and Containment

The Department's management of offender safety and containment is better than the national average on a number of key available measures.

It is performing better than other jurisdictions with fewer escapes from open perimeters and offenders completing community correction orders and no escapes from secure perimeters. It is not performing as well as most other jurisdictions in prisoner on prisoner assault.

The area of biggest improvement was in the NSW unnatural death rate, which was the highest of the jurisdictions in 1998-99, but is now just above the national average. An important component of this reduction has been the decrease in Indigenous apparent unnatural deaths that has steadily reduced over the past five years to one death in custody and one in home detention in 2002-03.

Year ended 30 June	NSW Rate per 100 Offenders 2004	National Rate per 100 Offenders 2004	NSW Ranking 2004	NSW Ranking 2003
Assault rates:				
Prisoner on prisoner*:				
Serious assault	0.74	0.69	2/7 [†]	4/7 [†]
Assault	13.57	9.67	2/7 [†]	1/7 [†]
Prisoner on officer*:				
Serious assault	--	0.06	eq 6/7 [†]	eq 3/7 [†]
Assault	1.16	1.48	4/7 [†]	3/7 [†]
Apparent unnatural death rate	0.10	0.08	2/8	3/8
Escape/abscondment rates:				
Open perimeter	0.21	0.93	7/7 [†]	7/7 [†]
Secure perimeter	--	0.04	eq 5/8	eq 2/8

* The Productivity Commission acknowledges that data on assaults are not strictly 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

Source: Productivity Commission's *Report on Government Services 2005*
Audit Office of New South Wales

NSW inmates average fewer out of cell hours than other jurisdictions. Out of cell hours is one of the measures of effective inmate management.

Year ended 30 June	Out of Cell Hours Per Day 2004	National Rate of Out of Cell Hours Per Day 2004	NSW Ranking 2004	NSW Ranking 2003
Open perimeter	12.0	13.3	7/7	7/7
Secure perimeter	7.7	9.9	7/7	6/7

Source: Productivity Commission's *Report on Government Services 2005*
Audit Office of New South Wales

Community Correction Orders

A key effectiveness measure for offenders serving community corrections orders is the proportion of orders successfully completed. The table below shows that NSW ranks above the national average.

Year ended 30 June	NSW Rate per 100 Offenders 2004	National Rate per 100 Offenders 2004	NSW Ranking 2004	NSW Ranking 2003
Orders successfully completed:				
Restricted movement*	75.9	72.3	4/7	3/6
Reparation	73.8	70.0	3/8	5/8
Supervision (compliance)	82.9	77.2	3/8	2/8
All orders	80.5	74.0	3/8	2/8

*Not applicable to all jurisdictions

Source: Productivity Commission's *Report on Government Services 2005*
Audit Office of New South Wales

Community correction orders are:

- restricted movement orders, which subject offenders to a system of restricted movement including supervision or electronic monitoring
- reparation orders, which involve community service bonds or orders requiring unpaid work or fine options
- supervision (compliance) orders applying to all other offenders.

Recidivism

The State's recidivism rates are higher than most other Australian jurisdictions. Recidivism is a broader justice-wide outcome and not related only to the performance of the Department. The table below summarises the percentage of prisoners returning to prison within two years of release, and shows that NSW ranks in the highest two in Australia for the past five years.

Released in	Returned to Custody in/before	NSW Prisoner Return %	National Prisoner Return %	NSW Ranking 2003-04	NSW Ranking 2002-03
2001-02	2003-04	44.7	n.a.	n.a.	n.a.
2000-01	2002-03	45.4	37.2	1/7*	1/7*
1999-00	2001-02	45.4	37.4	2/7*	2/7*
1998-99	2000-01	41.4	35.5	2/7*	2/7*
1997-98	1999-00	39.5	33.1	2/7*	2/7*
1996-97	1998-99	39.4	32.0	eq 1/7*	eq 1/7*

n.a. - Not available

* Data not available for the ACT

Source: Productivity Commission's *Report on Government Services 2005*
Audit Office of New South Wales

Recidivism is the extent to which persons convicted by the courts re-offend. 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 recidivism include criminal history/history of antisocial behaviour, family factors and social achievement. These risk factors are not identical to the risk factors for initial criminal involvement.

Prisoner Costs

The table below shows that in New South Wales the recurrent cost per day to keep a prisoner was above the national average. The recurrent cost per day to manage a person serving a community corrections order was below the national average.

Year ended 30 June	NSW Cost per day \$	National Cost per day \$	NSW Ranking 2003-04	NSW Ranking 2002-03
Open prisons (including periodic detention)	155.9	147.5	3/7*	2/7*
Secure prisons	189.1	161.5	2/7*	3/7*
All prisons	173.3	162.2	2/8	3/8
Community corrections	9.6	10.4	5/8	6/8

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

Source: Productivity Commission's *Report on Government Services 2005*
Audit Office of New South Wales

The Department implemented a workplace reform package referred to as the 'Way Forward'. This reform package has been implemented at the newly opened Mid North Coast and Dillwynia Correctional Centres. These centres have lower levels of overtime and sick leave compared with other centres under the control and management of the Department. The Department is negotiating with staff and unions for 'Way Forward' to be implemented in all of its centres. The Department believes this will reduce its costs and to bring them in line with the National costs per day.

The Public Accounts Committee released the results of its inquiry in to the 'Value for Money' from NSW Correctional Centres in September 2005.

The Committee identified a number of findings and recommendations in relation to the Department's costs in running its correctional centres. The Department is taking action to implement the Committee's recommendations. In particular, it believes the 'Way Forward' reform package will address the Committee's concern about the cost of overtime, sick leave and other employee related expenses.

Other Issues

Our performance audit report 'Implementing Asset Management Reform', released in October 2005, found that the Department has effectively implemented asset management and its approach represented best practice.

CONTROL ISSUES

Business Continuity Plan

The Department of Corrective Services does not have a Business Continuity Plan (BCP). We first raised this matter in our October 2003 Interim Management Letter and repeated it again in 2004. The Department plans to complete its BCP during 2005-06.

Internal Audit Plan

The Audit Committee did not receive or approve an internal audit plan for the 2004-05 year. The Internal Audit branch concentrated its 2003-04 efforts upon matters referred to it by the Professional Conduct Management Committee and the 2003-04 Plan was not completed and was carried forward to 2004-05. We believe an Internal Audit Plan (revised or not) should be presented to the Audit Committee for approval each year.

Payroll

We observed a number of areas in which the Department can improve its payroll system. Individually the matters might not be significant but collectively they suggest that the payroll system is at risk of an error occurring and not being detected on a timely basis.

Other Matters

We identified a number of other opportunities for the Department to improve its internal controls and have referred them to the Department.

COMPLIANCE ISSUES

We examined whether the Department complied with:

- The provisions of the Premier's Memorandum No. 2000-11, 'Disclosure of Information on Government Contracts with the Private Sector'.
- The provisions of Treasurer's Direction 205.01-205.08, 'Payment of Expenses by Credit Card'.

The Department is not fully complying with the provisions of the Premier's Memorandum. It is not currently disclosing the name of successful tenderers. The Department is complying with the requirements of the Treasurer's Direction 205.01-205.08.

We also assessed the Department's preparedness for the transition to Australian Equivalents to International Financial Reporting Standards. The Department is prepared for the transition to the new reporting framework.

FINANCIAL INFORMATION

Abridged Statement of Financial Performance

Year ended 30 June	2005 \$'000	2004 \$'000
Employee related	<u>530,398</u>	471,417
Other expenses	<u>216,595</u>	<u>200,443</u>
TOTAL EXPENSES	<u>746,993</u>	<u>671,860</u>
TOTAL REVENUES	<u>41,257</u>	<u>38,949</u>
Gain/(loss) on sale of property, plant and equipment	<u>201</u>	<u>(149)</u>
NET COST OF SERVICES	<u>705,937</u>	<u>633,060</u>
Government Contributions	<u>730,850</u>	<u>677,073</u>
SURPLUS FOR THE YEAR	<u>24,913</u>	<u>44,013</u>

Employee related expenses increased due to higher staff levels needed for increased inmate numbers and award increases.

Abridged Statement of Financial Position

At 30 June	2005 \$'000	2004 \$'000
Current assets	52,770	36,294
Non-current assets	<u>1,365,999</u>	<u>1,280,628</u>
TOTAL ASSETS	<u>1,418,769</u>	<u>1,316,922</u>
Current liabilities	76,449	64,100
Non-current liabilities	<u>34,268</u>	<u>27,799</u>
TOTAL LIABILITIES	<u>110,717</u>	<u>91,899</u>
NET ASSETS	<u>1,308,052</u>	<u>1,225,023</u>

Non-current assets increased largely due to the transfer of the Kariong Detention Centre from the Department of Juvenile Justice of \$15.0 million capital expenditure of \$81.7 million and a revaluation increment of \$83.6 million.

Program Information

The table below details the Department's net cost of services on a program basis:

Year ended 30 June	2004-05		2003-04	
	Revenues \$'000	Expenses \$'000	Net Cost of Services* \$'000	Net Cost of Services* \$'000
Containment and care of prisoners	19,259	547,406	528,343	467,714
Assessment, classification and development of prisoners	19,287	119,920	100,638	89,086
Alternatives to custody	<u>2,711</u>	<u>79,667</u>	<u>76,956</u>	<u>76,260</u>
Total all programs	<u>41,257</u>	<u>746,993</u>	<u>705,937</u>	<u>633,060</u>

*Includes net gain/(loss) on sale of property, plant and equipment

DEPARTMENT ACTIVITIES

The Department's primary responsibility, under the *Crimes (Administration of Sentences) Act 1999* is to carry out the decisions of courts and releasing authorities. The Department's mission is reducing re-offending through secure, safe and humane management of offenders.

The Department is responsible for the State's 30 correctional centres, one of which is a privately managed prison - Junee Correctional Centre and one juvenile correctional centre - Kariong Juvenile Correctional Centre. The Department is also responsible for two transitional centres.

The Department is responsible for the Corrective Services Academy, 10 periodic detention centres, 63 Probation and Parole Service offices and 15 twenty-four hour court cell centres.

The Department became responsible for Kariong Juvenile Correctional Centre in December 2004.

For further information on the Department, refer to www.dcs.nsw.gov.au.

DEPARTMENT'S RESPONSE

Thank you for the opportunity to provide comment on the report by the Auditor-General on the Department of Corrective Services (DCS). The department has a number of comments concerning the document to be included in the Auditor-General's Report 2005.

1. Presentation of Ranking

DCS acknowledges the benefits of comparative performance measures in the facilitation of inter-jurisdictional learning. Comparative performance information across jurisdictions is an important component of the cost effective use of resources and on-going performance improvement. Having said this, the use of the ranking system employed in the Auditor-General's report does not successfully report comparative performance measures. The Report of Government Services acknowledges the difficulties of comparing jurisdictions and does not employ a designated ranking system.

It is generally agreed that care needs to be taken when comparing effectiveness indicators across jurisdictions and over time within jurisdictions. For example, functions administered by corrective services in one jurisdiction may be administered by a different justice sector agency in another, thereby making the use of a ranking system marginal.

The current ranking system employed in the Auditor-General's report is confusing and serves little purpose in facilitating any meaningful comparisons between jurisdictions. The design of the ranking system is not explained within the text, and the interpretation of best/worst is confusing. For example, in the reporting of serious assaults against officers, NSW and one other jurisdiction recorded no incidents for 2003-04. Despite this, the ranking system ranked NSW equal sixth out of seven jurisdictions. It is the opinion of DCS that the ranking system employed in the Auditor-General's report should be regarded as a marginal guide only to any inter-jurisdictional comparisons.

2. Assaults

As the largest prison jurisdiction in Australia, NSW has the highest number of receptions into its correctional centres. The reception process in correctional centres is a highly stressful experience and impacts on both prisoners and officers alike. The occurrences of assaults and by prisoner on prisoner has steadily declined since 1999-2000 i.e. 1999-2000 24.02 to 2003-04 13.57.

It should be noted that a large number of offenders received in NSW correctional centres are suffering from some form of mental health condition. Other jurisdictions do not include mental health inmates in their counts as their Legislation defines those inmates as a patient of their respective health systems.

DCS along with the Productivity Commission recognizes that Australian jurisdictions cannot be fully compared on the assault rates reported, as different counting procedures make meaningful comparisons impossible.

3. General Comment

The steadily increasing inmate population has put considerable demands on inmate services, programs, staffing and security measures.

Despite the resource challenges facing the Department of Corrective Services, its performance is better than other state jurisdictions in escape rates. Since 1998, the Department of Corrective Services has had significant achievements in lowering the death rate from apparent unnatural causes.

The Department of Corrective Services takes recidivism seriously. It is through a 'whole of justice' approach that significant advances can be made in decreasing offending behaviour. Recidivism rates are only a partial measure of the overall performance of the justice system and cannot be viewed in isolation from other equally important objectives of the criminal justice system. One of the reasons for elevated recidivism rates in NSW is the use of innovative sentencing alternatives such as the NSW Drug Court, a 'whole of justice' approach which specifically deals with offenders with drug and alcohol problems in a unique diversionary regime.

Minister for Natural Resources

Catchment Management Authorities

Dams Safety Committee

Department of Infrastructure Planning and Natural Resources

Lake Illawarra Authority

Catchment Management Authorities

AUDIT OPINIONS

The audit of each of the financial reports of the 13 Catchment Management Authorities (CMAs) for the year ended 30 June 2005 resulted in unqualified Independent Audit Reports. The CMAs are:

- Border Rivers-Gwydir Catchment Management Authority
- Central West Catchment Management Authority
- Hawkesbury-Nepean Catchment Management Authority
- Hunter-Central Rivers Catchment Management Authority
- Lachlan Catchment Management Authority
- Lower Murray-Darling Catchment Management 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
- Western Catchment Management Authority.

KEY ISSUES

Development and Audit of Catchment Management Authorities

CMAs are responsible for the development of Catchment Action Plans for managing natural resources in catchment areas during the next ten years. The Natural Resources Commission is responsible for auditing these plans. The Commission will advise the NSW Government on whether the plans should be adopted. In the coming years, the Commission will also assess the implementation phase and the effectiveness of systems established to achieve regional and State-wide targets. A pilot review was conducted in July and August 2005 at three CMAs. The formal review process across all CMAs commenced in October 2005.

Environment Water Trust Funds

The *Catchment Management Act 2003* was amended on 1 July 2004 to allow CMAs to establish Environmental Water Trust Funds to finance environmental water functions. At 30 June 2005, only Murray CMA was in the process of establishing a Fund.

CONTROL ISSUES

Service Agreements with the Department of Natural Resources (Repeat Issue)

The Department of Natural Resources (formerly part of the Department of Infrastructure, Planning and Natural Resources) provides corporate support services to the CMAs. The service level agreements for these arrangements were not formalised as at the 30 June 2005. We raised the matter last year.

COMPLIANCE ISSUES

Breach of the *Public Authorities (Financial Arrangements) Act 1987*

All 13 CMA's, under the *Public Authorities (Financial Arrangements) Act 1987*, have an approved limit of \$1.0 million per day for processing electronic transactions (Transaction Negotiation Authority). The CMA's arrangements with their bankers allows for an amount greater than the approved limit. We reported this issue to the management of each CMA. The CMA will seek the appropriate approvals from the NSW Treasury.

FINANCIAL INFORMATION

Year Ended 30 June	2005			2004*		
	Revenue \$'000	Expenses \$'000	Net Assets# \$'000	Revenue \$'000	Expenses \$'000	Net Assets# \$'000
CMA						
Border Rivers-Gwydir	5,189	3,465	2,909	2,065	880	1,185
Central West	6,672	4,630	5,784	4,516	773	3,743
Hawkesbury-Nepean	11,983	6,182	7,626	3,006	1,181	1,825
Hunter-Central Rivers	14,340	10,531	13,897	6,049	4,926	10,088
Lachlan	6,772	4,942	5,839	4,951	942	4,009
Lower Murray-Darling	9,658	3,162	8,662	4,484	2,318	2,166
Murray	9,467	12,041	1,963	7,738	3,201	4,537
Murrumbidgee	9,256	6,276	9,485	7,377	872	6,505
Namoi	3,824	2,749	1,893	1,283	465	818
Northern Rivers	18,067	9,651	9,688	3,999	2,727	1,272
Southern Rivers	12,539	6,968	6,229	1,738	1,080	658
Sydney Metropolitan	3,325	1,853	1,883	631	220	411
Western	<u>4,350</u>	<u>2,461</u>	<u>2,934</u>	<u>1,496</u>	<u>451</u>	<u>1,045</u>
Total	<u>115,442</u>	<u>74,911</u>	<u>78,792</u>	<u>49,333</u>	<u>20,036</u>	<u>38,262</u>

*23 January to 30 June 2004

at 30 June

The 2004-05 financial year was the first full year of operation resulting in an increase in revenue, expenses and net assets. Revenue includes \$102.6 million (\$46.3 million in 2003-04) of NSW and Commonwealth grants that were paid to CMA's through the former Department of Infrastructure, Planning and Natural Resources.

CATCHMENT MANAGEMENT AUTHORITIES' ACTIVITIES

The CMAs were established across New South Wales on 23 January 2004 under the *Catchment Management Authorities Act 2003*. They are the primary vehicle for delivery of incentive programs to achieve restoration and improvements in the management of natural resources. The CMAs are responsible for managing NSW and Commonwealth Government funds, including programs under the National Action Plan for Salinity and Water Quality, Natural Heritage Trust, NSW Sustainability Trust and NSW Land and Water Management Plan.

The main functions of the CMAs are:

- to develop and implement Catchment Action Plans
- to provide loans, grants, subsidies or other financial assistance for catchment activities
- to assist landholders to further the objectives of the Catchment Action Plans
- to provide educational and training courses for natural resource management.

For further information on the Authorities, refer to www.cma.nsw.gov.au

Dams Safety Committee

AUDIT OPINION

The audit of the Committee's financial report for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

PERFORMANCE ISSUES

Dam owners are legally responsible for reducing risks associated with their dams. The Committee regulates dams safety by ensuring that the owners fulfil their responsibilities. During 2004-05 the Committee inspected 14 dams (target 18) of significant risk, 11 (16) of medium risk and 78 (53) of low risk during 2004-05. There are currently 19 dams that pose a significant safety risk, of which six are controlled by Government agencies. The owners of eight of the dams have commenced the safety improvement works. The upgrades of the remaining 11 dams are still in the planning and design phase.

Coal mining near dams increased following a surge in the commodity price. The Committee has inspected more mines this year because of this increase in mining activity.

In 2004-05, the Committee also inspected 29 (18 in 2003-04) dams owned by mining companies.

FINANCIAL INFORMATION

Year ended 30 June 2005	2005 \$'000	2004 \$'000
Revenue	946	853
Expenses	959	880
Operating surplus/(deficit)	(13)	(27)
Net assets/(liabilities) (at 30 June)	(31)	(18)

The Committee's main funding source is the State Budget. Any shortfall is met by the Department of Natural Resources, which provide sufficient funds to ensure the Committee can meet their existing obligations and future operating costs. A letter of financial support was provided by the Department prior to the Audit Office signing its opinion on the financial report.

COMMITTEE ACTIVITIES

The Committee was established by the *Dams Safety Act 1978*. Its main function is to ensure the safety of prescribed dams. This involves examining and investigating the location, design, construction, operation and maintenance of dams, as well as maintaining surveillance over them. The Committee also regulates mining and other activities in the vicinity of these dams.

For further information on the Committee refer to www.damsafety.nsw.gov.au.

Department of Infrastructure, Planning and Natural Resources

AUDIT OPINION

The audit of the Department's financial report for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

KEY ISSUES

The Metropolitan Strategy

The NSW Government is using the Metropolitan Strategy to respond to growth and changes that will occur in the Greater Metropolitan Region of Sydney over the next 30 years. The Department plays a key role in the Strategy. Recent resignations of key senior executives of the Department may impact on achieving future milestones under the Strategy. However, the Department advised that replacement staff were both experienced and competent.

Change in Ministers/Portfolios

The then Minister for Infrastructure, Planning and Natural Resources resigned on 3 August 2005. Following the resignation the portfolio was then split into three separate portfolios with three separate Ministers.

Restructure of the Department

The Public Sector Employment and Management (Planning and Natural Resources) Order 2005, was gazetted on 26 August 2005. The effect of this Order was to abolish the Department of Infrastructure, Planning and Natural Resources and create two new departments (Department of Planning and Department of Natural Resources) as at 29 August 2005. All staff and branches were transferred to these new departments and other Government entities in accordance with the Order.

Reduction in Staff Numbers

During 2004-05, 257 staff were transferred to the Catchment Management Authorities (CMAs) to resource the CMAs expanding responsibilities. In addition, 559 staff left the Department either through the voluntary redundancy program or usual staff turnover. The Department had 1,614 equivalent full time staff at 30 June 2005.

Water Management Act 2000

As a result of the amendments to the *Water Management Act 2000*, 31 statutory water sharing plans commenced across New South Wales. The water sharing plans cover approximately 80 per cent of the total water extractions in the State and will return an average of 220 gigalitres of water to the environment over 10 years, while providing licence holders with a tradeable right to water. For further information on the Department's role in planning for water needs, refer to the Auditor General's Performance Audit Report: *Planning for Sydney's Water Needs*, tabled on 4 May 2005.

PERFORMANCE ISSUES

Key Performance Indicators

Due to changes in legislation and the transfer of responsibilities to other agencies, the Department had difficulties in developing key performance indicators that continued to be relevant and reliable.

CONTROL ISSUES

We identified the following:

- at 30 June 2005, there were 501 employees (30 per cent) with accrued annual leave in excess of 40 days
- opportunities for improvement in general computer controls
- opportunities for improvement to property, plant, and equipment controls

We made recommendations on these matters and some other minor issues to the Department.

COMPLIANCE ISSUES

We examined the Department's compliance with:

- Premier's Memorandum No. 2000-11, 'Disclosure of Information on Government Contracts with the Private Sector' and found that no contract information has been made available to the public
- Public Sector Management (Goods and Services) Regulation 2002 and found that purchases in regional centres are being made outside period contracts. This matter and some other minor issues have been reported to management.

OTHER ISSUES

New Growth Centre Commission

As part of the Sydney Metropolitan Strategy, the Growth Centres Commission was established on the 1 July 2005. The Commission will promote, coordinate, manage and secure the orderly and economic development of the north west and south west of Sydney. The combined cost of infrastructure for these growth centres over the next 30 years is estimated at \$7.8 billion, of which 25 per cent will be contributed by the NSW government. The balance will be funded through development contributions

Provision of Services to Other Agencies

The Department provides accounting and other services to other Government agencies, including 13 CMAs. Service Level Agreements between the Department and these agencies were not finalised during 2004-05 financial year.

FINANCIAL INFORMATION

Abridged Statement of Financial Performance

Year ended 30 June 2005	2005 \$'000	2004 \$'000
Employee related	174,652	242,176
Other operating expenses	81,052	108,913
Grants and subsidies	133,024	193,461
Other expenses	<u>79,721</u>	<u>82,283</u>
TOTAL EXPENSES	<u>468,449</u>	<u>626,833</u>
Sale of goods and services	69,881	80,183
Other revenue	<u>15,912</u>	<u>33,324</u>
TOTAL REVENUE	<u>85,793</u>	<u>113,507</u>
(Loss) / Gain on disposal of non-current assets	<u>(12,030)</u>	<u>1,044</u>
NET COST OF SERVICES	394,686	512,282
Government Contributions	395,854	<u>509,891</u>
SURPLUS (DEFICIT) FOR YEAR	<u>1,168</u>	<u>(2,391)</u>

The effects of last year's voluntary redundancy program has resulted in a \$67.5 million reduction in employee related expenses. The decline in the scope of the Department's responsibilities has resulted in a decrease in revenue and expenses.

Abridged Statement of Financial Position

At 30 June	2005 \$'000	2004 \$'000
Current assets	76,691	134,169
Non-current assets	<u>174,528</u>	<u>150,591</u>
TOTAL ASSETS	<u>251,219</u>	<u>284,760</u>
Current liabilities	70,897	121,210
Non-current liabilities	<u>4,470</u>	<u>21,309</u>
TOTAL LIABILITIES	<u>75,367</u>	<u>142,519</u>
NET ASSETS	<u>175,852</u>	<u>142,241</u>

The reduction in current assets of \$57.5 million was due to a decrease in cash of \$41.3 million and a decrease in receivables of \$16.1 million. The cash balance fell because of the \$114.0 million reduction in Government contributions. More timely billing of CMAs contributed to the decrease in receivables. The increase in non-current assets of \$23.9 million was a result of revaluing land and buildings by \$35.6 million and a \$12.0 million write off of plant and equipment that had no future economic benefit.

DEPARTMENT ACTIVITIES

The Department's roles include:

- ecosystems management
- land use planning and development control
- infrastructure and transport planning
- management and regulation of the taking and use of water.

Key legislation includes the *Water Management Act 2000*, *Native Vegetation Conservation Act 1997*, *Native Vegetation Act 2003*, *Environmental Planning and Assessment Act 1979* and the *Coastal Protection Act 1979*.

Beyond its statutory role, the Department is responsible for linking infrastructure planning to the Government's budget process as conferred by Premier's Memorandum 2003-17 "Major Infrastructure Proposals".

For further information on the Department, refer to www.planning.nsw.gov.au and www.dnr.nsw.gov.au

Lake Illawarra Authority

AUDIT OPINION

The audit of the Authority's financial report for the year ended 31 March 2005 resulted in an unqualified Independent Audit Report.

CONTROL ISSUES

Last year we reported that some of the Authority's assets, including car parks and wharves, were not recorded in its financial statements. The Authority has now identified and recorded them.

FINANCIAL INFORMATION

Year ended 31 March	2005 \$'000	2004 \$'000
Contributions income	2,048	825
Other income	27,607	414
Project expenses	2,113	942
Other expenses	410	380
Operating surplus/(deficit)	27,132	(83)
Net assets (at 31 March)	34,502	4,019

The NSW Government (50 per cent), Wollongong City Council (34.4 per cent) and Shellharbour City Council (15.6 per cent) share the Authority's project costs, except where one council is solely responsible for a project, it shares the costs equally with the Government.

The State Valuation Office undertook valuations of assets previously not recorded by the Authority. The recognition of land and site improvements at \$27.1 million was reflected in other income and net assets. The net assets also increased \$3.4 million as a result of a revaluation in March 2005, of other properties.

AUTHORITY ACTIVITIES

The Authority is subject to the control and direction of the Minister for Natural Resources. The Authority consists of ten part-time members.

Most land vested in the Authority for development work was Crown land. Some land was originally Council land or has been purchased for the Authority using Council funds. When the Authority ceases to exist the land will revert to the Crown or to the relevant local council.

The Authority was constituted as a corporation by the *Lake Illawarra Authority Act 1987*. Its objective is to improve the environment of Lake Illawarra and transform it into an attractive recreational and tourist resource by repairing the environmental damage that has occurred over decades of development in the catchment area.

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

Minister for Planning

**Corporation Sole, 'Minister Administering
the Environmental Planning and Assessment Act 1979'**

Corporation Sole, 'Minister Administering the Environmental Planning and Assessment Act 1979'

AUDIT OPINION

The audit of the Corporation's financial report for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

KEY ISSUES

Rouse Hill Development

The Corporation own of a 96-hectare site at Rouse Hill that is being developed by a Lend Lease and General Property Trust joint venture. The NSW Government will receive a minimum of \$100 million over ten years from this arrangement.

Sydney International Regatta Centre

The management of the Sydney International Regatta Centre will be transferred from the Corporation to the Department of Tourism, Sport and Recreation during 2005-06. The transfer will include \$29.7 million of buildings and infrastructure.

Change in Ministers

Mr Craig Knowles, the Minister for Infrastructure, Planning and Natural Resources resigned on the 3 August 2005. This portfolio was then split into three separate portfolios with three separate Ministers. Mr Frank Sartor, Minister for Planning has assumed responsibility for the Corporation.

FINANCIAL INFORMATION

Year ended 30 June	2005 \$'000	2004 \$'000
Revenue	70,598	67,472
Expenditure	46,254	65,036
Operating surplus	24,344	2,436
Net assets (at 30 June)	820,534	730,171

Expenses fell mainly because of a \$20.1 million decrease in the value of land transferred to various councils.

CORPORATION'S ACTIVITIES

The Minister for Planning (formerly the Minister of Infrastructure, Planning and Natural Resources) is incorporated as the Corporation, 'Minister Administering the Environmental Planning and Assessment Act, 1979'. The Corporation's main activities are to acquire land, control and manage its vested lands and dispose of any land no longer required for planning purposes.

The Land Management Branch of the Department of Planning (formerly the Department of Infrastructure, Planning and Natural Resources) administers the functions of the Corporation.

Minister for Police

Ministry for Police

NSW Police

Ministry for Police

AUDIT OPINION

The audit of the Ministry's financial report for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

KEY ISSUES

Non-Core Activities

During 2004-05, the Ministry assumed responsibility for managing the NSW Police's outsourced property management. The Ministry's main role is providing policy advice to the Minister for Police.

This arrangement will alter again during 2005-06 when property management is outsourced to the private sector.

CONTROL ISSUES

We observed minor opportunities for improved internal control and these have been reported to management who have agreed to address these issues.

FINANCIAL INFORMATION

Year ended 30 June	2005 \$'000	2004 \$'000
Employee related expenses	6,580	4,002
Net cost of services	10,674	6,645
Government contributions	10,944	7,429
Net assets (at 30 June)	710	475

MINISTRY ACTIVITIES

The Ministry provides independent advice to the Minister for Police and coordinates the formulation and implementation of policy and the allocation of resources affecting the Minister's portfolio. The Ministry also has certain functions relating to the Office of the Inspector of the Police Integrity Commission.

NSW Police

AUDIT OPINION

The audit of the NSW Police financial report for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

SIGNIFICANT ITEM

Outsourcing of Property Management

A critical success factor in any outsourcing arrangement is correctly establishing and managing the relationships between the parties involved.

The Ministry for Police assumed responsibility for managing NSW Police's property portfolio during 2005. In turn, the Ministry contracted with the Department of Commerce to carry out the property management services. This arrangement will alter again during 2005-06 when property management is outsourced to the private sector.

We find it difficult to understand the benefit when an entity with a major portfolio of assets used in delivering its services, no longer has responsibility for those assets.

Part Sale of the Sydney Police Centre (Repeat Issue)

NSW Police has accounted for its sale of part of the Sydney Police Centre as 'income in advance'. NSW Police believes the sale is not complete and is experiencing difficulties in transferring the property titles at the Land Titles Office.

We first raised this matter in our 2001-02 audit.

PERFORMANCE ISSUES

Risk factors for crime include unemployment, education standards and quality of housing. NSW Police does not directly manage these risk factors, but it does participate in multi-agency committees dealing with these matters.

Over the past few years, rates of crime against people and crimes against property have generally fallen within NSW and nationally. Overseas research conducted into the causes of falling crime rates suggests that:

- investment in private security measures
- more secure housing
- reduced availability of drugs and firearms, and
- police working more closely with the community

all contribute. In NSW successful community involvement has resulted from the Police and Community Accountability Teams.

The interstate crime comparisons on the following pages are largely derived from the Australian Bureau of Statistics'. The Bureau acknowledges that there are differences between the States in the way that crime data are recorded and that this impacts the comparability of recorded crime levels. The differences may mean that NSW records incidents as crimes that some other jurisdictions (particularly Victoria) would not.

The Bureau and Police jurisdictions are working to define these differences and propose ways of reducing them. In the meantime, care should be taken in interpreting the data.

Crimes Against People

In calendar year 2004, recorded crimes rates against people in New South Wales were above the national average in all major categories.

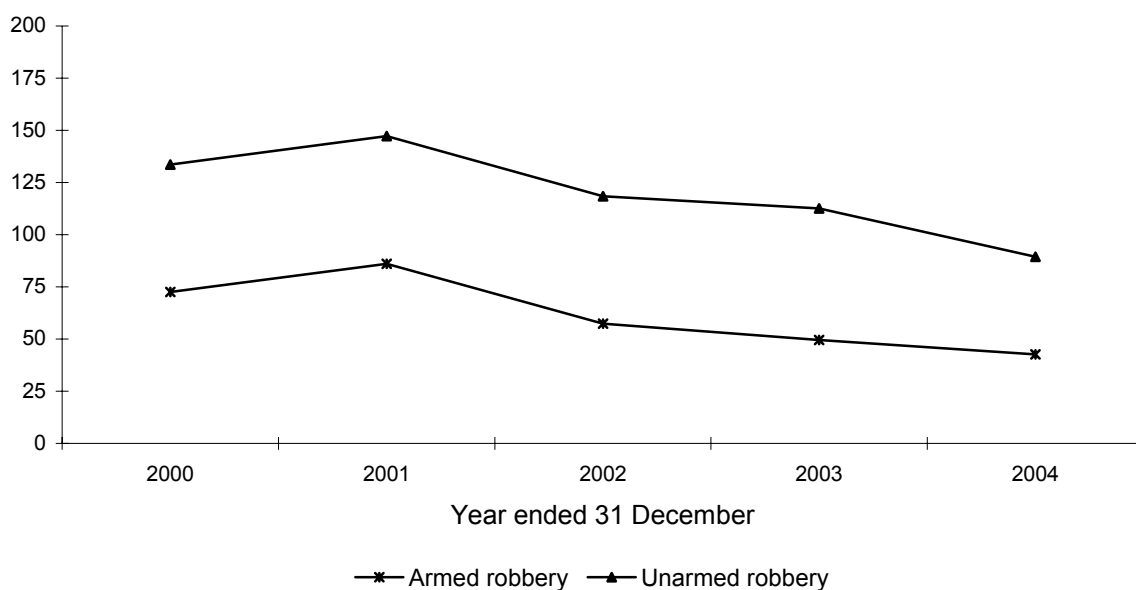
Crime	NSW Rate per 100,000 Population	National Rate per 100,000 Population	NSW Ranking 2004	NSW Ranking 2003
Armed robbery	42.6	29.8	1/8	1/8
Unarmed robbery	89.4	52.2	1/8	1/8
Kidnapping/Abduction	6.9	3.8	1/8	1/8

Source: Australian Bureau of Statistics 2005, Recorded Crime Australia 2004, Cat. No. 4510.0
 Australian Bureau of Statistics 2004, Recorded Crime Australia 2003, Cat. No. 4510.0
 Audit Office of New South Wales

The NSW rankings have not altered from 2003. NSW recorded crime rates per 100,000 population have generally moved in the same direction as the rates experienced by other Australian states and territories.

The graph below shows the trends in recorded crimes against people over time for both armed and unarmed robbery. These categories of crime continue their downward trend.

NSW Crimes Against People (per 100,000 population)



Source: Australian Bureau of Statistics 2005, Recorded Crime Australia 2004, Cat. No. 4510.0

Crimes Against Property

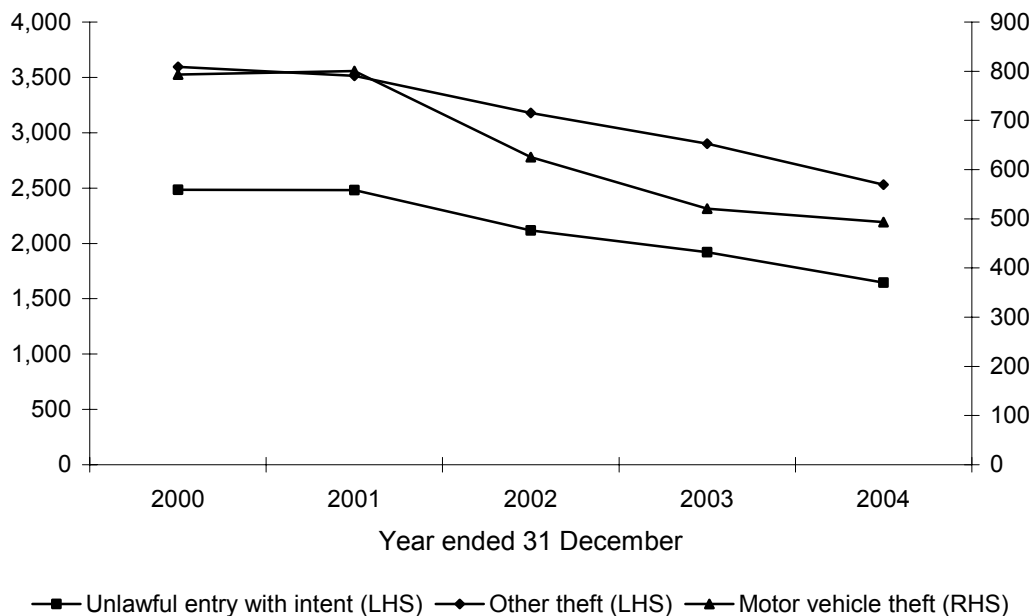
Data on the more frequent crimes against property in New South Wales compared with the national average are shown in the following table:

Crime	NSW Rate per 100,000 Population	National Rate per 100,000 Population	NSW Ranking 2004	NSW Ranking 2003
Unlawful entry with intent	1,645.5	1,533.5	4/8	3/8
Motor vehicle theft	493.4	437.2	3/8	4/8
Other theft	2,529.8	2,724.2	6/8	6/8

Source: Australian Bureau of Statistics 2005, Recorded Crime Australia 2004, Cat. No. 4510.0
 Audit Office of New South Wales

New South Wales recorded crimes against property per 100,000 population declined in 2004 in all categories. Most other Australian states and territories also experienced a decline.

NSW Crimes Against Property (per 100,000 population)



Source: Australian Bureau of Statistics 2004, Recorded Crime Australia (various years)

Crime Investigations

In 2004-05 NSW Police spent approximately 25.7 per cent (26.4 per cent in 2003-04) of its net cost of services on criminal investigations. Police effectiveness in this area can be measured by the proportion of investigations:

- finalised within 30 days of the offence becoming known
- with an alleged offender proceeded against in 30 days.

Crime	Proportion (%) of Investigations Finalised in 30 Days				Proportion (%) of Investigations Finalised in 30 Days that Involved an Offender Being Proceeded Against			
	NSW	National Average	NSW Ranking 2004	NSW Ranking 2003	NSW	National Average	NSW Ranking 2004	NSW Ranking 2003
Armed robbery	14	21	8/8	8/8	70	81	8/8	8/8
Unarmed robbery	18	20	7/8	8/8	59	67	7/8	7/8
Unlawful entry with intent:								
<i>involving taking property</i>	7	7	Eq 5/8	Eq5/8	67	81	7/8	8/8
<i>property not taken</i>	7	9	6/8	Eq5/8	68	80	8/8	5/8
Motor vehicle theft	7	11	8/8	7/8	70	71	7/8	6/8
Other theft	12	14	6/8	6/8	89	87	2/8	3/8

Source: Australian Bureau of Statistics 2005, Recorded Crime Australia 2004, Cat. No. 4510.0 (Companion Data)

NSW performance has remained fairly steady.

CONTROL ISSUES

Financial Accommodation

NSW Police has financial accommodations higher than the Treasurer approved under the *Public Authorities (Financial Arrangement) Act 1986* (PAFA). These arrangements relate to its cheque cashing authority and tape negotiation authority. NSW Police has sought approval for the higher accommodation.

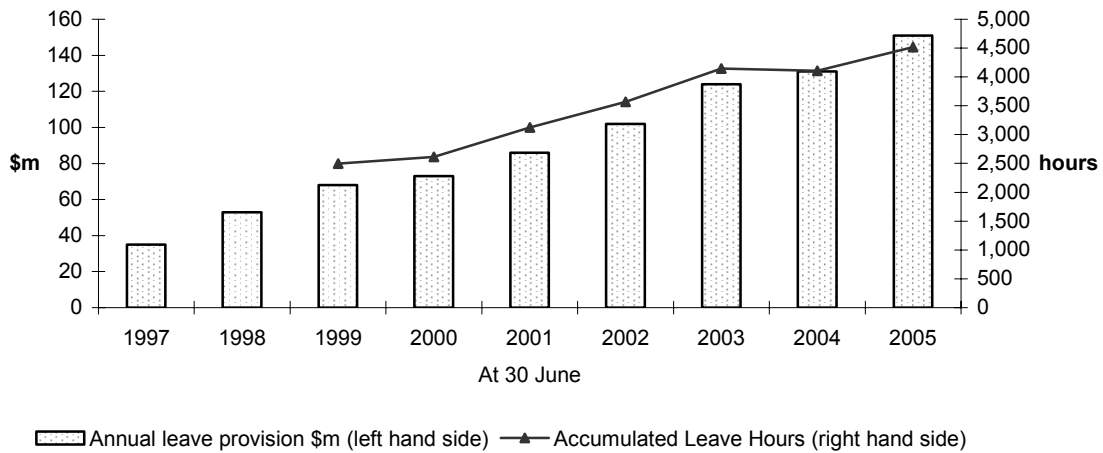
Annual Leave Liability (Repeat Issue)

The NSW Police annual leave provision continues to increase, reflecting higher accumulated leave hours owing to staff and wage rate increases.

The increase in annual leave provision might result in future funding, rostering and staffing difficulties when employees take leave.

This increase has occurred despite NSW Police including the reduction in annual leave as a key performance indicator for Local Area Commanders.

The change in the annual leave provision and accumulated annual leave hours over time is charted below.



Source: NSW Police

The challenge for NSW Police is to reduce the liability by reducing individual leave balances without interrupting frontline service delivery.

The increase in the provision has emerged over time. It is partly due to a leave embargo during the Sydney Olympic Games. Another contributing factor is NSW Police’s progressive introduction of 12 hour shifts from 1995. Individual officers now work fewer days, and are more able to meet personal commitments without having to take leave.

New Computer Systems

In August 2005, an external consultant completed a ‘Healthcheck’ on the Technology Infrastructure Enhancement Project, the Rostering Replacement Project and the SAP Upgrade Project.

The consultant identified four issues which needed to be resolved quickly. The issues related to benefits monitoring, funding, scheduling and risk management.

In 2004, NSW Police completed a similar ‘Healthcheck’ on the Technology Infrastructure Enhancement Project. The issue which required prompt attention at that time, delays in resource acquisition, is now rated as satisfactory.

Other

We identified minor opportunities for NSW Police to improve its internal controls and advised management.

COMPLIANCE ISSUES

We tested NSW Police’s:

- preparedness for the transition to Australian Equivalents to International Financial Reporting Standards (AEIFRS)
- compliance with the Public Sector Management (Goods and Services) Regulation 2000
- compliance with the provisions of Premier’s Memorandum No. 2000-11, ‘Disclosure of Information on Government Contracts with the Private Sector’.

We found that NSW Police is prepared for the transition to AEIFRS. We also found that NSW Police substantially complies with the Public Sector Management (Goods and Services) Regulation 2000 but only partially complies with the provisions of the Premier's Memorandum No. 2000-11, 'Disclosure of Information on Government Contracts with the Private Sector'. NSW Police is not always disclosing information for contracts in excess of \$100,000. NSW Police has taken action to improve its compliance with the Premier's Memorandum.

OTHER ISSUES

Commissioner's Confidence

Under section 181D of the *Police Act 1990*, the Police Commissioner has the power to remove officers if he does not have confidence in their competence, integrity, performance or conduct. During the year, the Commissioner considered 32 section 181D nominations (21 in 2003-04), with 13 officers being removed. Two officers were allowed to resign following service of 'Show Cause' Notices under section 181D (3)(a). Ten officers (three) were dealt with by way of other management action and six matters are still under consideration by the Commissioner.

Alcohol and Drug Testing

There were nine positive alcohol readings for police officers compared with seven the previous year. The number of alcohol tests conducted was 9,194 (8,835 in 2003-04).

Random alcohol tests on officers numbered 9,057 (8,672 in 2003-04). Targeted alcohol tests on officers numbered 11 during 2004-05 (27). Five officers recorded positive results (five). These officers were offered and accepted rehabilitation.

During 2004-05, NSW Police conducted 22 (15) targeted drug tests, with two (two) returning a positive result. Random drug testing numbered 513 (582) with one result positive to amphetamine and methylamphetamine.

Court Cases and Costs Against NSW Police

NSW Police advised us that it uses databases of the Crown Solicitor's Office and the Treasury Managed Fund to manage its claims.

Contingent liabilities from legal claims lodged against NSW Police and pending decision by the courts increased slightly to \$112 million at 30 June 2005 (\$110 million at June 2004). If a claimant is successful, the settlement will be met by NSW Treasury Managed Fund.

FINANCIAL INFORMATION - TO BE UPDATED AT FINAL

Abridged Statement of Financial Performance

Year ended 30 June	2005 \$'000	2004 \$'000
Employee related	1,494,932	1,437,229
Other expenses	445,986	448,069
TOTAL EXPENSES	1,940,918	1,885,298
TOTAL REVENUE	36,828	39,654
Gain/(Loss) on sale of non-current assets	(220)	348
NET COST OF SERVICES	1,904,310	1,845,296
Government Contributions	1,919,420	1,835,905
SUPRLUS/(DEFICIT) FOR THE YEAR	15,110	(9,391)

There has been no significant change in expenditure compared with 2003-04.

Abridged Statement of Financial Position

At 30 June	2005 \$'000	2004 \$'000
Current assets	50,637	47,363
Non-current assets	1,175,611	1,113,187
TOTAL ASSETS	1,226,248	1,160,550
Current liabilities	235,482	225,836
Non-current liabilities	261,608	247,641
TOTAL LIABILITIES	497,090	473,477
NET ASSETS	729,158	687,073

Non-current assets increased by \$62.4 million largely due to additions of \$112 million, an asset revaluation increment of \$26.9 million offset by a depreciation expense of \$76.1 million.

Total liabilities increased by \$24.0 million largely due to an increase in employee provisions of \$21.2 million.

Program Information

NSW Police allocates revenue and expenditure to specific programs based on an analysis of roster duties conducted during the year. The table below details the net cost of services on each program.

Year ended 30 June	2005		2004	
	Revenues* \$'000	Expenses* \$'000	Net Cost of Services \$'000	Net Cost of Services \$'000
Community support	21,071	1,079,272	1,058,201	1,053,310
Criminal investigation	8,468	498,873	490,405	489,317
Traffic	4,956	199,938	194,982	157,769
Judicial support	2,333	163,055	160,722	144,900
Total all programs	36,828	1,941,138	1,904,310	1,845,296

*Includes gain/(loss) on sale of assets

POLICE ACTIVITIES

The primary objective of NSW Police is to work with the community to establish a safer environment by reducing violence, crime and fear.

In terms of the *Police Service Act 1990*, the Commissioner is given responsibility for the effective, efficient and economical management of the functions and activities of NSW Police. In exercising these functions, however, the Commissioner is subject to the direction of the Minister for Police.

For further information on NSW Police, refer to www.police.nsw.gov.au.

Minister for Primary Industries

Agricultural Scientific Collections Trust

Board of Veterinary Surgeons of New South Wales

Riverina Citrus

Agricultural Scientific Collections Trust

AUDIT OPINION

The audit of the Trust's financial report for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

FINANCIAL INFORMATION

Year ended 30 June	2005	2004
	\$'000	\$'000
Income	377	370
Expenses	371	375
Operating surplus/(deficit)	6	(5)
Net assets (at 30 June)	17	11

Income and expenses include \$358,000 (\$351,000 in 2003-04), being the estimated value of staff provided free of charge by the Department of Primary Industries.

The Trust's two collections, the Plant Pathology Herbarium and the Entomology Section Insect and Mite Collection, have not been valued and the financial report does not recognise the current value of these major assets. The collections have not been valued due to the irreplaceable nature of a large part of the collections and the difficulty in obtaining a reliable valuation.

TRUST ACTIVITIES

The Trust, established under the *Agricultural Scientific Collections Trust Act 1983*, protects, maintains and improves two scientific collections for the Department of Primary Industries. It also increases and disseminates knowledge in certain fields of agricultural science.

The Trust is subject to the control and direction of the Minister for Primary Industries.

Board of Veterinary Surgeons of New South Wales

AUDIT OPINION

The audit of the Board's financial report for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

KEY ISSUE

The *Veterinary Practice Act 2003* received assent in December 2003, with some parts having commenced on 1 March 2004, others commencing on 9 May 2005 and the remainder not in force. It provides for the creation of the Veterinary Practitioners Board and the eventual repeal of the *Veterinary Surgeons Act 1986*. The Veterinary Practice Board will assume responsibility for those functions presently undertaken by the Veterinary Surgeons Board.

FINANCIAL INFORMATION

Year ended 30 June	2005 \$'000	2004 \$'000
Revenue	1,074	981
Expenses	772	665
Operating surplus	301	316
Net assets (at 30 June)	1,107	806

Net assets increased \$301,000 mainly due to the Board's policy to build cash reserves to cover contingencies including projected costs associated with the Veterinary Surgeons Investigating Committee and cases in the Administrative Decisions Tribunal. At 30 June 2005 the Board had \$1.5 million in cash.

BOARD ACTIVITIES

Under the *Veterinary Surgeons Act 1986*, the Board registers veterinary surgeons in New South Wales and licenses non-exempted veterinary hospitals. At 30 June 2005, the number of veterinary surgeons registered was 2,793 (2,718 at 30 June 2004).

For further information on the Board, refer to www.vsb.nsw.gov.au/.

Riverina Citrus

AUDIT OPINION

The audit of the Committee's financial report for the year ended 30 April 2005 resulted in a qualified Independent Audit Report.

The qualification related to uncertainty regarding the Committee's prime source of revenue - levies paid by citrus growers. The Committee relies on industry data to calculate grower levies rather than collecting individual farm production data. Accordingly our audit of grower levies was limited to amounts entered into accounting records. Previous years' financial reports were similarly qualified.

The Audit Office has provided advice to the Committee that may assist in having the qualification removed.

FINANCIAL INFORMATION

Year ended 30 April	2005 \$'000	2004 \$'000
Revenue	689	623
Expenses	800	711
Operating Deficiency	(111)	(88)
Net assets (at 30 April)	494	605

Effective 1 May 2004 the levy per tonne increased by \$1.50 to \$4.50. This contributed to a rise of \$67,000 to \$643,000 in grower levies.

The major increases in expenditure occurred across salaries and wages, marketing and advertising.

COMMITTEE ACTIVITIES

The Committee was established under the *Marketing of Primary Products Act 1983*. Its purpose is to promote the best interests of the citrus industry in the Murrumbidgee Irrigation Area (MIA) through pest and disease control; improved orchard management; product promotion and market development; and improved relationships among citrus fruit industry participants.

The Committee is funded by levies on producers of all citrus fruit in the MIA.

For further information on the Committee refer to www.riverinacitrus.com.au.

Minister for Roads

Roads and Traffic Authority of New South Wales

Roads and Traffic Authority of New South Wales

AUDIT OPINION

The audit of the Roads and Traffic Authority's (RTA) financial report for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

PERFORMANCE ISSUES

In 2004-05, the RTA received \$2,886 million (\$2,763 million in 2003-04) revenue and managed assets of \$74,253 million (\$70,518 million).

The RTA aims to provide a sustainable, safe and efficient road transport system throughout the State. Some of the measures used by the RTA to review its performance are shown below. The statistics and financial information on projects were provided by the Authority and are unaudited.

Maintenance and Development of State Roads (including National Highways and Roads of National Importance)

In 2004-05, the RTA spent \$1,802 million (\$1,706 million) on maintaining and developing the State's road network. Ride quality and pavement durability are the major indicators for assessing the performance of roads.

There has been a significant increase in maintenance expenditure over the past few years. The increase in maintenance of 4.4 per cent over the previous year reflects increased funding from rises in RTA charges and the Sydney Harbour Bridge toll.

Development expenditure increased by 6.8 per cent over the previous year.

Ride Quality

Ride quality measures the 'roughness' of travel over road surfaces (including National Highways) and is a primary indicator of road condition. Over the past seven years the ride quality measurements have been:

Year ended 30 June	Poor %	Fair %	Good %
2005	2.4	8.2	89.4
2004	2.3	8.2	89.5
2003	2.4	8.0	89.6
2002	2.2	7.7	90.1
2001	2.4	8.0	89.6
2000	2.0	7.6	90.4
1999	3.1	9.4	87.5

Source: Roads and Traffic Authority

Pavement Durability

Pavement durability measures road surface cracking on sealed country State Roads (including National Highways). Results over the last seven years have been:

Year ended 30 June	Poor %	Fair %	Good* %
2005	5.3	12.7	81.9
2004	5.5	13.5	81.0
2003	5.5	15.0	79.5
2002	5.3	16.3	78.4
2001	4.1	20.8	75.1
2000	3.0	19.8	77.2
1999	3.0	24.0	73.0

*Good represents a surface where the pavement is not cracked
Source: Roads and Traffic Authority

Road Safety

The RTA aims to reduce road deaths, injuries and trauma and their cost to the community.

Expenditure on road safety and road user management has increased by 38 per cent over the last five years, to \$453 million (\$449 million).

Road Safety Performance Outcomes

One of the Authority's objectives is to promote road safety through educating drivers about their driving behaviour. Advertising projects include focusing on the deaths and injuries that occur as a result of drink driving, failure to wear seat belts and stop revive and survive initiatives.

The key behavioural factors included in road traffic accidents and the total number of fatalities and injuries are shown below:

Casualties from Road Traffic Crashes in NSW - Behavioural Factors	2005	2004	2003	2002	2001
Fatalities					
Speed related	192	209	256	226	235
Fatigue related	84	75	110	78	122
Illegal level of alcohol	65	102	130	99	107
Seat belt fitted but not worn	65	72	83	89	92
Total	510	539	561	524	603
Injuries					
Speed related	4,484	4,682	4,905	5,241	4,710
Fatigue related	1,937	1,949	2,097	1,924	2,175
Illegal level of alcohol	1,450	1,503	1,679	1,725	1,853
Seat belt fitted but not worn	365	416	435	15	609
Total	26,323	27,208	28,447	29,913	28,812

Note: Behavioural 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.

Source: Roads and Traffic Authority

CONTROL ISSUES

We identified opportunities for the RTA to improve its internal control. The areas mainly relate to accounting for infrastructure and property assets, and controls over leave and attendance recording. We have referred these matters to the management.

COMPLIANCE ISSUES

We examined whether the Authority complied with the following:

- Treasurer's Direction for 'Payment of Expenses by Credit Cards'
- Premier's Department policy on Salary Packaging for Non-SES Staff.

The Authority substantially complied with the requirements.

OTHER ISSUES

Private Sector Funded Build Own Operate Transfer (BOOT) Infrastructure Projects

Cross City Tunnel

A private sector entity, the Cross City Motorway Consortium, has funded, designed and constructed cross city tunnel as a Build Own Operate Transfer (BOOT) project at an estimated cost of \$680 million. The 2.1km of twin tunnels between Kings Cross and Darling Harbour are designed to ease traffic congestion and link the Eastern and Western Distributors. The tunnel was opened to traffic in September 2005. The Consortium will operate the Tunnel until 2035.

Westlink M7 Motorway

In February 2003 RTA signed an agreement with a private sector entity, Westlink Consortium, to design, construct, operate and maintain the Westlink M7 Motorway (formerly known as the Western Sydney Orbital). The anticipated construction costs are \$1.5 billion with a completion date of December 2005. The Consortium will operate the motorway until July 2040. The Federal Government is contributing \$356 million with the remainder being met by Westlink Consortium.

Lane Cove Tunnel

In December 2003 RTA signed an agreement with a private sector entity, the Lane Cove Tunnel Company, to finance, design, construct, operate and maintain the 3.6km Lane Cove Tunnel. The anticipated construction cost is \$1.1 billion with completion due in May 2007. The Company will operate the Tunnel until January 2037.

Cost of Major Projects

Major projects have four main phases in their life cycles:

- Strategic Phase in which the need for project is decided and a strategy developed to undertake the project
- Concept Phase in which the requirements of the project are defined and the preferred option for the project decided, environmental impacts assessed and the project design developed
- Implementation Phase in which a management plan is developed, detailed design studies undertaken and developed, contracts prepared and actual construction managed
- Finalisation Phase in which the project is completed and handed over to the user and a project review is undertaken.

The final cost of a project can vary substantially from the early estimates especially when the scope changes and there are cost increases during the life of the project.

The Authority has almost finalised costs for two of its major projects, the North Kiama by-pass and the Bangor by-pass. The tables below show the estimated and actual costs for each project.

North Kiama By-Pass Roadworks

Year ended 30 June	Project Stage	Total Estimated Cost \$m	Cost to Date \$m
2005	Construction	179	155
2004	Construction	179	105
2003	Construction	141	66
2002	Project Planning	141	51
2001	Project Planning	141	16

Source: Roads and Traffic Authority

The first stage of the 7.6km North Kiama by-pass project was completed in February 2003 with the construction of a 942-metre bridge over the Minnamurra River floodplain. The bridge links the Kiama by-pass in the south and the Princes Highway, near Dunmore, in the north.

The second stage of the project involves the construction of North Kiama by-pass roadworks, which are anticipated to be finished in late 2005. RTA has advised that increased construction costs for the North Kiama by-pass roadworks are largely due to changes in the project scope and increased property acquisition costs. Northbound lanes previously part of the Oak Flats to Dunmore project (from Swamp Road to north of Shellharbour Road) were added to the original concept design for this section. The Bombo section of the by-pass was redesigned to accommodate State Rail and community requests to provide additional clearances from the railway siding.

Bangor By-Pass

Year ended 30 June	Project Stage	Total Estimated Cost of Project \$m	Cost to Date of Project \$m
2005	Construction	95	93
2004	Construction	95	64
2003	Construction	75	22
2002	Project Planning	70	7
2001	Project Planning	50	3

Source: Roads and Traffic Authority

RTA has advised that the original plan for the construction of the Bangor by-pass was for the project to be completed in two stages, the 3.4km East-West Link (Stage 1), and the 2.8km North-South Link (Stage 2). Additional constructions costs result from:

- changes to the road designs to incorporate two sections of over-pass roads and two bridges. This design change resulted from an extensive community consultation process
- additional planning approval conditions, including a pedestrian cycleway, additional noise walls, and additional drainage requirements
- alterations to the program of works to incorporate the northern section of the North-South Link (Stage 2) to provide for improved traffic flows by delivering a four lane divided road by-passing Bangor in the first stage of the project.

Initial RTA Alliance Project

An alliance project is one where the asset owner and its partners adopt a team approach, sharing the risks and costs of the construction.

Lawrence Hargrave Drive is an alliance project between the RTA and Barclay Mowlem Construction Limited, Coffey Geosciences Limited and Maunsell Australia Pty Limited. The agreement signed in December 2004 is for the major repair of Lawrence Hargrave Drive between Clifton and Coalcliff. Lawrence Hargrave Drive is a scenic coastal road north of Wollongong and has a history of rock falls. The section of road between Clifton and Coalcliff is the State's highest slope risk area and since 1996 over 50 rock falls were recorded. RTA has spent \$41 million on this project to 30 June 2005.

FINANCIAL INFORMATION

Abridged Statement of Financial Performance

Year ended 30 June	2005 \$m	2004 \$m
Employee related	210	205
Maintenance	775	688
Depreciation and Amortisation	704	697
Other expenses	<u>669</u>	<u>604</u>
TOTAL EXPENSES	<u>2,358</u>	<u>2,194</u>
TOTAL REVENUE	<u>379</u>	<u>418</u>
Net gain on sale of non-current assets	<u>14</u>	<u>1</u>
NET COST OF SERVICES	<u>1,965</u>	<u>1,775</u>
Government Contributions	<u>2,493</u>	<u>2,345</u>
SURPLUS FOR THE YEAR	<u>528</u>	<u>570</u>

Government contributions were from the State, \$1,920 million (\$1,885 million) and the Commonwealth, \$573 million (\$459 million).

State Revenue

Revenue collected on behalf of the State and paid to the Consolidated Fund and to other authorities totalled \$949 million (\$905 million). This included:

- vehicle registration fees, \$209 million (\$198 million)
- drivers licence fees, \$135 million (\$93 million)
- vehicle transfer fees, \$35 million (\$34 million)
- stamp duty, \$570 million (\$580 million).

Abridged Statement of Financial Position

At 30 June	2005 \$m	2004 \$m
Current assets	332	410
Non-current assets	<u>73,921</u>	<u>70,108</u>
TOTAL ASSETS	<u>74,253</u>	<u>70,518</u>
Current liabilities	764	742
Non-current liabilities	<u>1,387</u>	<u>1,567</u>
TOTAL LIABILITIES	<u>2,151</u>	<u>2,309</u>
NET ASSETS	<u>72,102</u>	<u>68,209</u>

Assets

The Authority's assets include:

- land and buildings, \$3,420 million (\$3,224 million)
- roads, \$25,553 million (\$24,769 million)
- land under roads, \$36,269 million (\$35,354 million)
- bridges, \$6,100 million (\$5,457 million).

Also included in non-current assets is the Authority's emerging interest in private sector provided infrastructure totalling \$958 million (\$894 million). This comprised:

- Sydney Harbour Tunnel, \$605 million (\$589 million)
- M2 Motorway, \$72.0 million (\$61.4 million)
- M4 Motorway, \$116 million (\$103.7 million)
- M5 Motorway, \$115 million (\$101 million)
- Eastern Distributor, \$48.8 million (\$38.9 million).

The RTA lent \$223 million interest free to the Sydney Harbour Tunnel Company under the Net Bridge Revenue Loan Agreement. The loan is due to be repaid in 2022 and has been brought to account on a net present value basis at \$94.3 million (\$71.3 million). The loan agreement specifies that repayment is subordinate to all other obligations of the Company.

Land under roads and within road reserves is re-valued annually based on the average value, per hectare, of urban and rural land. Such valuations are based on the data provided by the Local Government Grants Commission and the Valuer General. However, in 2004-05 the relevant data was not available and RTA increased the land values by 5 per cent based on the assessment made by an in-house registered valuer.

Liabilities

At 30 June 2005, the balance owing on loans was \$823 million (\$898 million). The Authority's accounting policy for the Sydney Harbour Tunnel recognises the net present value of the ensured revenue stream as a liability. The liability at 30 June 2005 of \$359 million (\$372 million) equates to the principal outstanding on the bonds issued by the Sydney Harbour Tunnel Company to the private sector. Also included in liabilities is rent received in advance of \$23.6 million (\$26.8 million) relating to the M4 and M5 Motorways.

Program Information

The table below details the Authority's net cost of service on a program basis:

Year ended 30 June	2005		2004	
	Revenue \$m	Expenses \$m	Net Cost of Services* \$m	Net Cost of Services \$m
Road network infrastructure	253	1,530	1,277	1,133
Traffic and transport	28	297	269	242
Road safety, licensing and vehicle management	113	454	341	328
M4 / M5 Cashback Scheme	--	78	78	72
Total all programs	<u>394</u>	<u>2,359</u>	<u>1,965</u>	<u>1,775</u>

*Includes gain on disposal of assets

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.

Minister for Tourism and Sport and Recreation

Sydney Cricket and Sports Ground Trust

Sydney Cricket and Sports Ground Trust

AUDIT OPINION

The audit of the Trust's financial report for the year ended 28 February 2005 resulted in an unqualified Independent Audit Report.

CONTROL ISSUES

We identified some minor opportunities for improvement and have discussed these issues with the Trust and included them in a letter to management.

COMPLIANCE ISSUES

We examined the Trust's:

- compliance with the Treasurer's Direction 205.01-205.08 "Payment of Expenses by Credit Card"
- preparedness in adopting Australian Equivalents to International Financial Reporting Standards.

The results of the reviews were satisfactory.

OTHER ISSUES

During the year the Trust extended its contractual agreements with Cricket and NSW Rugby for the exclusive marketing rights for the sale of corporate/premium packages for international cricket and Super 12 fixtures.

FINANCIAL INFORMATION

Abridged Statement of Financial Performance

Year ended 28 February	2005 \$'000	2004 \$'000
Membership fees	11,207	11,648
Event hire fees	20,270	5,873
General	<u>30,585</u>	<u>30,422</u>
TOTAL INCOME	<u>62,062</u>	<u>47,943</u>
Event operating costs	11,103	4,463
Staff related expenses	10,953	8,775
General	<u>34,501</u>	<u>29,376</u>
TOTAL EXPENDITURE	<u>56,557</u>	<u>42,614</u>
OPERATING SURPLUS	<u>5,505</u>	<u>5,329</u>

The significant increases in event hire fees, event operating costs and staff related expenses were due largely to the staging and promotion of the Edinburgh Military Tattoo in February 2005.

Abridged Statement of Financial Position

At 28 February	2005 \$'000	2004 \$'000
Current assets	18,190	7,899
Non-current assets	<u>204,760</u>	<u>205,593</u>
TOTAL ASSETS	<u>222,950</u>	<u>213,492</u>
Current liabilities	25,223	19,129
Non-current liabilities	<u>12,182</u>	<u>14,323</u>
TOTAL LIABILITIES	<u>37,405</u>	<u>33,452</u>
NET ASSETS	<u>185,545</u>	<u>180,040</u>
EQUITY		
Retained earnings	110,198	104,693
Asset revaluation reserve	<u>75,347</u>	<u>75,347</u>
TOTAL EQUITY	<u>185,545</u>	<u>180,040</u>

Current assets and current liabilities rose primarily due to the increased cash flows and payments from staging the EMT.

TRUST ACTIVITIES

The Trust is responsible for the care, control and management of the Sydney Cricket Ground and the adjacent Aussie Stadium. The Trust is also authorised to manage or carry out work for sporting facilities at other locations.

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 Tourism and Sport and Recreation.

For further information on the Trust, refer to www.scgt.nsw.gov.au/.

Minister for Transport

Overview of Rail Services

Rail Corporation New South Wales

Rail Infrastructure Corporation

State Rail Authority of New South Wales

Transport Infrastructure and Development Corporation

Overview of Rail Services

RAIL SERVICES

The following NSW Government entities provide rail services:

State Owned Corporations	Statutory Authority
Rail Corporation New South Wales (RailCorp) Rail Infrastructure Corporation (RIC) Transport Infrastructure Development Corporation (TIDC)	State Rail Authority of New South Wales (SRA)

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

AUDIT OPINIONS

The audits of the above entities' financial reports for the year ended 30 June 2005 resulted in unqualified Independent Audit Reports.

KEY ISSUES

Restructure of Rail Services

No target date was set for the completion of the restructure of rail service entities. Significant progress has been made but considerable work is yet to be completed. Although a significant proportion of operational staff have transferred to RailCorp, RIC and SRA continue to perform many of the administrative functions they performed prior to the restructure.

After the 2003 State election, the Minister for Transport Services began restructuring rail services. In 2003-04 this involved:

- the creation of RailCorp from 1 January 2004
- transferring from RIC and SRA \$11.1 billion of assets, being the metropolitan rail network and rollingstock, and \$64.9 million of liabilities to RailCorp
- leasing \$3.0 billion of interstate and Hunter Valley rail lines to Australian Rail Track Corporation (ARTC)
- transferring responsibility for the Epping to Chatswood Rail Line from the Parramatta Rail Link Company, RIC and SRA to TIDC.

Further aspects of the restructure carried out in 2004-05 were:

- transferring from RIC and SRA to RailCorp \$513 million of assets, being mainly the remaining parts of the metropolitan rail network and inventories, and \$156 million in liabilities, including employee benefit liabilities for the 6,097 transferred employees
- transferring from RIC net liabilities of \$219 million, being \$342 million of borrowings for the Epping to Chatswood Rail Line project to TIDC offset by assets of \$123 million.

On 1 July 2005, further RIC and SRA assets, rights, liabilities and staff were transferred to RailCorp. The transferred assets and liabilities mainly comprised property, plant and equipment, borrowings and the employee benefits of 460 transferred employees.

Voluntary Redundancy

Employees of RIC and SRA may be displaced during the restructure of rail services. The management of displaced employees includes redeployment/re-training or the offer of voluntary redundancy. Voluntary redundancy is available only where employees are surplus and a formal offer of voluntary redundancy is made by either RIC or SRA.

RIC or SRA employees eligible for voluntary redundancy have a choice between the Special Purpose Payment Package (SPPP) and the applicable RIC or SRA voluntary redundancy package. The SPPP is considerably more generous than the current RIC/SRA voluntary redundancy package so as to encourage more employees to accept voluntary redundancy. Employees with 30 years of service can receive double the normal RIC or SRA redundancy entitlement under the SPPP.

The table below compares the three packages for those employees who are under 45 years of age at the time of taking voluntary redundancy.

Years of Service at Exit Date	SPPP*	Current RIC Package*	Current SRA Package*
1	23	11	11
2	27	15	16
5	39	27	27
10	59	47	42
13	68	56	51
15	74	62	51
18	76	62	51
20	84	62	51
25	104	62	51
30	124	62	51

* Weeks of pay

Employees aged 45 years or more are entitled to one additional week under the current RIC package. SRA employees are not entitled to the additional week unless they have five years of service. Under the SPPP package, the same employees are entitled to one additional week when they have two years of service.

Seven hundred and ninety-five employees of RIC or SRA took voluntary redundancy during 2004-05 at a total cost of \$57.8 million.

Managers on contracts were paid the higher SPPP rather than the lower termination clauses of their contracts. This applied when the manager had been continuously employed, was a non-contract employee prior to the contract and where the notional base salary was not greater than \$126,000, the maximum non-contract employee salary. RIC/SRA management advised us that the higher SPPP was offered to these managers on equity grounds.

Career Transition Centre

Employees who are displaced are registered in the Career Transition Centre (CTC), managed and administered by RIC. The CTC provides displaced staff with professional support from career coaches, assistance with re-deployment, training programs, personal counselling, assistance in dealing with transition and guidance to employees considering offers of voluntary redundancy.

Employees are entitled to indefinite salary maintenance at their former substantive rate of pay provided they cooperate with the redeployment process and accept a reasonable offer of employment. Up to three reasonable offers may be made. The employer can direct an employee to work in a position provided it is a reasonable offer.

During 2004-05, 1,145 employees registered with the CTC, of whom 331 were redeployed to positions within RailCorp and 719 accepted voluntary redundancies. As at 30 June 2005, 95 employees were registered within the CTC.

Management has identified a further 270 employees currently employed within RIC or SRA who are surplus to the needs of the organisation. Management is in the process of transferring these employees to the CTC.

OTHER ISSUES

Waterfall Accident

On 31 January 2003 a Tangara train derailed south of the Waterfall train station killing seven people and injuring forty-two. Justice McInerney headed an inquiry into the accident. He released an interim report in January 2004, and delivered his final report in January 2005.

The Independent Transport Safety and Reliability Regulator (ITSRR) is required to provide a quarterly report on the implementation of the NSW Government's response to the 177 recommendations (127 recommendations and 50 sub-elements) contained within the final report. The September 2005 quarterly report noted satisfactory progress has been made against the implementation plan:

- 35 recommendations are now closed
- a further 30 recommendations are claimed by agencies to be closed, but are in the process of being verified by ITSRR
- a further 71 recommendations are targeted for implementation by December 2005
- a further 20 recommendations are targeted for implementation by December 2006
- one recommendation for the introduction of national communications technical standards will not be implemented until around 2010
- 20 recommendations referred to the National Transport Commission are targeted for implementation by November 2005.

For more information on the report refer to www.cityrail.info. For the NSW Government responses to the report and the progress of implementation of recommendations, refer to www.transport.nsw.gov.au.

Chief Investigator of the Office of Transport Safety Investigation (OTSI)

OTSI was created on 1 July 2005 as a statutory authority, separate from the ITSRR. The Chief Investigator of OTSI reports directly to the Minister so as to enhance the independence of ITSRR. This separation arose as part of the NSW Government's response to the Waterfall Inquiry.

Funding Announcement

The funding announced in the 2005-06 State Budget enables RailCorp to continue with its programs to improve the safety and reliability of the CityRail network, in particular:

- \$217 million for rolling stock including the acquisition of new Outer Suburban carriages and new Hunter Valley diesel rail cars, and the rolling stock replacement plan where RailCorp will replace the 498 non air-conditioned suburban carriages with new air-conditioned carriages by 2010
- \$272 million for rail infrastructure and station upgrades
- \$97.5 million for the Rail Clearways Plan.

The 2005-06 Budget also includes:

- \$139 million for TIDC for the Epping to Chatswood Rail Line. Project expenditure including the Chatswood and Parramatta transport interchanges in 2005-06 will total \$434 million with \$295 million being sourced from borrowings.
- \$167 million for RIC including \$110 million for the maintenance of the country regional network, which is managed by the ARTC on behalf of RIC.

Expansion of Rail Network

On 9 June 2005, the NSW Government announced an expansion to the rail network. A new rail line from Rouse Hill in Sydney's north west to the City and through to Leppington in the south west is estimated to cost \$8 billion and take 12 years to build. The line, linking the growth areas of the north west and south west, will involve 13 kilometres of new surface track and 25 kilometres of new tunnel. The Government has committed \$360 million to purchase the rail corridor in the north west over the next six years and \$26.0 million from the 2005-06 budget to begin buying the rail corridor in the south west. It is anticipated that the project will be complete and operating progressively to 2017. Funding for the project is yet to be finalised but the Government is considering private sector participation.

Integrated Ticketing System

The Government intends to introduce in 2007 an integrated ticketing system for all government and privately owned rail, light rail, monorail, bus and ferry services across the greater Sydney metropolitan and regional areas.

For more information on the implementation of the smartcard ticketing system refer to www.transport.nsw.gov.au and comments on the Ministry of Transport in Volume Five of the Auditor-General's Report to Parliament, due for release in the next few weeks.

Rail Corporation New South Wales

AUDIT OPINION

The audit of the financial report of Rail Corporation New South Wales (RailCorp) for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

KEY ISSUES

See the 'Overview of Rail Services' section earlier in this report for more general rail industry information.

Rollingstock Acquisitions and Replacement

In 2004-05, RailCorp received 32 Millennium carriages with the final set of 4 carriages accepted on 28 June 2005. All 141 Millennium carriages contracted for purchase have now been delivered by the target date of 30 June 2005 and the forecasted final cost is expected within the project approval of \$466 million.

RailCorp's fleet size just meets its September timetable requirements. As at 30 June 2005, the electric carriage fleet totalled 1,541. The September 2005 timetable requires 1,538 carriages. This highlights the importance of the rollingstock acquisition program below.

RailCorp's future fleet requirement is dependent on:

- additional cars required as a result of slower running times in the 2005 timetable
- new trains required to address current overcrowding issues
- trains to meet forecast patronage growth
- opening of the Epping to Chatswood Rail Line in 2008
- fleet availability to increase the size of existing trains, from either 4 cars or 6 cars to 8 cars.

RailCorp has commenced the following projects to address the above issues:

	Original Target Date	Forecast Completion Date	Project Approval \$m	Actual Cost at 30/06/2005 \$m	Forecast Final Cost \$m
14 new Hunter Valley rail cars	31/12/2005	31/05/2006	102	76.1	102
41 new Outer Suburban rail cars - Stage 1	30/11/2006	30/12/2006	172	98.2	172
81 new Outer Suburban rail cars - Stage 2	30/06/2008	30/06/2008	268	--	268
Public Private Partnership to replace 498 carriages	31/12/2010	31/12/2010	--*	8.2	--*

* See comments below

The new Hunter Valley rail cars are behind the original schedule by about 22 weeks due to implementation of additional crashworthiness and other safety and reliability requirements. The contractor has also experienced delays in key areas of design, supply and production. The first two-car set is due to commence on-track testing in November 2005.

In March/April 2005, RailCorp exercised the Stage 2 option to acquire a further 81 new Outer Suburban rail cars. They will provide additional fleet capacity to support the opening of the new Epping to Chatswood Rail Line in 2008 and the new 2008 timetable.

RailCorp will replace 498 carriages over six years through a Public Private Partnership for the finance, design, manufacture and maintenance of the rollingstock for a period of 30 years. The total project capital cost is estimated to be \$1.5 billion (June 2004 prices). RailCorp has sought proposals for both single deck trains and double deck trains. Four consortia were short listed to tender for the single deck contract of which two were also short listed to tender for the double deck contract. The Request for Detailed Proposals was formally issued on 20 May 2005. The due date for the responses was 10 October 2005. RailCorp is in the process of evaluating the detailed proposals and expects that contracts will be awarded in 2006.

Train Drivers

Shortage of train drivers has been identified as one of the contributors to RailCorp's poor on-time running performance in recent years. RailCorp has established strategies to boost the number of drivers. One of the strategies was to reduce the training period from 26 months to 19 months.

The table below illustrates the movement in driver numbers in 2004-05:

	2004-05
Number of drivers at 1 July 2004	1,218
Less: Drivers exiting or transferred	(91)
Add: Drivers graduated	<u>172</u>
Number of drivers at 30 June 2005	<u>1,299</u>
Number of drivers in training at 30 June 2005	<u>317</u>

RailCorp has a target of 1,350 drivers by December 2005. The total number of drivers at 3 November 2005 was 1,341, a shortage of 9 drivers. RailCorp anticipates that its target of 1,350 drivers will be achieved by 31 December 2005.

Maintenance Backlog

The maintenance backlog as at 30 June 2005 is \$49.0 million. This is a \$31.0 million improvement from the position as at 30 June 2004 when the backlog was \$80.0 million and well ahead of original plans provided to Government in 2002-03 which forecast a backlog at 30 June 2005 of \$127 million. This favourable reduction has been primarily attributable to productivity improvements in programs such as re-railing and track reconstruction.

As part of the rail restructure, the responsibility for maintaining metropolitan track assets was transferred from the Rail Infrastructure Corporation (RIC) to RailCorp. An Asset Management Plan (AMP) has been devised by RailCorp, which outline strategies and programs for RailCorp's infrastructure assets covering the period from 2005-06 to 2009-10.

RailCorp has advised us that the approved budget for 2005-06 is below the long term requirements for maintaining infrastructure assets. RailCorp also advises that while this budget will allow assets to be maintained at adequate levels of performance for 2005-06, this level of funding if continued would see the reliable performance of the network decline in future years as the maintenance backlog increases.

Failure of Airport Link Company (ALC)

On 13 October 2005, RailCorp and the receiver for ALC reached a final settlement with the agreement to pay up to \$106 million (\$80 million in 2001 dollars) in compensation. Under this settlement, the receiver remains the owner of the 30 year leasehold of the four airport line stations and agrees to drop future claims and legal action against RailCorp. Under the original Airport Link agreement, the State Rail Authority (SRA) (now RailCorp) accepted a capped risk that passengers using the line may be fewer than estimated, rather than passing all the risk onto ALC.

ALC, a private sector company that operated the four airport line stations, went into receivership in November 2000. The airport rail line received considerably less patronage and revenue than expected by ALC. The receiver continues to operate these stations under an agreement between SRA and ALC. A Ministerial vesting order transferred this agreement from SRA to RailCorp on 17 March 2004.

PERFORMANCE ISSUES

Statement of Corporate Intent and Rail Performance Agreement

Sections 17C(1) and (2) of the *Transport Administration Act 1988* requires RailCorp to submit to the voting shareholders a Statement of Corporate Intent (SCI) on an annual basis. The first SCI was for the year to 30 June 2005. The SCI includes performance benchmarks for rail services and rail infrastructure facilities as included in a Rail Performance Agreement (RPA) between the Minister and RailCorp. The RPA covers a five year period commencing on 1 July 2004 and will be reviewed on an annual basis over this period.

RailCorp publicly reports certain performance indicators, such as on-time running, peak services availability and safety indicators, on its Internet and updates them regularly.

Performance reporting is primarily against internal benchmarks. We recommend that RailCorp should develop a practice of comparing their performance against external benchmarks.

RailCorp was formed on 1 January 2004, and passenger services moved from SRA to RailCorp on that date. The following performance indicators refer to RailCorp performance in 2004-05, RailCorp and SRA performance for 2003-04 and SRA performance for 2002-03, unless stated otherwise.

Reliability Indicators

On-time Running

	Target	2004-05	2003-04	2002-03
Percentage On-time				
CityRail - suburban	92.0	61.1	71.6	90.9
CityRail - intercity	92.0	72.2	77.6	91.1
CountryLink	78.0	73.3	74.6	79.3

Until 30 June 2005, on-time running for suburban services was measured as a percentage of timetabled peak train services reaching their destinations within 3 minutes 59 seconds of scheduled arrival time for suburban services, and 5 minutes 59 seconds for intercity services. For CountryLink services, the measure is within 10 minutes of scheduled arrival time.

Timetables were adjusted in July 2004 to allow for a safer operating environment and to provide more drivers for weekday requirements. Contributing to the poor on-time running performance in 2004-05 was continued bad weather, major incidents such as track and signal failures, continuing shortage of train crew, poor reliability of Millennium trains in the first six months of 2004-05, and the workforce strike in May 2005. CountryLink’s performance was affected by speed restrictions and track under maintenance.

To improve on-time running performance, RailCorp implemented a new timetable on 4 September 2005 and the tolerance for measuring suburban services was increased to 5 minutes from 1 July 2005 following the findings of an Independent Transport Safety and Reliability Regulator (ITSRR) report on reliability. On-time running for CityRail services rose to 93.4 per cent in September 2005 following the new timetable and tolerance measures. With the new timetable, passengers have experienced longer station dwell times and some over-crowding in peak hours. To address the over-crowding issue, RailCorp has made 30 changes to the new timetable and lengthened 10 train services from six to eight carriages commencing from 17 October 2005.

Skipped Stops/Cancellations

Year ended 30 June	2005	2004	2003
Cancellations - % of total timetabled peak services	2.5	1.8	0.7
Peak stops skipped - % of total peak stops	1.3	1.2	0.7

Causes for cancellations of peak services are similar to on-time running above. Trains may skip stops at scheduled stations to support on-time running. Both performance indicators have deteriorated over the years and were unfavourable compared with the target of 1.0 per cent. Following the introduction of the new timetable on 4 September 2005, the September results for these indicators were 0.5 per cent cancellations and 0.1 per cent of peak stops skipped. Both were well within the set targets.

Safety Indicators

	2004-05	2003-04	2002-03
Significant incidents per million journeys	0.4	0.3	0.3
Signals passed at danger (SPAD)	279	185	72

Rail incidents include collisions, derailments, fires and explosions. This indicator measures the overall effectiveness of rail safety initiatives and indicates some deterioration over the years. RailCorp advise that as safety management improves more incidents are reported.

A SPAD occurs when a train passes a red signal or stop-board without authority. RailCorp records and investigates all incidents taking into account weather conditions, location and the driver's record. In 2004-05, all SPADs were of a low severity meaning they did not represent a risk of collision or accident.

Another critical safety indicator is the number of Vertical Split Heads (VSH), a type of crack found in tracks. If not detected and removed, the crack may eventually extend to the outside of the rail, with the potential for a section of the railhead to break off, which may affect the operation of signals and passenger safety. The number of large VSH defects in the metropolitan network decreased from 55 in 2002-03 to one in 2004-05. This is mainly due to the introduction of an enhanced testing methodology and increased frequency of testing with new technology to ensure that VSH defects are detected at earlier stages.

	Target (Monthly) 2004-05	Average Monthly Performance 2004-05	Average Monthly Performance 2003-04
Lost time injury frequency rate (LTIFR)	23.9	33.5	34.2

RailCorp measures workplace injury through a Lost Time Injury Frequency Rate (LTIFR). This rate measures the lost time injuries per million man-hours worked. LTIFR improved slightly compared to the previous year but was unfavourable compared to the target.

Capacity Demand Matching Indicator

	March 2005	September 2004	March 2004
Percentage of peak CityRail suburban trains at a load factor > 135%	12.0	7.9	7.3

The upward trend reflects poor service reliability with late running and cancelled trains causing overcrowding as well as the constrained nature of the CityRail network. All these measures are above the target set by the Minister of 5.0 per cent by 2008.

Capital Expenditure

Capital expenditure in 2004-05 is measured against the budget as follows:

	Budget 2004-05 \$m	Actual 2004-05 \$m	Below/(Over) \$m
Millennium Train rail cars - Stage 2	102.0	90.3	11.7
Clearways project	80.0	42.3	37.7
14 new Hunter Valley rail cars	58.0	48.7	9.3
41 new Outer Suburban cars	50.1	63.6	(13.5)
Upgrade to Electrical Traction Supply System	28.8	9.6	19.2
All Other Capital Projects	235.0	188.0	47.0
Total Capital Expenditure	553.9	442.5	111.4

The \$11.7 million underspent on the Millennium Train represented funds carried forward into 2005-06 to finalise the costs during the closeout of the project.

The \$37.7 million variance in the Clearways project was primarily due to the delay in expenditure on the Bondi Junction turn-back as a result of the hand-over process to Transport Infrastructure Development Corporation.

The fourteen new Hunter Valley rail cars were below budget by \$9.3 million mainly because of delays in the manufacture of under-frames and body shells.

Forty-one new Outer Suburban cars were \$13.5 million over budget due to the accelerated construction program in the current year. Forecasted final cost is within the original project approval.

The \$19.2 million delay in the Upgrade to Electrical Traction Supply System project was due to lack of industry design resources.

Asset Management Indicators

Indicators	Target (Monthly) 2004-05	Average Monthly Performance 2004-05	Average Monthly Performance 2003-04
Average number of monthly peak incidents attributable to infrastructure	27.0	42.3	45.6
Track Condition Index - Metro	<45	43.5	43.5
Completion of Major Periodic Maintenance (MPM) and Capital Scope Against Plan (%) - Metro	95.0	124.0*	112.0
Average monthly fleet failure	186	334	255

* This represents the results of top 40 infrastructure MPM programs.

Average monthly peak incidents attributable to infrastructure improved marginally from the prior year but are still far above the target.

The track condition index (TCI) reflects track roughness, rail wear and sleeper condition. The lower the TCI, the better the condition. A TCI of less than 45 is considered acceptable.

A good result was achieved for the delivery of top 40 infrastructure MPM programs for the year 2004-05. Skill shortages were experienced in signal and electrical resources that had a significant impact on the delivery of some programs in 2004-05. The impact is expected to increase in 2005-06. RailCorp is considering global recruitment to address the local skill gaps. The reliability of rail infrastructure is enhanced through completion of MPM.

Causes of fleet failure include inherent door system problems, poor braking, and bad weather. Performance in this area is worse than last year and is well above target. RailCorp is implementing a Fleet Reliability Program aimed at reducing fleet failures.

CONTROL ISSUES

CountryLink Revenue System (Repeat Issue)

In 2002-03, SRA put in place procedures to minimise significant deficiencies identified in the CountryLink Revenue System. Responsibility for the CountryLink revenue system transferred to RailCorp from 1 January 2004. In January 2004, the RailCorp Board approved changes to CountryLink operations, including the replacement of the software Travellink system by 2005-06. In 2004-05, RailCorp commenced a number of activities, which include:

- development of a risk management framework for the wider CountryLink reform project
- design of the revised reservation and ticketing system.

Matters Reported to Management

We identified opportunities for improvement in internal control/procedures. These were not significant, and where appropriate will be advised to management.

Internal Audit Findings

Internal Audit completed 40 audits during 2004-05. Significant control problems were noted in the following areas:

- Inventory and maintenance processes
- Management of contract day labour hire
- Competency assessment programs
- Workers compensation administration

RailCorp management accepted the internal audit recommendations.

COMPLIANCE ISSUES

We examined whether RailCorp complied with the *State Owned Corporations Act 1989* regarding the appointments of directors and operations of the board. RailCorp complied with these requirements.

We examined RailCorp's preparedness for the introduction of Australian Equivalents to International Financial Reporting Standards. The result of the review was satisfactory.

OTHER ISSUES

Counter-Terrorism Measures

Arising from the attacks on London's transport system on 7 July 2005, RailCorp has increased its vigilance to ensure the safety and security of staff and passengers. The CEO of RailCorp has joined the Police Commissioner and other heads of departments to brief the NSW Premier on the measures being taken in response to this terrorist attack. Immediate measures following the attack include:

- redeploying transit officers to inspect trains close to the Central Business District
- increasing the visible presence of transit officers
- increasing the frequency of inspections on trains and stations.

On 21 July 2005, the NSW Premier and the Minister for Transport unveiled a new counter-terrorism awareness advertising campaign for Sydney's transport system. The campaign asks train commuters to report any unattended packages and suspicious activity that will be handled by RailCorp's Security Division.

RailCorp advises that its Security Division has security experts who have highly specialised skill sets in security intelligence and asset protection. RailCorp conducts exercises internally and joint exercises with other emergency services organisations regularly to improve the response to any incident in Sydney.

Investigation of Complaints Against Transit Officers

In response to increasing complaints about the behaviour of transit officers, the NSW Ombudsman examined a sample of 72 RailCorp investigations of complaints against its transit officers. The findings included:

- although many of the complaints related to serious issues such as assault, use of excessive force and grossly inappropriate conduct, 53 of the investigations undertaken by RailCorp were critically deficient.
- failures to pursue obvious lines of inquiry, to identify key issues, to contact the complainant or to check the complaint history of officers involved.

The NSW Ombudsman recommended:

- a need for system changes and legislative clarification of transit officers' powers
- a more rigorously and systematic external oversight of investigations.

The NSW Ombudsman stated that RailCorp has responded positively to his investigation.

For more information about the above examination, refer to www.nswombudsman.nsw.gov.au.

Independent Survey of CityRail Customers

On 12 October 2005, ITSRR released its second annual survey of CityRail customers conducted between 16 June and 24 July 2005. The survey found that CityRail customers gave positive marks to the presence of transit officers, the CityRail website, the 131-500 transport information telephone service, network signage, personal safety on stations in peak hours, and removal of litter.

The Survey also found that punctuality, train delays and cancellations, and crowding remained the three issues of greatest concern to train users. These issues all relate to on-time running.

CityRail's on-time running performance has improved considerably since the introduction of the new timetable on 4 September 2005. ITSRR will conduct a mini-survey in late November 2005 to assess subsequent changes in the quality of service delivery. The mini-survey will focus on punctuality, crowding, cancellations and related service issues. ITSRR expects to publish the results of the mini-survey in early 2006.

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

Safety Management System

RailCorp is currently operating with temporary accreditation from the ITSRR as a rail operator and owner. RailCorp has commenced a number of important activities to help achieve full accreditation. Crucial to this is demonstrating to ITSRR, substantive implementation of the new Safety Management System. ITSRR will conduct accreditation audits in 2005-06.

RailCorp launched the Safety Management System in March 2005. The system is designed to put into action its Safety Strategic Plan and Safety Policy, and provides an integrated risk-based approach to safety management across the whole organisation. The system includes six frameworks - human factors integration, incident management, safety governance, safety risk management, safety knowledge management and safety change management.

Rail Clearways Plan

The Rail Clearways Plan will separate the existing fourteen metropolitan rail routes into five independent clearways, thus reducing the sharing of critical infrastructure and train paths. More than \$1 billion, funded by borrowings, will be spent on the plan. The plan involves 15 key projects with building additional track, platforms, turnbacks and train crossing loops.

Stage 1 of the plan, which is scheduled for completion in 2007-08, involves nine key projects. RailCorp has commenced works on them and spent a total of \$67.0 million to 30 June 2005. This includes \$29.7 million on works conducted by the Transport Infrastructure Development Corporation (TIDC) in 2004-05. Stage 2 of the plan involving the remaining 6 key projects is scheduled for completion in 2010-11.

Epping to Chatswood Rail Line

RailCorp has agreed to acquire from TIDC the Parramatta Transport Interchange in 2006 and the Epping to Chatswood Rail Line in 2008 on completion. The contingent assets are estimated to be \$215 million for the interchange and \$1,725 million for the rail line. Contingent liabilities, borrowings that RailCorp will assume for the project are estimated to be \$1,337 million.

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

Managing Disruptions to CityRail Passenger Services

The Audit Office conducted a performance audit on how well RailCorp manages unplanned disruptions to CityRail passenger services and informs passengers during disruptions. The report was released on 22 June 2005. The key findings were:

- CityRail's reliability and on-time running performance reached its lowest level for a decade in 2004. Customer satisfaction levels, patronage and fare-box revenue have also declined.
- RailCorp is making a serious effort to reduce the effects of disruptions by developing and implementing long-term engineering solutions, new technology and timetables. However, for the best part of the next decade, any major improvement in passenger service will rely more on good day-to-day management and the performance of rail staff than engineering and technology solutions.

The report made a number of recommendations to improve information provided to customers and RailCorp's response to disruptions. For more information on the report refer to www.audit.nsw.gov.au.

Impacts of Freight Incidents on CityRail Passenger Service Reliability

The Minister for Transport requested ITSRR to review the impact of freight incidents on CityRail passenger service reliability. The first stage of ITSRR's review found that freight incidents do not at present have a substantial impact on aggregate CityRail on-time running. However, particular incidents at particular locations can cause considerable inconvenience to CityRail customers from time to time. RailCorp is largely addressing the issues through operational means.

ITSRR noted that to achieve an optimal balance between freight and passengers a longer term strategy extending beyond operational mechanisms may be required. In the final stage of its review, ITSRR intends to identify the issues that need to be addressed and some options that might be considered in such a strategy. The final stage of the review is expected to be completed in November 2005.

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

Train Door Emergency Egress and Access and Emergency Evacuation Procedures

The Special Commission of Inquiry (SCOI) into the Waterfall accident recommended changes to the emergency egress and access (i.e. ways in which passengers can escape from trains in an emergency and the way emergency services and other rescuers can get into trains). In particular the SCOI recommended the abandonment of the RailCorp containment policy which does not allow for self-evacuation by passengers in the event of an accident.

RailCorp have carried out a risk assessment of passenger evacuations in 2005 as part of the replacement of its containment policy. This has been using a Socio-Technical Probabilistic Risk Assessment (ST-PRA) Tool that maps train configurations, crew and passenger behaviours, threats, locations (e.g. tunnels and resultant harm). This will assist in determining appropriate passenger evacuation options in the event of an emergency. The risk assessment methodology and findings have been reviewed by ITSRR who are satisfied with the process.

In addition, a program of train modification will take place during 2005-06 to fit keyless emergency door release mechanisms to improve access to trains in an emergency.

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

Australian Equivalents to International Financial Reporting Standards

RailCorp will apply Australian Equivalents to International Financial Reporting Standards (AEIFRS) from 1 July 2005. Had the 2004-05 financial statements been prepared under AEIFRS, the net surplus would have been \$18.6 million and equity \$11,364 million. The difference is due to the use of a different discount rate in determining deferred superannuation liabilities under AEIFRS.

FINANCIAL INFORMATION

Abridged Statement of Financial Performance

Year ended 30 June	2005 \$'000	2004* \$'000
Passenger revenue	520,105	256,960
Government reimbursement for services	1,041,505	401,383
Other Government contributions	599,550	253,343
Other revenue	201,126	78,910
TOTAL REVENUE	<u>2,362,286</u>	<u>990,596</u>
SURPLUS FROM ORDINARY ACTIVITIES BEFORE BORROWING COSTS AND DEPRECIATION	523,937	201,592
Borrowing costs	--	7
Depreciation	<u>431,356</u>	<u>196,633</u>
NET SURPLUS	<u>92,581</u>	<u>4,952</u>
Accumulated funds at the beginning of the period	<u>4,952</u>	--
ACCUMULATED FUNDS AT END OF FINANCIAL YEAR	<u>97,533</u>	<u>4,952</u>

* The 2004 figures cover six months ended 30 June 2004

The results for 2004-05 reflect a full year of operations and the additional vestings of assets, liabilities and staff to RailCorp from RIC and SRA.

Abridged Statement of Financial Position

At 30 June	2005 \$'000	2004 \$'000
Current assets	466,682	217,354
Non-current assets	<u>11,720,973</u>	<u>11,063,117</u>
TOTAL ASSETS	<u>12,187,655</u>	<u>11,280,471</u>
Current liabilities	548,037	230,670
Non-current liabilities	<u>181,609</u>	<u>41,565</u>
TOTAL LIABILITIES	<u>729,646</u>	<u>272,235</u>
NET ASSETS	<u>11,458,009</u>	<u>11,008,236</u>

In 2004-05, RIC and SRA vested further assets of \$513 million, liabilities of \$156 million and 6,097 employees to RailCorp as part of the continuing restructure of the NSW rail industry.

On 1 July 2005, further RIC and SRA assets, rights, liabilities and staff were transferred to RailCorp. The transferred assets and liabilities mainly comprise property, plant and equipment, borrowings and the employee benefits of 460 transferred employees.

CORPORATION ACTIVITIES

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

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

Rail Infrastructure Corporation

AUDIT OPINION

The audit of the financial report of the Rail Infrastructure Corporation (RIC) for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

KEY ISSUES

Ongoing functions of RIC

Refer to the 'Overview of Rail Services' section earlier in this Report for an explanation of the changing roles of the various rail entities.

During 2004-05 RIC's major functions included:

- Managing and monitoring of the Australian Rail Track Corporation (ARTC) Lease Agreement, the Country Regional Network Management Agreement and the Labour Services Agreement
- negotiating and administering the Community Service Obligation (CSO) payments to allow for the provision of maintenance services to non commercial railway lines owned by RIC
- managing and administering career transition services for RIC and State Rail Authority (SRA) staff displacements resulting from the rail restructure and ARTC arrangements
- managing the remaining non core assets and businesses

During 2005-06, RIC's management structure is anticipated to reduce further. Its key functions will include managing the main agreements with the Government and ARTC, including:

- Country Regional Network Funding Agreement with Ministry of Transport (MoT); and
- Country Regional Network Management Services Agreement with ARTC.

RIC will continue to fulfil its obligations under the Lease Agreements with ARTC and the Enterprise Agreement with the Rail Unions, with ARTC managing all of the day-to-day functions covered under these agreements.

Vestings

Net assets of \$319 million were vested from the RIC to RailCorp effective September 2004. The transfer primarily comprised property, plant and equipment. In addition, 2,945 staff were vested to RailCorp.

Net liabilities of \$219 million were vested from RIC to the Transport Infrastructure Development Corporation (TIDC). These were primarily borrowings and project receivables held by RIC in relation to the Epping to Chatswood Rail Link.

An additional 230 SRA train control secondees from ARTC will be vested to RIC in January 2006 as per the Enterprise Agreement.

Australian Rail Track Corporation (ARTC) Lease

There are 867 RIC employees seconded to ARTC as at 30 June 2005. Under the ARTC Labour Services Agreement, secondees remain employees of RIC. Seconded employees are subject to the direction and control of ARTC on a day-to-day basis including management, discipline and performance. The agreement expires on 30 June 2008. On this date, ARTC has a three-year option to extend the agreement.

Of the total 1,100 RIC and SRA staff currently seconded to ARTC, 450 are expected to be offered employment by ARTC by the expiry of the agreement. The balance of seconded employees may return to RIC for registration in the Career Transition Centre (see 'Overview of Rail Services' earlier in this report), or be retained by ARTC under an extended Labour Services Agreement.

The ARTC lease agreement has been in effect since 4 September 2004. As a result, responsibility for the interstate and Hunter Valley network now resides with the Commonwealth.

The maintenance of the residual Country Regional Network (CRN) is managed by ARTC under a CRN Management Agreement. During 2004-05 RIC paid to ARTC \$92.7 million for this service, as a CSO. This was primarily sourced from Community Service funding.

PERFORMANCE ISSUES

Key performance indicators (KPIs) relating to the Country Regional Network have been developed and agreed with ARTC. While related performance data has been collected from ARTC, the first annual analysis of KPIs is not yet complete.

CONTROL ISSUES

Matters Reported to Management

No significant issues were identified in the 2004-05 audit. Improvements identified to control and administration practices will be discussed further with management and if appropriate, reported in a letter to management.

Management of Employee Annual Leave (Repeat Issue)

The proportion of RIC employees (including seconded employees with ARTC) with excessive leave balances (i.e. more than forty days) has increased from 21 per cent at 30 June 2004 to over 28 per cent at 30 June 2005. Regular employee leave has occupational health and safety benefits and is an important internal control.

Leave Entitlements at 30 June (days)	Number of Employees		Total Days Leave Entitlement		Average Days Leave Entitlement	
	2005	2004	2005	2004	2005	2004
41-60	336	820	16,465	39,995	49	49
61-80	103	237	7,019	16,204	68	68
81-100	33	61	2,956	5,368	89	88
> 100	38	66	4,909	8,359	123	127
	<u>510</u>	<u>1,184</u>	<u>31,349</u>	<u>69,926</u>	<u>82</u>	<u>83</u>

COMPLIANCE ISSUES

We examined RIC's:

- preparedness for the introduction of Australian Equivalents to International Financial Reporting Standards
- compliance with the requirements of the *Fringe Benefits Tax Assessment Act 1986*
- compliance with the *State Owned Corporations Act 1989* regarding the appointment of directors and operations of the board.

The results of the above reviews were satisfactory.

Abridged Statement of Financial Performance

Year ended 30 June	2005 \$'000	2004 \$'000
REVENUE	553,156	1,235,826
EXPENSES		
Employee benefits	225,213	421,052
Superannuation	42,689	19,590
Depreciation	131,153	419,783
Write-down of assets leased to ARTC	15,369	2,956,711
Other expenses	282,043	607,381
Borrowing costs	2,551	2,321
Share of net profit in associates and joint ventures	<u>(72)</u>	<u>(345)</u>
LOSS BEFORE INCOME TAX	(145,790)	(3,190,667)
Accumulated (losses) funds at the beginning of the period	(1,506,473)	164,052
Transfers from reserves	<u>112,146</u>	<u>1,520,142</u>
ACCUMULATED LOSSES AT END OF FINANCIAL YEAR	<u>(1,540,117)</u>	<u>(1,506,473)</u>

Revenue includes access fees \$49.5 million (\$402 million in 2003-04), CSO revenue \$133 million (\$356 million), maintenance and construction revenue \$31.5 million (\$331 million), redundancy funding from MoT \$69.9 million (\$34.0 million) and recoveries from RailCorp \$234 million (nil in prior year).

During 2004-05, 641 employees accepted offers of voluntary redundancy. Redundancy payments during the year totalled \$39.8 million. This is included in employee benefits expense in the abridged statement of financial performance.

Abridged Statement of Financial Position

At 30 June	2005 \$'000	2004 \$'000
Current assets	50,267	363,804
Non-current assets	<u>2,328,357</u>	<u>2,963,452</u>
TOTAL ASSETS	<u>2,378,624</u>	<u>3,327,256</u>
Current liabilities	119,447	321,278
Non-current liabilities	<u>153,728</u>	<u>540,842</u>
TOTAL LIABILITIES	<u>273,175</u>	<u>862,120</u>
NET ASSETS	<u>2,105,449</u>	<u>2,465,136</u>

Current assets decreased mainly due to the vesting of \$119 million project receivables to TIDC for amounts spent on the Epping to Chatswood Rail Link and \$28.0 million in inventory to RailCorp. The prior financial year included \$25.2 million redundancy funding receivable from SRA.

Non-current assets decreased partly as a result of \$379 million in property, plant and equipment vested to RailCorp.

The remaining non-current assets include \$2.3 billion of trackwork and infrastructure (mainly the residual country rail network) and \$69.0 million of property, plant and equipment.

The decline in total liabilities from the prior year is attributable to the vesting of \$342 million in borrowings to TIDC and \$100 million in employee liabilities for 2,835 employees vested to RailCorp.

AGENCY ACTIVITIES

Refer to the "Overview of Rail Services" section earlier in this report for more general industry comment.

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

The two shareholders of the Corporation are the Treasurer and the Assistant Treasurer.

The NSW Treasury has advised us that the Government clearly recognises its responsibility for ensuring the capacity of the business to meet its financial obligations and ensuring the integrity and viability of those operations.

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

State Rail Authority

AUDIT OPINION

The audit of the financial report of State Rail Authority (SRA) for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

KEY ISSUES

Continuing Restructuring of SRA

SRA's objective is to wind up its business activities as part of the rail industry restructure. In 2004-05, SRA transferred assets of \$164 million, liabilities of \$55.7 million and 3,262 employees to RailCorp. At 30 June 2005, SRA held remaining assets of \$515 million, liabilities of \$856 million and 2,530 employees.

On 1 July 2005, SRA transferred further assets, rights and liabilities, and 351 employees to RailCorp. The transferred assets and liabilities mainly comprise surplus land in the metropolitan rail area, borrowings and the employee benefits of the 351 transferred employees.

SRA has a residual management team in place, responsible for overseeing the gradual winding down of operations in accordance with its statutory and management requirements. SRA has identified strategies to address the remaining assets, liabilities and workforce transition:

- certain parcels of land will be sold and more land will be vested to RailCorp.
- certain assets, including heritage assets designated for specific purposes, will be vested to other government agencies.
- certain employees will be vested to Rail Infrastructure Corporation (RIC) and RailCorp.
- certain employees will be re-deployed by registering with the Career Transition Centre. For further information on the Career Transition Centre refer to the section "Overview of Rail Services" earlier in this report.
- remaining assets, rights and liabilities except for cross border leases and the subleases of rollingstock to RailCorp will be taken over by the Crown.

The completion of the above strategies, and in particular the workforce strategy, is expected to go beyond 30 June 2006.

SRA has received legal advice that the vesting of its cross border leases to another entity is likely to be costly and time consuming. This may preclude SRA from being dissolved until the end of the lease in 2033. SRA is also considering whether an alternative exists to reconstitute SRA as a Corporation Sole by the Treasurer with its only assets, rights and liabilities being the cross border leases and the subleases of rollingstock to RailCorp.

CONTROL ISSUES

We identified opportunities to improve some procedures. These were minor and have been reported to management.

OTHER ISSUES

Australian Equivalents to International Financial Reporting Standards

SRA will apply Australian Equivalents to International Financial Reporting Standards (AEIFRS) from 1 July 2005. Had the 2004-05 financial statements been prepared under AEIFRS, the net deficit would have been \$31.0 million and negative equity \$392 million. The difference is due to the use of a different discount rate in determining deferred superannuation liabilities under AEIFRS.

FINANCIAL INFORMATION

Abridged Statement of Financial Performance

Year ended 30 June	2005 \$'000	2004 \$'000
Passenger revenue	--	270,659
Social program funding	--	413,616
Other Government contributions	156,373	350,719
Other revenue	317,173	365,374
TOTAL REVENUE	<u>473,546</u>	<u>1,400,368</u>
(DEFICIT)/SURPLUS FROM ORDINARY ACTIVITIES BEFORE BORROWING COSTS AND DEPRECIATION	(8,820)	212,314
Borrowing costs	13,042	14,305
Depreciation	634	<u>93,422</u>
NET (DEFICIT)/SURPLUS	<u>(22,496)</u>	104,587
Accumulated (deficit)/funds at the beginning of the year	(703,024)	1,452,138
Contributions by Owners	230,700	241,000
Net Assets transferred to other agencies	(112,679)	(6,724,713)
Other equity adjustments	4,200	--
Transfers from reserves	140,845	<u>4,223,964</u>
ACCUMULATED DEFICIT AT END OF FINANCIAL YEAR	<u>(462,454)</u>	<u>(703,024)</u>

The remaining employees at SRA continue to perform many functions for RailCorp. The costs incurred in providing these functions were recovered from RailCorp. In 2004-05, SRA received \$287 million for these services.

SRA paid \$12.2 million in severance payments to 100 employees who accepted voluntary redundancy and exited in 2004-05. In addition, SRA made a provision of \$5.8 million for 54 employees who have accepted voluntary redundancy prior to year-end and exit in 2005-06.

The vesting of employees from SRA to RailCorp also required the transfer of the superannuation liabilities for those employees. As SRA had previously not fully funded these liabilities, NSW Treasury contributed \$160 million to SRA and RailCorp contributed \$70.7 million to SRA from its superannuation reserve.

Abridged Statement of Financial Position

At 30 June	2005 \$'000	2004 \$'000
Current assets	257,807	212,142
Non-current assets	<u>257,606</u>	<u>553,629</u>
TOTAL ASSETS	<u>515,413</u>	<u>765,771</u>
Current liabilities	277,573	321,989
Non-current liabilities	<u>578,880</u>	<u>820,149</u>
TOTAL LIABILITIES	<u>856,453</u>	<u>1,142,138</u>
NET ASSETS/(LIABILITIES)	<u>(341,040)</u>	<u>(376,367)</u>

AGENCY ACTIVITIES

See the 'Overview of Rail Services' section earlier in this report for more general rail industry information.

SRA's principal activities are to manage the transfer of its assets, rights, and liabilities to RailCorp, to manage the disposal of the remainder, and to provide services to RailCorp in the interim. NSW Treasury will ensure that SRA has the capacity to meet its financial obligations during the process of winding up its activities.

Transport Infrastructure Development Corporation

AUDIT OPINION

The audit of the Transport Infrastructure Development Corporation's (TIDC) financial report for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

KEY ISSUES

Epping to Chatswood Rail Line (ECRL) project

Total projected cost for the ECRL project is \$2.3 billion including interest on borrowings estimated at \$254 million. The estimated project cost as per the 2003-04 Budget Papers of \$1.6 billion (in 2000 prices) did not include post-2000 escalation costs or the interest cost on borrowings for the project. These costs account for the variance between the original estimated cost of \$1.6 billion and the current \$2.3 billion total projected cost.

Costs incurred on the project to 30 June 2005 totalled \$1.15 billion compared to a forecast of \$1.19 billion. Although costs to date are slightly less than the forecasted progress of 58 per cent complete, the Corporation has advised that it remains on target to open the Epping to Chatswood Rail Line complete in mid 2008.

The opening of this new rail line will create capacity for an additional 12,000 rail passengers and ease congestion on the Western Lines.

Failure of Walter Construction Group

In February 2005, Walter Construction Group was placed in administration. As a result, on 7 February 2005 the construction contract between TIDC and Walter Construction Group was terminated. Walter Construction Group served as managing contractor for the Parramatta Transport Interchange works.

Bovis Lend Lease was awarded the contract as new Managing Contractor for the Parramatta Transport Interchange. The prompt appointment of Bovis Lend Lease has resulted in minimal delay in construction work. The Interchange remains scheduled for completion in 2006.

Management believe they will recover all additional costs incurred in transferring the construction contract to Bovis Lend Lease from Walter Construction Group.

CONTROL ISSUES

Matters Reported to Management

No significant issues were identified in the 2004-05 audit. Other matters of less significance were reported to management.

COMPLIANCE ISSUES

We examined:

- the operations of the Board in accordance with the *State Owned Corporations Act 1989* (where applicable) and the *Transport Administration Act 1988*
- the Corporation's Statement of Corporate Intent for 2004-05 was not finalised by 30 September 2004 or before the end of the 2004-05 financial year. This is attributed to 2004-05 being the Corporation's first full year of operation. As a result, the Corporation's half yearly report on operations could not be prepared by 31 January 2005
- the Corporation's preparedness for the adoption of Australian Equivalents to International Financial Reporting Standards.

The result of the review was satisfactory.

OTHER ISSUES

Chatswood Transport Interchange

Chatswood station is being redeveloped as part of the ECRL Project. In December 2004 development approval was granted for upgrades to the train station, concourse and bus interchange and all related transport facilities. Development application consent was also granted for three residential towers and a retail shopping centre to be developed within the transport interchange. Preliminary construction to prepare the site for redevelopment commenced in late 2004.

The private sector will undertake the development of Chatswood Transport Interchange and associated residential and retail components. The transport and retail components of this project are scheduled for completion in 2008.

Parramatta Transport Interchange

The Parramatta Transport Interchange consists of a major upgrade to Parramatta Station and the construction of a new public transport interchange on Argyle St. This upgrade has an estimated value of \$110 million. The new Interchange is intended to meet additional passenger demand and more efficiently integrate rail services with other transport modes. TIDC entered into a development agreement with Westfield Management Ltd and Parliv Pty Limited (Westfield) for the sale of land on which Westfield is developing a retail, restaurant, and cinema complex and underground concourse connection to Parramatta station. The Interchange is scheduled for completion in 2006.

Rail Clearways Project

The Rail Clearways Project is an initiative to improve capacity and reliability on CityRail's Sydney suburban network. It is comprised of 15 key projects (to be delivered by TIDC for RailCorp), which involve separating the network's 14 metropolitan rail routes into five independent clearways. The project will aim to improve on time running by reducing the impact of disruptions across the network and increase the capacity of the network. Expenditure by TIDC on the project to 30 June 2005 totalled \$34.3 million. The Rail Clearways Project is due for completion in 2010.

North Sydney Station Project

On 15 September 2005, approval was received from the Premier and Treasurer to upgrade North Sydney Station. Directions from shareholder ministers are yet to be received. The approved estimated cost of the upgrade is \$58.2 million and is due for completion in 2008. A feasibility study was completed by TIDC in 2004-05 to assess the nature and form of the upgrade required on North Sydney Station. Costs incurred on the study to 30 June 2005 totalled \$1.5 million.

Vestings
Net liabilities of \$219 million were vested to the Corporation effective 20 September 2004 from Rail Infrastructure Corporation (RIC). These were borrowings and project receivables held by RIC in relation to the ECRL project.

Parramatta Rail Link Company Pty Ltd

The company, which previously managed the ECRL project, was deregistered on 7 November 2004.

FINANCIAL INFORMATION

Abridged Statement of Financial Performance

Year ended 30 June	2005 \$'000	2004* \$'000
Government grants	107,117	79,493
Third party contribution	8,851	24,020
Others	37,994	421
REVENUE	153,962	103,934
EXPENSES *	35,905	- -
OPERATING SURPLUS	118,057	103,934
TOTAL CHANGE IN EQUITY	118,057	103,934

* Both direct and indirect costs are capitalised as construction work in progress for the ECRL project. Expenditure on the Rail Clearways project are recouped from RailCorp.

^ The 2004 figures cover six months ended 30 June 2004

Abridged Statement of Financial Position

At 30 June	2005 \$'000	2004 \$'000
Current assets	19,765	26,114
Non-current assets	1,178,952	799,359
TOTAL ASSETS	1,198,717	825,473
Current liabilities	214,127	175,365
Non-current liabilities	435,138	(82)
TOTAL LIABILITIES	649,265	175,283
NET ASSETS	549,452	650,190

Non-current assets represent construction work-in-progress (project expenditure and capitalised interest) relating to the ECRL Project. The balance also includes surplus land.

CORPORATION ACTIVITIES

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

The two shareholders of the Corporation as at 30 June 2005 are the Treasurer and the Special Minister of State.

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

Minister for Utilities

Department of Energy, Utilities and Sustainability

Overview of the Electricity Industry

Electricity Generators:

Delta Electricity

Eraring Energy

Macquarie Generation

Electricity Distributors:

Australian Inland Energy Water Infrastructure

Country Energy

EnergyAustralia

Integral Energy Australia

Hunter Water Corporation

Sydney Water Corporation

Transgrid

Department of Energy, Utilities and Sustainability

AUDIT OPINION

The audit of the Department's financial report for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

KEY ISSUES

Organisational Restructure

The Sustainable Energy Development Authority was abolished on 1 July 2004 and its functions were transferred to the Department. This resulted in net assets valued at \$12.7 million being transferred to the Department.

The Department's State Water business unit was transferred to the State Water Corporation (a statutory owned corporation) on 1 July 2004. This resulted in net assets valued at \$326.8 million being transferred to the Corporation.

Energy and Water Savings Funds

In May 2005, the *Energy Administration Act 1987* was amended by the *Energy Administration Amendment (Water and Energy Savings) Act 2005* (the Act). Under the Act, the Government must establish an Energy Savings Fund and a Water Savings Fund. A total of \$320 million will be contributed to the funds over the next five years to finance initiatives that:

- encourage energy and water savings, such as recycling of water
- address peak demand for energy
- stimulate investment in innovative energy and water savings measures, and
- increases public awareness of energy and water saving measures.

The Act also require the highest users of water to prepare water savings plans, and all Government agencies and metropolitan councils to prepare water and energy savings action plans during 2006. The Department will administer the requirements of the Act.

CONTROL ISSUES

We identified that the Department paid pensioner and life support rebates to energy retailers without any formal acquittal process to ensure rebates claimed by the energy retailers were valid. We made recommendations on this matter and some other minor issues to management.

COMPLIANCE ISSUES

We tested whether the Department complied with aspects of the Public Sector Management (Goods and Services) Regulation 2000 and the Premier's Department Circular No. 2004-17, 'Guidelines for the Engagement and Use of Consultants'.

The Department complied with these requirements with the exception of occasionally procuring goods and services from suppliers not on an approved government supply contract.

PERFORMANCE ISSUES

The Country Towns Water Supply and Sewerage (CTWSS) Program provides technical management and financial support to Local Water Utilities in the provision of that supply water and sewerage services to country towns in NSW. Performance of the program follows:

Quantitative Indicators	Target	Actual Performance			
	2004-05	2004-05	2003-04	2002-03	2001-02
Projects on waiting list	210	210	240	n.a.	n.a.
New construction projects started	30	30	30	37	16
Small towns sewerage projects completed	5	1	3	5	8
Water supply and sewerage projects completed	25	25	30	15	18
Grants issued	80	55	75	101	76
People benefiting from improved water supply works	50,000	35,000	76,000	81,000	155,000
People benefiting from improved sewerage works	50,000	50,000	37,000	94,000	68,000

Source: Department of Energy, Utilities and Sustainability

n.a. - Not available

The resources to prioritise the drought emergency works and the inherent problems of implementing new conditions for the Program were the main reasons for not meeting the small town sewerage projects completed and grants issued targets.

In 2004, an independent taskforce reviewed the effectiveness and efficiency of the CTWSS program. Following the review a number of changes were made to the program including reducing the percentage of funding for each approved project provided to Local Water Utilities. The taskforce estimated that the changes would reduce the total lifecycle cost of the CTWSS program by approximately \$80 million.

The total budgeted cost of the CTWSS Program is \$910 million of which \$680 million has been spent. As the 210 projects on the waiting list plus anticipated drought works (after allowing for the new funding formula) have a Department estimated cost of \$493 million, the program may be unfunded by \$263 million

KEY FINANCIAL INFORMATION

Year ended 30 June	2005 \$'000	2004 \$'000
Revenue	86,559	98,165
Pensioner rebates expense	76,710	77,383
Employee related expenses	14,973	24,587
Other expenses	146,793	1,874,585
Net cost of services	151,917	1,878,390
Government contributions	153,486	185,851
Net assets (at 30 June)	15,534	328,072

The reduction in revenue, expenses, net cost of services and net assets is largely because of the transfer of the Department's State Water business unit effective 1 July 2004. Included in 2004-05 other expenses was \$108.8 million expenditure on the CTWSS program (\$94.1 million in 2003-04).

The Department's liabilities at 30 June 2005 include \$49.0 million of unspent Consolidated Fund money drawn down in prior years for the CTWSS program.

Abridged Program Statement

Year ended 30 June	2005		2004	
	Revenues \$'000	Expenses \$'000	Net Cost of Services \$'000	Net Cost of Services \$'000
Energy Policy and Programs	2,990	101,542	98,552	n.a.
Water Policy and Programs	79,687	127,758	48,071	n.a.
Energy and Water Sustainability	<u>3,882</u>	<u>9,176</u>	<u>5,294</u>	<u>n.a.</u>
Total all programs	<u>86,559</u>	<u>238,476</u>	<u>151,917</u>	<u>n.a.</u>

NA - Not available due to program restructure

DEPARTMENT ACTIVITIES

The Department provides the Minister for Energy and Utilities with strategic policy, legislative and regulatory advice in relation to the development of the State's energy and urban water sectors. The Department develops and implements strategies for promoting the sustainable, safe, reliable and affordable supply and use of energy and water services. The Department also has responsibility for certain regulatory frameworks aimed at improving the performance of the energy industries and water utilities. The Department is focused on competition reform of the State's natural gas and electricity markets, the sustainable use of energy, energy safety and supply reliability.

For further information on the Department, refer to www.deus.nsw.gov.au.

Overview of the Electricity Industry

KEY ISSUES

Generation Capacity

In New South Wales the level of maximum (peak) electricity demand is starting to exceed the total generating capacity of the State. The State currently has a generating capacity of around 12,800 MW at any point of time. Demand in excess of current production is met by importing electricity from other states through the National Electricity Market.

Peak demand is increasing by around 3.8 per cent a year, while average demand is only increasing by 2.8 per cent. (Source: New South Wales Government Energy Directions Greens Paper). Peak demand occurs infrequently and reached 13,126 MW during 2004-05. Average demand in New South Wales is currently around 8,500 MW.

Average demand is most efficiently met from base load (normally coal) power stations. However estimates vary as to when a new base load plant will be required. Industry estimates a new base load plant will be required by 2012-13 but other reported estimates put the date out to 2018.

The recent New South Wales Government Energy Directions Green Paper stated that by 2020 either up to 6,000 MW of new supply or demand reduction may be required. At the same time the paper noted that effectively 10 per cent of New South Wales current generating capacity is used only 1 per cent of the time. This illustrates the importance of correctly estimating when the significant investment in new base load power is required, to avoid uneconomic capacity in the system.

The Green Paper stated that the Government would prefer any new generating capacity to be financed by the private sector, possibly under a public/private partnership arrangement. The Green Paper is to be followed by a White Paper setting out final policy positions of the Government. The White Paper, originally due to be released in April 2005, has not yet been published.

Demand/Supply Initiatives

A number of initiatives are underway to manage the increasing demand for electricity.

- the Government has announced plans for two new gas peak load power stations and is considering upgrades to existing power plants
- Delta Electricity is pressing ahead with development consent for the construction of a gas-fired power plant at its Lake Munmorah power station site
- the Government has approved a new wind farm at Crookwell with 46 turbines, and another near Goulburn with 25 turbines
- EnergyAustralia has commenced and Country Energy is trialling the use of "smart" electricity meters that would enable higher prices to be charged for electricity in peak periods
- the June 2004 Independent Pricing and Regulatory Tribunal (IPART) determination under the National Electricity Code provided incentives for retailers to manage demand
- an Energy Savings Fund has been established to provide funding to encourage energy savings, address peak demand and increase public awareness and acceptance of the importance of energy saving measures. Contributions per annum to the Fund are to be made by Energy Australia \$19 million, Integral Energy \$12 million and Country Energy \$10 million
- Tasmania has joined the National Electricity Market with interconnection expected in April 2006, additional generating capacity has been approved/developed in Victoria and Queensland and the interconnectors that allow the transfer of electricity between the states have been upgraded and further upgrades are being considered

- the Commonwealth Government has established the Low Emissions Technology Demonstration Fund to provide funding of \$500 million over fifteen years for technological development to reduce greenhouse emissions in the energy sector
- the Ministerial Council for Energy agreed to a National Framework for Energy Efficiency, comprising a package of eight measures to promote energy efficiency and productivity.

However the Productivity Commission has questioned policies aimed at encouraging consumers to improve their energy efficiency while electricity prices remain comparatively low. A draft report by the Commission states that the benefit of many current and planned government energy efficiency programs has been overstated. The report also recommends that the measures in the National Framework for Energy Efficiency mentioned above should be deferred until independent evaluations of existing energy efficiency programs have been undertaken.

Changes in Electricity Industry Entities and Businesses

- the Government is no longer considering outsourcing to the private sector the State's wholesale power trading in the National Electricity Market. This proposal was considered too complex and difficult to implement and had the potential to create new risks for the Government
- Australian Inland Electricity Water Infrastructure and Country Energy merged on 1 July 2005. The new entity will serve some 780,000 customers and manage a network covering almost 95 per cent of the State's land area
- Energy Australia has sold a 50 per cent interest of its retail business in Victoria and South Australia into a joint venture with International Power (Retail) Pty Ltd which commenced on 7 July 2005. Each entity will have a 50 per cent interest in the joint venture
- Country Energy has expanded into the South Australian domestic and small business electricity market.

Australian Equivalents to International Financial Reporting Standards (AEIFRS)

The NSW public sector energy industry has planned to implement AEIFRS from 1 July 2005. These new standards will have a substantial impact on the net assets recorded by the industry. On 1 July 2005 net assets will decrease by \$2,059 million to \$7,315 million. They will also have an impact on operating results. If these standards had been applied for the year ended 30 June 2005, the reported operating results after tax would have decreased by \$90.8 million to \$701 million.

These changes exclude those that will arise from the adoption of AASB 139 'Financial Instruments: Recognition and Measurement'. The impacts of this standard will vary substantially across the industry, although the extent of these will depend on the size and structure of individual entities' derivatives portfolios. Estimates are not yet available of these impacts.

While these changes are significant, it is considered that there will be no material effect on cash flows in the industry, however they could impact tax and dividend payments to the Government.

PERFORMANCE ISSUES

Prices for Electricity

Average daily wholesale prices of electricity in New South Wales increased by 21.5 per cent during 2004-05 after steadily declining over the previous few years. On a financial year basis, NEMMCO price statistics show:

Year ended 30 June	NSW \$/MWh	Qld \$/MWh	SA \$/MWh	Snowy \$/MWh	Vic \$/MWh
2000	28.27	44.11	59.27	27.96	26.35
2001	37.69	41.33	56.39	37.06	44.57
2002	34.76	35.34	31.61	31.59	30.97
2003	32.91	37.79	30.11	29.83	27.56
2004	32.37	28.18	34.86	30.80	25.38
2005	39.33	28.96	36.07	34.05	27.62

During the year NEMMCO reported that the lowest average price for a day in NSW was \$15.38 per MWh on 27 March 2005, with the highest being \$1,837.44 per MWh on 1 December 2004. The highest NSW half-hour price was \$9,909.03 per MWh on 1 December 2004 due to supply issues.

Financial Performance

For the New South Wales electricity industry (generation, distribution and transmission combined), the key financial ratios are shown below together with the latest available national electricity industry figures.

	NSW 2004-05	NSW 2003-04	National Industry 2003-04
Return on average equity (%) (a)	8.6	8.1	7.9
Return on average assets (%) (b)	8.2	8.2	7.8
Interest cover (times) (c)	2.9	2.7	3.0
Debt to equity ratio (d)	1.0	1.0	0.8

Calculated as:

- (a) profit after income tax expense
- (b) profit before tax and interest expense
- (c) operating profit plus interest and tax expense divided by interest expense
- (d) external debt less creditors and accrued expenses divided by equity (net assets)

Targets for these key ratios are not set for the New South Wales electricity industry, however targets for individual agencies are agreed with the shareholding ministers and detailed in the comment for each agency.

Generators and Distributors

Pre-tax profits of the distributors in 2004-05 were \$587 million compared to \$561 million in 2003-04. Profits before tax from generators were \$463 million (\$368 million).

Total revenue for the NSW electricity industry increased by \$542 million to \$8.7 billion. Expenses also increased, resulting in a \$93.7 million increase in operating profit after tax.

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

	Generators		Distributors	
	2004-05	2003-04	2004-05	2003-04
Return on average equity (%) (a)	9.6	7.8	9.4	8.9
Return on average assets (%) (b)	9.7	8.7	8.1	8.3
Interest cover times (c)	4.1	3.1	2.6	2.5
Debt to equity ratio (d)	0.5	0.6	1.3	1.2

Calculated as:

- (a) profit after income tax expense
- (b) profit before tax and interest expense
- (c) operating profit plus interest and tax expense divided by interest expense
- (d) external debt less creditors and accrued expenses divided by equity (net assets)

Generators significantly improved their financial performance in 2004-05 as measured by the indicators above. The main driver of this improvement was the increase in average spot prices for 2004-05. Equity repayments and debt restructures can significantly affect these ratios.

Transmission

TransGrid made a profit before tax of \$116 million in 2004-05 (\$115 million in 2003-04). It also revalued part of its property, plant and equipment which resulted in the return on average assets decreasing from 6.6 per cent to 6.2 per cent and return on average equity decreasing from 6.3 per cent to 4.6 per cent.

Non-financial Performance

Relevant non-financial key performance indicators are included in the comments for each industry entity. These indicators are used by the entities in measuring their performance.

The Government has not developed performance information for the sector as a whole.

The following sites provide financial and non-financial performance indicators for the industry:

- Energy Supply Association of Australia www.esaa.com.au
- 'Performance of NSW Government Businesses' - NSW Treasury www.treasury.nsw.gov.au/indexes/pubs_by_pol.htm#perbus
- 'Financial Performance of Government Trading Enterprises' - Productivity Commission www.pc.gov.au

DISTRIBUTIONS TO GOVERNMENT

In 2004-05 electricity entities accrued distributions to the Government of \$965 million (\$1,095 million in 2003-04), being \$387 million (\$358 million) of tax, \$562 million (\$600 million) of dividends paid and payable, and \$16 million (\$137 million) for an equity adjustment. The timing of tax payments to the Consolidated Fund will vary while dividends are paid by instalments.

Budget Estimates

The 2005-06 Budget Papers show the Government is expecting annual revenue of around \$1.2 billion over the next few years from electricity entities. However dividends received in 2004-05 were significantly less than the budget projections for that year.

Revenue Source	2004-05		Forward Estimates			
	Budget \$m	Actual \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
Dividends	692	562	855	814	827	814
Income Tax	383	387	393	399	392	434
Total	<u>1,075</u>	<u>949</u>	<u>1,248</u>	<u>1,213</u>	<u>1,219</u>	<u>1,248</u>

Industry Debt

Borrowing costs for the year were \$626 million compared to \$631 million in 2003-04. The industry's debt at 30 June 2005 was \$8.8 billion (\$8.4 billion at 30 June 2004).

OTHER ISSUES

Energy Sources

Around 98 per cent of electricity in New South Wales is generated from black coal. This reliance on coal means that electricity generation is the largest contributor to greenhouse gas emissions in the State.

NSW public sector generators produced approximately 61,000 GWh of electricity in 2004-05. Approximately 0.5 per cent of this energy was produced from renewable sources including hydro electricity, wind and biomass.

While the generators have a number of projects under consideration that will produce more energy from renewable sources, these projects will not significantly change the overall reliance on coal.

New South Wales Greenhouse Abatement Scheme

From 1 January 2003 electricity retailers and other participants are required to meet targets for reducing greenhouse gases created by electricity generation and use. The targets are set by the Scheme Administrator IPART and are based on Kyoto Protocol baselines. Allowable emissions are reduced each year.

Competition

All customers in New South Wales are able to choose their electricity retailer and negotiate prices and conditions of supply. Customers who do not enter into contracts remain with their existing retailer. New South Wales retailers are also able to compete for customers in other states.

The National Electricity Market Management Company (NEMMCO) reported that 427,033 consumers in New South Wales and Australian Capital Territory had been transferred under signed negotiated contracts with other retailers at 30 June 2005 (263,932 at 30 June 2004). This compares with 934,477 (479,984) in Victoria, and 3,935 (2,873) in Queensland (which has a different timetable for full retail contestability).

Asset Acquisition

The 2004-05 State Budget set out an asset acquisition program of \$1.4 billion for maintaining the efficiency and reliability of electricity supply infrastructure. This included funds for network expansion, faster recovery from supply interruptions, and improving the efficiency of generation and transmission. In the 2005-06 State Budget, the asset acquisition program was for a further \$1.8 billion to be spent.

Performance Audit

We recently released a report examining how well the Government oversees State owned corporations in the electricity sector. The report found that while the oversighting of these corporations was fundamentally sound, the Government should be more informed, active and transparent about its dealings with these corporations.

The report is available on our website at www.audit.nsw.gov.au

INDUSTRY RISK FACTORS

The electricity market remains volatile with considerable movement in the spot market price. Spot market prices may 'spike' to levels substantially above the cost of production. At present the maximum spot price is capped at \$10,000 per MWh in any half hour. The highest half hour peak retail price occurred on 1 December 2004 when it went to \$9,909 per MWh.

To manage this exposure, NSW Treasury issued guidelines in October 1999 on minimum controls for distributors and generators. These guidelines focus on strong control structures, with particular emphasis on the segregation of duties in the trading areas. The guidelines also include the need for management and the Board of Directors to receive regular reports prepared independently of the trading and settlement areas.

ELECTRICITY TARIFF EQUALISATION FUND

Residential and small business customers have the option of remaining on regulated retail tariffs with their local retailer or choosing to enter into a negotiated supply contract with any retailer. The Fund manages the variability of wholesale electricity prices for those Government-owned retailers that are required to supply small retail customers at regulated tariffs.

NSW 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. NSW Government-owned generators cover any shortfall in the Fund.

The Fund is currently legislated to be wound up on 30 June 2007, and the Green Paper referred to earlier suggests that the Government may not extend its existence.

The Fund can be required to pay a dividend to the Government. No such payments were made by the Fund in 2004-05 or the previous year. At 30 June 2005, \$208 million was held by the Fund (\$258 million in 2003-04).

As the number of small retail customers receiving supply under negotiated arrangements increases, Fund transactions will decline.

Comment on the activities of the Fund is included elsewhere in this volume.

REGULATION

IPART is the NSW regulator for electricity distribution pricing. In June 2004, IPART made a five-year determination under the National Electricity Code, which established base revenue for each electricity distributor from 1 July 2004. The determination provides incentives for the retailers to manage demand instead of increasing the capacity of the network.

IPART plans for the distribution prices across the State to increase in real terms by 14 per cent over the five years, or 2.7 per cent per annum. IPART calculated that for a typical Sydney residential customer, the annual 2004-05 increase would be about \$50 to \$60 per year, with regional customers paying between \$50 and \$70 more per year.

The Australian Competition and Consumer Commission (ACCC) sets transmission prices. A determination for TransGrid and Energy Australia was issued on 27 April 2005, allowing both a nominal return of 8.9 per cent on their weighted average cost of capital. This determination covers a five-year period from 1 July 2004.

The Productivity Commission in a recent report and a paper produced by the ACCC discussed a number of further reforms to the electricity industry in Australia. These included:

- the introduction of full contestability for retail customers
- the New South Wales Government should further examine opportunities for disaggregating its generation assets to reduce their market power
- vertical integration in the industry should be avoided as it reduces competition.

NEW REGULATORY BODIES

The Australian Energy Market Commission (AEMC) was established on 1 July 2005 and is responsible for rule making and market development in the National Electricity Market. The Australian Energy Regulator was also established on 1 July 2005 with responsibility for economic regulation in energy markets and compliance with the rules of the AEMC.

It is intended that these organisations would replace state based regulation with a national regime. However discussion is continuing between the states and the Commonwealth of the extent and timing of the handover of responsibilities.

BACKGROUND

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

The entities have common objectives of:

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

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

INDUSTRY FINANCIAL TABLES

Following are abridged statements of financial performance and statements of financial position tables for generators and distributors for 2004-05 and the previous year. Comment on each entity and TransGrid follows this section.

GENERATORS

	Delta Electricity		Macquarie Generation		Eraring Energy		Total	
	2005 \$m	2004 \$m	2005 \$m	2004 \$m	2005 \$m	2004 \$m	2005 \$m	2004 \$m
Abridged Statements of Financial Performance (year ended 30 June)								
Total revenue	829.3	740.9	852.0	813.6	602.0	579.5	2,283.3	2,134.0
Operating profit/(loss) before income tax	180.5	111.1	166.8	158.6	115.7	98.1	463.0	367.8
Income tax equivalent	57.0	36.9	61.4	57.3	35.6	29.3	154.0	123.5
Dividends paid and provided	123.5	74.2	105.0	100.0	82.3	60.0	310.8	234.2
Abridged Statements of Financial Position (at 30 June)								
Total assets	1,892.2	1,877.0	2,881.6	2,907.8	1,591.7	1,522.8	6,365.5	6,307.6
Total liabilities	1,091.6	1,076.4	1,612.5	1,639.2	434.3	396.9	3,138.4	3,112.5
Net assets (total equity)	800.6	800.6	1,269.1	1,268.6	1,157.4	1,125.9	3,227.1	3,195.1
Retained earnings (at 30 June)	48.1	48.1	16.0	12.4	16.5	18.7	80.6	79.2
Financial Performance Indicators* (year ended 30 June)								
Return on average equity (%)	15.4	9.3	8.3	8.3	7.0	6.2	9.6	7.8
Return on average assets (%)	12.5	9.1	8.6	8.9	8.2	7.5	9.7	8.7
Debt/equity	0.7	0.8	0.8	0.9	0.1	0.1	0.5	0.6
Interest cover (times)	4.2	2.7	3.0	2.6	11.2	8.9	4.1	3.1

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

DISTRIBUTORS

	Energy Australia		Integral Energy		Country Energy		Australian Inland Energy Water Infrastructure			Total
	2005 \$m	2004 \$m	2005 \$m	2004 \$m	2005 \$m	2004 \$m	2005 \$m	2004 \$m	2005 \$m	2004 \$m
Abridged Statements of Financial Performance (year ended 30 June)										
Total revenue	2,835.9	2,558.7	1,369.8	1,342.0	1,710.4	1,643.8	63.6	61.8	5,979.7	5,606.3
Operating profit/(loss) before income tax	264.5	256.5	191.4	164.1	151.0	140.7	(19.5)	(0.0)	587.4	561.3
Income tax equivalent	83.1	78.9	64.6	61.8	52.3	62.4	(6.2)	(0.5)	193.8	202.6
Dividends paid and provided	81.1	163.5	114.1	102.3	18.1	30.0	--	0.2	213.3	295.9
Abridged Statements of Financial Position (at 30 June)										
Total assets	6,017.3	5,643.4	3,007.4	2,781.4	3,188.1	2,865.7	88.9	163.6	12,302.5	11,454.1
Total liabilities	3,747.7	3,475.0	1,884.3	1,715.9	2,369.0	2,142.0	21.7	20.4	8,023.5	7,353.3
Net assets (total equity)	2,269.6	2,168.4	1,123.1	1,065.5	819.1	723.7	67.2	143.2	4,279.0	4,100.8
Retained earnings (at 30 June)	502.9	400.0	63.4	50.3	361.6	280.9	32.3	45.4	960.2	776.6
Financial Performance Indicators* (year ended 30 June)										
Return on average equity (%)	8.2	8.2	11.6	9.8	12.8	11.2	(12.6)	(0.4)	9.4	8.9
Return on average assets (%)	7.6	7.8	9.6	9.2	8.7	9.2	(15.4)	(0.0)	8.1	8.3
Debt/equity	1.2	1.1	1.1	1.0	2.1	2.1	--	--	1.3	1.2
Interest cover (times)	2.5	2.5	3.2	2.9	2.4	2.3	--	--	2.6	2.5

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

Delta Electricity

AUDIT OPINION

The audit of the financial reports for the Corporation and its controlled entity for the year ended 30 June 2005 resulted in unqualified Independent Audit Reports.

PERFORMANCE ISSUES

Operational Performance

Delta Electricity operates the Mount Piper, Vales Point, Wallerawang and Munmorah coal-fired power stations, and three mini hydro generators. It provides around 12 per cent of the National Electricity Market. Some of Delta's performance indicators are:

Year ended 30 June	Target	Actual		
	2005	2005	2004	2003
Generation of electricity - gigawatt hours sent out	20,904	21,740	21,308	20,354
Plant availability - total all stations (%)	92.0	87.0	92.9	88.8
Thermal efficiency - total all stations (%)	35.4	35.3	35.5	35.3

Availability measures the total time generating units were either in service or able to be placed in service over a given period. In 2004-05 availability was below target due to unplanned outages at the Vales Point power station.

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

Financial Performance

Year ended 30 June	Target*	Actual		
	2005	2005	2004	2003
Return on equity (%)	7.6	15.4	9.3	7.7
Return on assets (%)	8.3	12.5	9.4	8.6
Interest cover (times)	2.5	4.2	2.7	2.4
Debt to equity (%)	83.7	72.4	80.3	98.0
Total distributions to government (\$m)	95.9	180.5	111.0	153.7
Capital expenditure (\$m)	48.2	43.7	24.8	37.8

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

Returns on both assets and equity significantly improved in 2004-05 due to higher average spot prices during the year. The improvement in the debt to equity ratio was due to the Corporation reducing its outstanding debt by a further \$63.1 million.

Distributions to government comprised a dividend of \$123.5 million and taxation expense of \$57.0 million.

COMPLIANCE ISSUES

We examined whether the Corporation complied with the *Fringe Benefits Tax Assessment Act 1986*. We also examined the Corporation's preparedness for the introduction of Australian Equivalents to International Financial Reporting Standards.

The results of both these reviews were satisfactory.

CONTROL ISSUES

We identified opportunities for improvement in internal control/procedures. These were minor, and we reported them to management.

OTHER ISSUES**Joint Venture Co-generation Plants**

Commencing in July 2002, Delta Electricity, through its subsidiary company, entered into a joint development to design, construct and operate two electricity co-generation plants. These plants are to burn sugar cane material to produce electricity. This joint venture is in the construction phase and expected to commence producing electricity in 2007.

Australian Equivalents to International Financial Reporting Standards (AEIFRS)

The implementation of AEIFRS from the reporting period beginning 1 July 2005 will lead to material changes in account balances. The major changes reduce equity from \$801 million to \$604 million as at 1 July 2005. Deferred tax liabilities increase by \$141 million and the prepaid superannuation asset of \$6.7 million is transformed into a liability of \$49.1 million.

FINANCIAL INFORMATION

The following financial information is for Delta Electricity and its controlled entity, Delta Electricity Australia Pty Ltd. (See other comments on Delta Electricity Australia later in this section.)

Abridged Statement of Financial Performance

Year ended 30 June	2005 \$'000	2004 \$'000
TOTAL REVENUE	<u>829,290</u>	<u>740,894</u>
OPERATING PROFIT BEFORE BORROWING COSTS, DEPRECIATION AND TAX	296,717	238,479
Borrowing costs	55,588	66,254
Depreciation	<u>60,648</u>	<u>61,183</u>
OPERATING PROFIT BEFORE TAX	180,481	111,042
Income tax equivalent expense	<u>56,993</u>	<u>36,872</u>
OPERATING PROFIT AFTER TAX	123,488	74,170
Dividend provided	123,488	74,170

Total revenue included \$802 million in electricity sales compared to \$724 million in the previous year. Electricity sales revenue was higher than the previous year primarily due to the average electricity price reaching \$39.33 per MWh, up from \$32.37 the previous year.

Borrowing costs were lower in the current year due to a reduction of \$141.5 million in debt during 2003-04 and a further \$63.1 million in 2004-05.

Abridged Statement of Financial Position

At 30 June	2005 \$'000	2004 \$'000
Current assets	202,756	179,795
Non-current assets	<u>1,689,452</u>	<u>1,697,253</u>
TOTAL ASSETS	<u>1,892,208</u>	<u>1,877,048</u>
Current liabilities	289,824	231,934
Non-current liabilities	<u>801,788</u>	<u>844,518</u>
TOTAL LIABILITIES	<u>1,091,612</u>	<u>1,076,452</u>
NET ASSETS	<u>800,596</u>	<u>800,596</u>

CORPORATION ACTIVITIES

See the 'Overview of the Electricity Industry' 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 Assistant Treasurer and the Special Minister of State.

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

CONTROLLED ENTITY

Delta Electricity Australia Pty Ltd

The company is a fully owned subsidiary of Delta Electricity. It has a 50 per cent interest in Sunshine Electricity, an unincorporated entity whose principal activity is to design, construct and operate two electricity co-generation plants on the north coast of New South Wales.

The operating result for the company for 2004-05 was a loss from ordinary activities after income tax expense of \$1.6 million (\$1.0 million in 2003-04). At 30 June 2005 the company held total assets of \$5.8 million (\$1.2 million), including construction works-in-progress \$5.1 million. Liabilities totalled \$10.1 million (\$4.0 million), including advances from Delta Electricity of \$6.1 million and bank loans of \$3.8 million.

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

Eraring Energy

AUDIT OPINION

The audit of the financial reports of Eraring Energy and its controlled entity, Pacific Western Pty Limited for the year ended 30 June 2005 resulted in unqualified Independent Audit Reports.

PERFORMANCE ISSUES

Operational Performance

Eraring Energy operates a diverse portfolio of generating assets comprising thermal coal, hydro, wind and pumped storage plant. Some of the indicators Eraring Energy uses to assess its electricity generation performance are shown below.

Generation of Electricity

Production	GWH 2004-05	GWH 2003-04	GWH 2002-03
Thermal coal	12,703	14,567	14,744
Hydro	183	165	126
Wind	28	27	31
Pumped storage	19	6	47
Total	<u>12,933</u>	<u>14,765</u>	<u>14,948</u>

Source: Eraring Energy

Renewable energy sources of hydro and wind accounted for 1.6 per cent of total production (1.3 per cent in 2003-04).

Plant Availability (Eraring Power Station)

Availability measures the total time generating units were either in service or able to be placed in service over a given period. The Eraring Power Station generation units were available for 85.9 per cent of available time (89.6 per cent during 2003-04). This exceeded the target for 2004-05 of 83 per cent. The forced outage factor (unreliability) was 2.1 per cent in 2004-05 (1.3 per cent in 2003-04) compared to a target of 2.5 per cent.

Thermal Efficiency (Eraring Power Station)

Thermal efficiency is a measure of the overall fuel conversion efficiency for the electricity generation process. Key drivers are the quality of energy fuel used and plant performance. Thermal efficiency declined slightly from 38.2 per cent in 2003-04 to 37.9 per cent in 2004-05. This result was below the target of 38.1 per cent.

Financial Performance (Consolidated)

	Target* 2004-05	Actual 2004-05	Actual 2003-04
Earnings before interest and tax (\$m)	68.1	127.0	110.5
Return on equity (%)	3.9	7.0	6.2
Return on assets (%)	4.3	8.2	7.5
Interest cover (times)	3.4	11.3	8.9
Debt to equity (%)	na	14.3	14.4
Total distributions to Government (\$m)+	47.8	115.7	98.1
Capital expenditure (\$m)	60.3	44.5	33.0

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

na: not available

+Total distribution before adjustment for Community Service Obligation

The large variances between target and actual for 2004-05 were mainly due to significantly higher spot sales prices achieved over three days in October and December 2004. Higher than budgeted contract sales prices and lower coal consumption costs, due to sales volumes being below budget, also contributed to the variances.

COMPLIANCE ISSUES

We examined whether Eraring Energy:

- was adequately prepared for the introduction of the Australian Equivalents to International Financial Reporting Standards
- complied with the *Fringe Benefits Tax Assessment Act 1986*.

The Corporation substantially complied with these requirements.

OTHER ISSUES**Contractor's Claim**

In January 2002, Eraring received a claim from a contractor for extra costs for the construction of a new 16-megawatt unit and upgrading existing units at Burrinjuck Hydro Power Station. The claim is currently for \$14.0 million. Eraring Energy estimated the potential liability from this claim at around \$1.0 million and has provided for this amount in its financial report. This matter is currently in arbitration and still to be resolved.

Claim for Damages

A property developer has served Eraring Energy with a Statement of Claim in the Supreme Court of NSW, seeking unspecified damages and remediation of land at a neighbouring property to Eraring Power Station. The claim relates to the alleged contamination of the site by the Electricity Commission. Eraring has lodged a defence to the claim.

Major Project and Maintenance Expenditure - Eraring Power Station

Eraring Energy is installing an Integrated Control and Monitoring Systems (ICMS) on the Eraring Power Station Units. The project, estimated to cost \$35.0 million, commenced in 2003 and is due to be completed in December 2005. The project is proceeding on schedule with costs to 30 June 2005 totalling \$29.5 million.

The power station's turbines are currently being overhauled as part of Eraring's planned outage program. Estimated maintenance expenditure is \$15.5 million (includes emergency maintenance) of which \$10.7 million was spent to 30 June 2005. Work is due to be completed in December 2005.

Australian Equivalents to International Financial Reporting Standards (AEIFRS)

Based on the Corporation's current analysis, the implementation of AEIFRS from the reporting period beginning 1 July 2005 will lead to material changes in account balances. These changes arise from differences in the treatment of financial instruments, employee benefits, asset revaluations, provisions and taxation under the new standards.

Collie Power Station Operation And Maintenance Agreement

Eraring Energy's controlled entity Pacific Western Pty Limited (Pacific Western) terminated its agreement with Western Power, the Western Australian Government energy organisation, for the operation and maintenance of the power station at Collie, in Western Australia, on 26 March 2005. Western Power submitted a claim of \$5.0 million for damages incurred as a direct consequence of the early termination of the contract. They are withholding payment of sums due to Pacific Western of \$2.7 million pending resolution of this claim. Pacific Western has disputed the validity of this claim.

FINANCIAL INFORMATION

The following financial details are for Eraring Energy and its controlled entity, Pacific Western Pty Ltd. (See commentary on Pacific Western later in this section).

Abridged Statement of Financial Performance

Year ended 30 June	2005 \$'000	2004 \$'000
TOTAL REVENUE	<u>602,027</u>	<u>579,549</u>
OPERATING PROFIT BEFORE BORROWING COSTS, DEPRECIATION AND TAX	181,437	157,156
Borrowing costs	11,282	12,361
Depreciation	<u>54,455</u>	<u>46,694</u>
OPERATING PROFIT BEFORE TAX	115,700	98,101
Income tax equivalent	<u>35,571</u>	<u>29,258</u>
OPERATING PROFIT AFTER TAX	80,129	68,843
Repayment of contributed equity	16,000	137,000
Increase in asset revaluation reserve	<u>49,717</u>	<u>156,564</u>
TOTAL AVAILABLE FOR APPROPRIATION	113,846	88,407
Community service obligation	2,198	(731)
Dividend provided	<u>80,129</u>	<u>60,794</u>
INCREASE IN EQUITY	<u>31,519</u>	<u>28,344</u>

Total revenue included \$578 million in electricity sales compared to \$549 million in the previous year.

Abridged Statement of Financial Position

At 30 June	2005 \$'000	2004 \$'000
Current assets	110,737	89,644
Non-current assets	<u>1,480,997</u>	<u>1,433,146</u>
TOTAL ASSETS	<u>1,591,734</u>	<u>1,522,790</u>
Current liabilities	233,765	178,457
Non-current liabilities	<u>200,546</u>	<u>218,429</u>
TOTAL LIABILITIES	<u>434,311</u>	<u>396,886</u>
NET ASSETS	<u>1,157,423</u>	<u>1,125,904</u>

Eraring Energy revalued its non-current assets during the year, resulting in an overall increase in asset values of \$49.7 million.

Eraring repaid capital of \$16.0 million to NSW Treasury (\$137 million in 2003-04) and at the same time increased borrowings with NSW Treasury Corporation for the same amount. The Board provided for a dividend of \$82.3 million to be paid to NSW Treasury (\$60.1 million in 2003-04).

The Corporation actively manages its exposure to fluctuations in the spot price for electricity by entering into electricity hedging contracts. At 30 June 2005, the face value of hedging contracts was \$1,035 million (\$685 million in 2003-04). The face value compared with the market value, which fluctuates daily with forward price movements, shows an unrealised loss of \$202 million at 30 June 2005.

CORPORATION ACTIVITIES

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

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

CONTROLLED ENTITY

Pacific Western Pty Limited (Pacific Western) is a controlled entity of Eraring Energy. As mentioned earlier, the agreement with Western Power to operate and maintain the power station at Collie in Western Australia terminated on 26 March 2005.

Pacific Western generated revenue of \$13.4 million in 2004-05 (\$16.0 million in 2003-04). It made an operating profit before tax of \$5.0 million (\$773,343). The Pacific Western Board recommended a dividend of \$2.2 million (\$545,000) payable from retained earnings as at 30 June 2004.

Macquarie Generation

AUDIT OPINION

The audit of the Corporation's financial report for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

PERFORMANCE ISSUES

Operational Performance

Year ended 30 June	Target* 2005	Actual 2005	Actual 2004	Actual 2003
Generation of Electricity (gigawatt hours)				
Bayswater	*	16,867	16,629	15,696
Liddell	*	9,737	<u>8,969</u>	<u>7,293</u>
Total	*	26,604	25,598	22,989
Plant Availability				
Bayswater (%)	*	87.0	89.1	91.9
Liddell (%)	*	81.9	<u>81.2</u>	<u>89.4</u>
Total (%)	*	84.9	85.7	90.9
Thermal Efficiency				
Bayswater (%)	*	36.0	35.8	35.6
Liddell (%)	*	32.8	32.9	32.4

*The Corporation has a policy of not disclosing operational performance targets.

Macquarie Generation improved its market share to 15.0 per cent of the National Electricity Market (14.5 per cent in 2003-04).

The decline in plant availability in recent years is the result of planned outages for maintenance at Bayswater and for repairs to the Dust Collecting Plant and turbine upgrades at Liddell.

The Corporation is spending \$40 million over the next five years to replace Liddell's high-pressure and intermediate-pressure turbines. This expenditure will complement a \$74 million investment in new low-pressure turbines and production control systems that commenced in 2002. The combined investment aims to lift the station's thermal efficiency to more than 35 per cent, reducing fuel and water demands and cutting greenhouse gas emissions.

Financial Performance

Year ended 30 June	Target* 2005	Actual 2005	Actual 2004
Earnings before interest and tax (\$m)	264.2	244.5	252.1
Return on equity (%)	13.7	13.1	12.5
Return on assets (%)	9.5	8.5	8.7
Interest cover (times)	2.9	3.1	2.7
Debt to equity (%)	71.3	75.7	83.9
Total distributions to government (\$m)	179.2	166.4	157.3
Capital expenditure (\$m)	61.5	50.4	39.6

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

Financial ratios were below target due to a combination of low priced electricity trading conditions in the second half of the year and an increase of \$10.2 million in the provision for dust disease related workers' compensation and public liability claims. Capital expenditure was lower than anticipated due to a number of projects being deferred or delayed.

CONTROL ISSUES

We identified opportunities to improve some procedures. These were minor and have been reported to management.

COMPLIANCE ISSUES

We examined whether the Corporation complied with the *Fringe Benefits Tax Assessment Act 1986*.

The Corporation substantially complied with these requirements.

OTHER ISSUES

Australian Equivalents to International Financial Reporting Standards (AEIFRS)

The Corporation reported that the 30 June 2005 operating profit after tax under AEIFRS would have been \$102.6 million, \$2.8 million lower than that reported under current accounting standards. This does not include the material impact that the AEIFRS standard on financial instruments will have, because the implementation of this standard has been deferred by twelve months. The adoption of AEIFRS may have a material impact on the level of dividends paid by the Corporation in the future.

Asbestos Related Liability Claims

Macquarie Generation commissioned an actuarial valuation of its expected future asbestos related liability claims. The review was requested in light of the James Hardie Industries Commission of Inquiry and resulted in an increase of \$10.2 million to the existing provision.

Tomago Natural Gas-Fired Power Station

Development Approval was granted in December 2003 for the construction of a natural gas-fired power station at Tomago. The approval allowed for two possible development scenarios. In the first scenario the station would be developed with up to 500 megawatts open cycle peak load capacity and in the second as a combined cycle plant of up to 800 megawatts capacity. The development would require significantly improved gas connections to the Newcastle region.

The development is planned in phases, the first being an open gas turbine with up to 260 megawatts of generating capacity. The development is designed to contribute to meeting peak period demand. The Corporation may invite private sector participation in the development.

The final format for the development is not likely to be determined until after the NSW Government has considered responses to the NSW Energy Directions Green Paper.

FINANCIAL INFORMATION

Abridged Statement of Financial Performance

Year ended 30 June	2005 \$'000	2004 \$'000
TOTAL REVENUE	<u>852,040</u>	<u>813,645</u>
OPERATING PROFIT BEFORE BORROWING COSTS, DEPRECIATION AND TAX	352,705	353,110
Borrowing costs	<u>83,028</u>	97,468
Depreciation	<u>102,833</u>	<u>97,066</u>
OPERATING PROFIT BEFORE TAX	166,844	158,576
Income tax equivalent expense	<u>61,423</u>	<u>57,335</u>
OPERATING PROFIT AFTER TAX	105,421	101,241
Increase in asset revaluation reserve	--	105,241
Dividend provided	<u>105,000</u>	<u>100,000</u>
CHANGES IN EQUITY	<u>421</u>	<u>106,482</u>

The Corporation's net profit after tax of \$105.4 million was up \$4.2 million on the previous year but down \$4.3 million on budget.

Abridged Statement of Financial Position

At 30 June	2005 \$'000	2004 \$'000
Current assets	<u>323,531</u>	292,758
Non-current assets	<u>2,558,031</u>	2,615,044
TOTAL ASSETS	<u>2,881,562</u>	<u>2,907,802</u>
Current liabilities	<u>544,259</u>	470,083
Non-current liabilities	<u>1,068,246</u>	1,169,083
TOTAL LIABILITIES	<u>1,612,505</u>	<u>1,639,166</u>
NET ASSETS	<u>1,269,057</u>	<u>1,268,636</u>

CORPORATION ACTIVITIES

See the 'Overview of the Electricity Industry' 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 Minister for Finance and the Assistant Treasurer.

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

Australian Inland Energy Water Infrastructure

AUDIT OPINION

The audit of the financial report of the Corporation for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

PERFORMANCE ISSUES

Australian Inland has a commitment to deliver a safe and reliable supply of water and energy to its customers. Some of its performance indicators for electricity are:

Operational Performance

	2004-05	2003-04	2002-03
Supply of electricity - gigawatt hours	409	403	559
Customer minutes without supply - average per annum	193	259	168
Customer satisfaction - average total complaints per month*	2.5	2.3	5.4
Lost time (injuries for one million hours worked)	1.98	2.42	9.73

*Based on complaints made by small retail customers

Interruptions to electricity supply are affected by the size of the network and the weather. These standard reliability figures are measured by the System Average Interruption Duration Index, and exclude planned outages and unplanned outages caused by major storms and transmission/generation supply failures.

OTHER ISSUES

On 1 July 2005, pursuant to section 84 of the *Electricity Supply Act 1995*, the boundaries of Country Energy were altered to include the distribution area of the Corporation. Country Energy assumed all of the Corporation's assets and liabilities from that date.

Also on that date, pursuant to section 14 of the *Energy Services Corporations Act 1995*, Australian Inland Energy Water Infrastructure was removed from Schedule 5 of the *State Owned Corporations Act 1989*. This resulted in the dissolution of the Corporation, when Country Energy replaced Australian Inland Energy Water Infrastructure as the water supply authority under Part 3 of Schedule 3 of the *Water Management Act 2000*.

FINANCIAL INFORMATION

Abridged Statement of Financial Performance

Year ended 30 June	2005 \$'000	2004 \$'000
TOTAL REVENUE	<u>63,582</u>	<u>61,789</u>
OPERATING PROFIT/(LOSS) BEFORE BORROWING COSTS, DEPRECIATION AND TAX	(11,229)	6,584
Borrowing costs	-	-
Depreciation	<u>(8,230)</u>	<u>(6,577)</u>
OPERATING PROFIT/ (LOSS) BEFORE TAX	(19,459)	7
Income tax equivalent - benefit/(expense)	<u>6,194</u>	<u>456</u>
TOTAL AVAILABLE FOR APPROPRIATION	(13,265)	463
Contribution by owners	--	5,500
Decrease in asset revaluation reserve	<u>(62,892)</u>	<u>(51)</u>
INCREASE/ (DECREASE) IN EQUITY	<u>(76,157)</u>	<u>5,912</u>

Operating revenue included \$37.3 million in electricity sales (\$37.8 million in 2003-04) and an operating subsidy of \$7.3 million (\$7.6 million).

Subsidies totalling \$7.3 million (\$7.6 million) were received from NSW Treasury. These comprised an annual subsidy of \$5.3 million towards the Corporation's electricity operations and \$2.0 million (\$2.3 million) to meet deficiencies under the *Water Management Act 2000*.

Abridged Statement of Financial Position

At 30 June	2005 \$'000	2004 \$'000
Current assets	<u>22,273</u>	21,471
Non-current assets	<u>66,634</u>	<u>142,123</u>
TOTAL ASSETS	<u>88,907</u>	<u>163,594</u>
Current liabilities	<u>11,145</u>	10,360
Non-current liabilities	<u>10,558</u>	<u>10,021</u>
TOTAL LIABILITIES	<u>21,703</u>	<u>20,381</u>
NET ASSETS	<u>67,204</u>	<u>143,213</u>

Write-down in the Value of Sewer and Water Assets

The financial performance of the Corporation has been affected by the administrative changes referred to above. The basis of the preparation of the financial report has been performed in accordance with NSW Treasury Circular TC 01/11 'Contributions by Owners made to Wholly-Owned Public Sector Entities'. The adverse impact on financial performance has largely resulted from an \$80.3 million write-down of sewer and water assets to their fair value prior to their transfer to Country Energy. The asset revaluation reserve has been reduced by \$62.7 million, while \$17.6 million being the balance of the write-down, has been expensed.

Australian Equivalents to International Financial Reporting Standards (AEIFRS)

With the dissolution of the Corporation on 1 July 2005, the entity will not transition to AEIFRS. Accordingly, the balances to be transferred and the subsequent re-measurement of these balances under AEIFRS will be the responsibility of Country Energy.

CORPORATION ACTIVITIES

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

Further information on Australian Inland can be found at www.countryenergy.com.au.

Country Energy

AUDIT OPINION

The audits of the financial reports for Country Energy and its controlled entities for the year ended 30 June 2005 resulted in unqualified Independent Audit Reports. The audit report of EMMLINK Pty Limited included an emphasis of matter on the uncertainty concerning valuation of system assets.

PERFORMANCE ISSUES

Operational Performance

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

	Target*	Actual	
	2004-05	2004-05	2003-04
Customer minutes without supply (unplanned supply interruptions - minutes)	301	354	248
Customer satisfaction index (%)	85	85	85
Lost time (injuries per one million hours worked)	5.0	11.0	11.5

*Targets provided by Country Energy

Customer minutes without supply has increased as a result of improvements in the accuracy of data collection systems. Although the figure is higher, it gives a more accurate representation of network reliability without an actual deterioration in the network. It is anticipated that the figure will increase again next year as data collection systems are further improved.

Financial Performance

	Target*	Actual	
	2004-05	2004-05	2003-04
Return on equity (%)	12.7	12.8	11.2
Return on assets (%)	8.4	8.3	8.9
Interest cover (times)	1.9	2.3	2.2
Debt to equity (%)	69.5	68.0	67.6
Capital expenditure (\$m)	344.2	392.9	326.3
Total distributions to government (\$m)	84.2	70.4	92.3
Earnings before interest and tax (\$m)	243.9	252.6†	245.6

*As agreed with shareholding Ministers in the Statement of Corporate Intent

† excludes costs of \$4.1 million associated with the merger of Australian Inland Energy Water Infrastructure.

The Corporation's financial performance was assisted by increases in electricity demand which led to higher than anticipated sales revenue.

COMPLIANCE ISSUES

We examined:

- Country Energy's preparedness for the introduction of the Australian Equivalents to International Financial Reporting Standards (AEIFRS). Our preliminary review conducted in April 2005 and the subsequent audits of the restatement of 1 July 2004 balances and the financial report at 30 June 2005 to AEIFRS confirmed the Corporation's correct restatement and disclosures under AEIFRS.
- The requirements of the *Public Authorities (Financial Arrangements) Act 1987 and Regulation 2000*. From our review we were able to confirm compliance with the *Public Authorities (Financial Arrangements) Act 1987 and Regulation 2000*.

The results of our reviews were satisfactory.

OTHER ISSUES

In November 2004 the Treasurer announced the merger of Australian Inland Electricity Water Infrastructure and Country Energy. On 1 July 2005 the boundaries of Country Energy were expanded to absorb Australian Inland Electricity Water Infrastructure. All the customers, assets and liabilities were transferred to the Corporation. The new entity serves some 800,000 customers and manages an electricity distribution network covering 95 per cent of the State's area.

FINANCIAL INFORMATION

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

Abridged Statement of Financial Performance

Year ended 30 June	2005 \$'000	2004 \$'000
TOTAL REVENUE	<u>1,710,425</u>	<u>1,643,837</u>
OPERATING PROFIT BEFORE BORROWING COSTS, DEPRECIATION AND TAX	409,961	382,874
Borrowing costs	110,781	111,295
Depreciation	<u>148,203</u>	<u>130,869</u>
OPERATING PROFIT BEFORE TAX	150,977	140,710
Income tax equivalent	<u>52,258</u>	<u>62,371</u>
OPERATING PROFIT AFTER TAX	98,719	78,339
Increase in asset revaluation reserve	14,658	--
Less dividend provided and paid	<u>18,100</u>	<u>29,971</u>
INCREASE IN EQUITY	<u>95,277</u>	<u>48,368</u>

Operating income includes \$1,618 million from the sale and delivery of electricity and gas (\$1,518 million in 2003-04). Costs associated with the sale and delivery of electricity and gas were \$1,420 million (\$1,334 million).

Abridged Statement of Financial Position

At 30 June	2005 \$'000	2004 \$'000
Current assets	432,130	394,491
Non-current assets	<u>2,755,944</u>	<u>2,471,217</u>
TOTAL ASSETS	<u>3,188,074</u>	<u>2,865,708</u>
Current liabilities	909,202	823,273
Non-current liabilities	<u>1,459,840</u>	<u>1,318,680</u>
TOTAL LIABILITIES	<u>2,369,042</u>	<u>2,141,953</u>
NET ASSETS	<u>819,032</u>	<u>723,755</u>

The increase in assets included \$393 million from the acquisition of property, plant and equipment during the year. Of this amount, \$294 million related to additions to system assets. The increase in liabilities was primarily due to an additional \$219 million in debt, increasing the balance of loans outstanding to \$1,734 million. The asset revaluation reserve increased by \$14.7 million largely due to the revaluation of land and buildings undertaken during the year.

Australian Equivalents to International Financial Reporting Standards (AEIFRS)

Based on the Corporation's current analysis, the implementation of AEIFRS from the reporting period beginning 1 July 2005 will lead to material changes in account balances. These changes arise from differences in the treatment of derivatives, capital contributions, asset revaluations and taxation under the new standards.

The balance of equity at year-end under AEIFRS was \$591 million compared to \$819 million under existing accounting standards. The most significant impacts on equity related to reductions from revalued assets (\$96.9 million), capital contributions (\$56.5 million) and the revaluation of superannuation assets (\$53.4 million).

CORPORATION ACTIVITIES

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

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

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

CONTROLLED ENTITIES

The audit of the financial report of each entity resulted in an unqualified Independent Audit Report.

EMMLINK Pty Limited

Our Independent Audit Report for EMMLINK Pty Limited included an 'Emphasis of Matter' section, which referred to the uncertainty concerning valuation of system assets. The uncertainty arises from the volatility of electricity prices used in determining asset values.

The operating result for the company in 2004-05 was a profit from ordinary activities before tax of \$794,000 (\$1.2 million loss in 2003-04). At 30 June 2005 the company held total assets of \$50.5 million (\$49.7 million), which mainly comprised system assets valued at \$40.9 million (\$42.3 million). Liabilities totalled \$57.8 million (\$57.6 million) of which \$57.5 million (\$57.5 million) related to loans from Country Energy.

EMMLINK Pty Limited has a 50 per cent interest in the output of the Directlink project. This unincorporated joint venture operates an electricity transmission inter-connector between the NSW and Queensland systems.

Country Energy Gas Pty Limited

The company's operating profit before income tax was \$2.4 million (\$2.1 million in 2003-04). The company received operating income of \$9.3 million in 2004-05 (\$9.4 million). Operating expenses representing cost of delivery of gas amounted to \$6.8 million (\$7.3 million).

At 30 June 2005 the company held total assets of \$98.4 million (\$99.0 million) and total liabilities, \$68.0 million (\$69.7 million), leaving shareholders' equity of \$30.4 million (\$29.3 million).

The company holds the gas distributors licence to operate the Wagga Wagga gas network located in the southeast of New South Wales and extending into northern Victoria.

NorthPower Energy Services Pty Limited

NorthPower Energy Services Pty Limited was incorporated in 1996 to allow the former NorthPower to conduct interstate energy trading. The company ceased trading on 30 June 1998. During 2002-03 the residual assets and liabilities of the company were transferred to Country Energy and it is now dormant.

EnergyAustralia

AUDIT OPINION

The audit of the financial reports of EnergyAustralia (the Corporation) and its controlled entities for the year ended 30 June 2005 resulted in unqualified Independent Audit Reports.

KEY ISSUES

New Partnership Arrangement

In April 2005, the Corporation, via its controlled entity Energy Australia Pty Limited, signed an agreement with IPower Pty Limited (IP), a controlled entity of International Power (Retail) Pty Ltd, a Victorian electricity generator, to establish a 50:50 partnership to sell electricity and gas to retail customers in South Australia and Victoria. IP paid the Corporation \$55.5 million plus a payment to be made for working capital for the 50 per cent interest in the partnership. The Corporation transferred its Victorian and South Australian business to the partnership. The partnership commenced on 7 July 2005.

The Corporation and IP have a put and call option respectively on the remaining 50 per cent shareholding in the partnership. These options are exercisable in April 2007. The Corporation put option is at a maximum price of \$77 million. The IP call option has a minimum price of \$60 million.

Electricity Network Systems

In Volume Four of the 2004 Auditor-General's Report to Parliament, we reported that the Corporation was developing a performance management system to measure actual against planned capital and maintenance activities by asset categories in an integrated manner with existing financial reporting of actual against budget expenditure. This system is still under development and will be so for more than one year.

PERFORMANCE ISSUES

Operational Performance

A prime objective of the Corporation is to deliver a safe and reliable supply of energy to its customers. The following table shows the performance of the Corporation in relation to customer satisfaction and employee safety:

Year ended 30 June	2005	2004	2003	2002
Customer satisfaction index (%)	96	95	96	96
Average per customer minutes without supply	112	107	96	102
Lost time injury - injuries per one million hours worked	3.8	5.2	6.9	8.3

Source: EnergyAustralia Annual Report 2004-05

The Corporation's 2004-05 customer satisfaction index of 96 percent represents a 1.1 per cent per annum average improvement on the 2001 base year.

The Corporation's average per customer minutes without supply of 112 minutes was higher than its target of 98 minutes. This includes a major incident at Hunters Hill zone substation in October, adding ten minutes to the measurement.

The Corporation lost time injury measure has been improving over time. The result of 3.8 injuries per million hours worked is less than its target of 5.5.

Environmental Performance

The Corporation exceeded Federal Renewable Energy targets under the Commonwealth's *Renewable Energy (Electricity) Act 2000* and achieved its NSW Greenhouse Gas abatement target under the State's *Electricity Supply Amendment (Greenhouse Gas Emission Reduction) Act 2002* for the calendar year ended 31 December 2004.

Financial Performance

Year ended 30 June	Target (i)	Actual		
	2005	2005	2004	2003
Earnings before interest and tax (\$m)	429.7	440.0	426.2	377.0
Return on average equity (%)	7.4	8.2	8.2	5.8
Return on average assets (%)	7.4	7.6	7.8	7.1
Debt to equity (%)	116.5	117.4	110.7	105.7
Total distributions to government (\$m) (ii)	227.4	229.6	184.2	123.5
Capital expenditure (\$m) (excluding capital contribution)	423.8	483.7	344.4	304.0

Source: EnergyAustralia Statement of Corporate Intent 2004-05

(i) Target agreed with shareholder Ministers in the Statement of Corporate Intent adjusted to include capital contributions

(ii) Reflects cash distribution of Income tax equivalent payment, and dividend

The Corporation's results for 2004-05 either exceeded its targets or closely approximated them.

COMPLIANCE ISSUES

We examined the Corporation's preparedness for the introduction of Australian Equivalents to International Financial Reporting Standards (AEIFRS).

We found that EnergyAustralia was well prepared for the transition to AEIFRS.

FINANCIAL INFORMATION

The following financial details are for EnergyAustralia and its controlled entities.

Abridged Statement of Financial Performance

Year ended 30 June	2005 \$'000	2004 \$'000
TOTAL REVENUE	<u>2,835,900</u>	<u>2,558,700</u>
OPERATING PROFIT BEFORE BORROWING COSTS, DEPRECIATION, AND TAX	678,100	652,300
Borrowing costs	<u>175,500</u>	169,800
Depreciation	<u>238,100</u>	<u>226,000</u>
OPERATING PROFIT BEFORE TAX	264,500	256,500
Income tax equivalent	<u>83,100</u>	<u>78,900</u>
OPERATING PROFIT AFTER TAX	181,400	177,600
Increase in asset revaluation reserve	<u>900</u>	--
TOTAL AVAILABLE FOR APPROPRIATION	182,300	177,600
Dividend provided	<u>81,100</u>	<u>163,500</u>
INCREASE IN EQUITY	<u>101,200</u>	<u>14,100</u>

Total revenue included \$2,639 million (\$2,404 million in 2003-04) for the sale and delivery of energy (electricity and gas), public lighting system changes and community service obligation refunds. Costs associated with the distribution of energy totalled \$2,396 million (\$2,132 million).

Dividend and income tax expenses for the year comprised 62 per cent of the operating profit before tax compared with 95 per cent in 2003-04. This is largely due to a lower dividend. Capital expenditure for the year was \$484 million compared with \$344 million in 2003-04.

Abridged Statement of Financial Position

At 30 June	2005 \$'000	2004 \$'000
Current assets	740,100	682,400
Non-current assets	<u>5,277,200</u>	<u>4,961,000</u>
TOTAL ASSETS	<u>6,017,300</u>	<u>5,643,400</u>
Current liabilities	1,398,000	1,251,300
Non-current liabilities	<u>2,349,700</u>	<u>2,223,700</u>
TOTAL LIABILITIES	<u>3,747,700</u>	<u>3,475,000</u>
NET ASSETS	<u>2,269,600</u>	<u>2,168,400</u>

Current assets increased largely due to higher energy debtors and accruals of \$43.6 million, and energy certificates increasing by \$34.2 million. The Corporation collected Victorian debtors more slowly than planned. Non-current assets increased mainly due to net capital expenditure on the electricity network of \$285.8 million.

Liabilities increased mainly due to additional borrowings of \$263 million, raised to fund capital expenditure.

CORPORATION ACTIVITIES

See the 'Overview of the Energy Industry' 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

EnergyAustralia has three subsidiary companies. The subsidiaries, Energy Australia Pty Limited, Energy Management International Pty Limited and Downtown Utilities Pty Limited, were all dormant during the year.

Energy Australia Pty Limited entered into a partnership with IPower Pty Limited, commencing on 7 July 2005. Refer to key issues above for further details.

On 17 August 2005, EnergyAustralia's Board approved to proceed with deregistering Energy Management International Pty Limited. The wind-up of the company is subject to the approval of the voting shareholders.

Integral Energy Australia

AUDIT OPINION

The audit of the financial report of Integral Energy Australia (Integral) for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

KEY ISSUES

Growth of Network and Demand Management

Integral's ten-year infrastructure blueprint "Network 2015" was released in June 2005. This plan forecasts that demand on Integral's network will increase by 45 per cent over the next ten years, with customer numbers increasing by 29 per cent.

A significant driver of demand is the release of previously rural and semi-rural land into new urban developments. Additionally, consumption levels have doubled in some suburbs. It is estimated that 70 per cent of Integral's Western Sydney customers now have air conditioners compared to 25 per cent 10 years ago.

To meet future electricity demand, Integral plans to spend \$1.2 billion on upgrading its electricity infrastructure in the five years to 2009. Complementing the infrastructure expenditure, Integral has a number of demand management plans to reduce demand in areas such as Castle Hill and Blacktown-Seven Hills. Other demand management programs are being rolled out in Parramatta, Wetherill Park and Nowra.

PERFORMANCE ISSUES

Integral has published fully integrated sustainability reporting within its Annual Performance Report since 2003-04. The Corporation uses performance indicators proposed in the guidelines issued by the Electricity Supply Association of Australia (ESAA). Some of the Corporation's indicators are outlined below.

Operational Performance

Statistics provided by Integral show:

Year ended 30 June	Target 2005	Actual			
		2005	2004	2003	2002
Supply of electricity - gigawatt hours	17,013	16,903	15,570	15,212	14,975
Total customer connections	837,496	822,446	819,496	808,767	789,923
Network reliability - average minutes customers were without supply	145.0	115.0	147.0	155.1	133.7
Customer satisfaction index (%)	65.0	78.0	56.0	55.1	50.3
Public serious electrical accidents	2	3	2	2	4
Lost time - accidents per one million hours worked	6.0	6.3	7.2	8.0	13.3

The below target performance for customer connections reflects the increasing difficulty in acquiring new customers in the current competitive market.

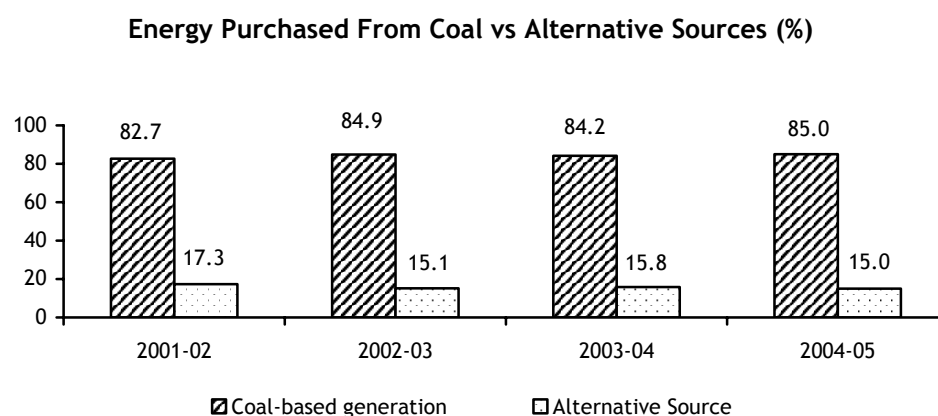
The sharp improvement in network reliability resulted from increased investment in the network and a strong focus on maintenance, assisted by unusually mild weather conditions. Network reliability covers both planned and unplanned interruptions to supply, but excludes major storms, because the number of staff available to make repairs is limited. This measure is also affected by the size, age and condition of the network, the extent of undergrounding and unstable weather.

The customer satisfaction index in 2004-05 was 78 per cent. This is the percentage of customers who rated Integral Energy as 'excellent' or 'very good' for certain parameters in customer surveys.

The ESAA's average for NSW distributors' lost time injuries is 9.9 accidents per one million hours worked. Integral's performance although below target, has continued to improve for the last three financial years. Safety continues to be a key focus for the Board and Executive team.

Environmental Performance

Integral's energy purchases from alternative sources have been relatively stable over the last few years, although purchases are expected to increase as requirements under the carbon credit schemes grow.



Currently the cost of energy from alternative sources is higher than energy from coal based energy sources. Even so, Integral is exceeding the industry average performance under ESAA's Code of Environmental Practice.

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

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

Financial Performance

Some financial performance indicators for Integral are:

Year ended 30 June	Target 2005	Actual		
		2005	2004	2003
Earnings before interest and tax (\$m)	224.3	276.8	249.7	162.2
Return on equity (%)	7.9	11.6	9.8	4.2
Return on assets (%)	7.8	9.6	9.2	6.1
Debt to equity (%)	105.2	104.5	103.8	106.1
Interest cover (times)	2.5	3.3	2.9	2.0
Total distributions to Government (\$m)	133.6	178.7	164.1	76.9
Capital expenditure (\$m)	253.8	256.8	224.8	163.4

Financial ratios were above target due to earnings before interest and tax being \$52.5 million above budget. Higher earnings resulted from capital contributions from developers of \$65.6 million exceeding budget by \$23.5 million, and energy purchases of \$471.9 million falling below budget by \$27.7 million.

The Annual Performance Report of Integral Energy Australia can be found on its website. This explains how these indicators are measured, in addition to providing other statistics.

Integral's capital expenditure during 2004-05 was focused on increasing capacity to meet high summer load growth rates and ensuring the ageing network can cope with increasing demand. Major projects include:

- establishment of a new zone substation at Mamre
- augmentation of Shellharbour zone substation
- installation of a third transformer and construction of a new switchyard at Mt Druitt
- rebuild of Werrington zone substation
- construction of a zone substation within Baulkham Hills transmission substation
- establishment of the new Aerodrome zone substation at Hoxton Park
- augmentation of Tahmoor and Maldoon zone substations
- augmentation of Liverpool zone substation

CONTROL ISSUES

We identified opportunities for improvement in internal control/procedures. These were minor, and we reported them to management.

COMPLIANCE ISSUES

We examined whether Integral complied with the *State Owned Corporations Act 1989* regarding the appointment of directors and operations of the board. The result of the review was satisfactory.

OTHER ISSUES

Bushfires

A Coronial inquest confirmed that sparking powerlines along Appin Road caused a grassfire at Appin in December 2001. Integral has set up a special taskforce to enable compensation to be paid, to modify the network to avoid fires in the future, and to establish practices to mitigate future losses. There have been 353 claims lodged to 30 June 2005, amounting to \$34.5 million.

Australian Equivalents to International Financial Reporting Standards (AEIFRS)

Integral reported that the 30 June 2005 operating profit after tax under AEIFRS would have been \$116.1 million, \$10.7 million lower than that reported under current accounting standards. This does not include the material impact that the AEIFRS standard on financial instruments will have as this standard does not apply until 1 July 2005.

FINANCIAL INFORMATION

Abridged Statement of Financial Performance

Year ended 30 June	2005 \$'000	2004 \$'000
TOTAL REVENUE	<u>1,369,761</u>	<u>1,342,043</u>
OPERATING PROFIT BEFORE BORROWING COSTS, DEPRECIATION AND TAX	405,149	368,656
Borrowing costs	<u>85,361</u>	85,527
Depreciation	<u>128,385</u>	118,988
OPERATING PROFIT BEFORE TAX	191,403	164,141
Income tax equivalent	<u>64,590</u>	<u>61,817</u>
OPERATING PROFIT AFTER TAX	126,813	102,324
Increase in asset revaluation reserve	44,972	40,478
Dividend provided	<u>114,132</u>	<u>102,324</u>
INCREASE IN EQUITY	<u>57,653</u>	<u>40,478</u>

Total revenue included \$962 million in electricity sales (\$982 million in 2003-04).

Abridged Statement of Financial Position

At 30 June	2005 \$'000	2004 \$'000
Current assets	317,130	322,965
Non-current assets	<u>2,690,287</u>	<u>2,458,397</u>
TOTAL ASSETS	<u>3,007,417</u>	<u>2,781,362</u>
Current liabilities	896,690	673,311
Non-current liabilities	<u>987,588</u>	<u>1,042,565</u>
TOTAL LIABILITIES	<u>1,884,278</u>	<u>1,715,876</u>
NET ASSETS	<u>1,123,139</u>	<u>1,065,486</u>

Not included in liabilities is the Smithfield 30-year energy purchase contract. This contract is due to expire in 2027 and expenditure commitments at 30 June 2005 were \$1,921 million.

CORPORATION ACTIVITIES

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

Integral Energy Australia 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 Minister for Finance and the Assistant Treasurer.

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

Hunter Water Corporation

AUDIT OPINION

The audit of Hunter Water Corporation's financial report for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

PERFORMANCE ISSUES

Financial Performance Indicators

The table below shows that distributions to Government (i.e. dividends plus income tax payable) for 2004-05 is 83.7 per cent of pre-tax operating profits. The electricity industry, by comparison, is generally around 100 per cent. In the three years 2001-02 to 2003-04, the distributions ranged from 183.7 per cent to 133.7 per cent of pre-tax operating profits.

The fall in the distributions ratio in 2004-05 was mainly due to the impact of recognising \$28.7 million of developer contributions. Because of altered accounting circumstances referred to later in this report, the operating profit before tax in prior years did not include income from developers, comprising cash and assets.

At 30 June 2005, Hunter Water had a current ratio (current assets divided by current liabilities) of 0.4 (0.8 at 30 June 2004). The current ratio measures whether an entity has sufficient liquid assets to meet current liabilities. A current ratio of 1.0 is, in theory, considered desirable. Hunter Water over recent years has been able to manage its cash with a lower current ratio of between 0.4 and 0.8. This is because its revenues and expenditures are highly predictable, and because it can quickly source funds from a 'Come and Go' facility with NSW Treasury Corporation, as well as from approved borrowing facilities.

Hunter Water's total borrowings have increased by \$34.8 million since 2002. Approved borrowing facilities with NSW Treasury Corporation rose from \$185 million to \$260 million.

Year ended 30 June	2005	2004	2003	2002
Operating profit before tax (\$m)	63.8	41.5	34.0	26.3
Dividend payable (\$m)	33.8	36.0	38.0	31.1
Income tax payable (\$m)	19.6	<u>19.5</u>	<u>22.2</u>	<u>17.2</u>
	53.4	<u>55.5</u>	<u>60.2</u>	<u>48.3</u>
Dividend and tax/profit before tax (%)	83.7%	133.7%	177.1%	183.7%
Capital expenditure (\$m)	95.8	51.3	48.2	52.9
Total borrowings (\$m)	165.9	124.9	130.0	131.1
Current Ratio	0.42	0.76	0.75	1.52

Source: Hunter Water financial statements

The table below shows that Hunter Water’s return on assets and return on equity were significantly below those of Sydney Water Corporation and Australian Water Government Trading Enterprises (GTEs) up to 2003-04. These ratios were primarily impacted by Hunter Water’s treatment of developer contributions at that time. The ratios are also impacted, for example, by Sydney Water’s system asset values being written down significantly to their recoverable amount. The 2004-05 figures for Hunter Water show that return on assets and return on equity are now closer to the other water utilities. Hunter Water still has a significantly lower debt to equity ratio compared to the other GTEs.

Performance Measure	Hunter Water 2004 - 05	Hunter Water 2003 - 04	Sydney Water 2003 - 04	Australian Water GTEs 2003 - 04	Australian GTEs 2003 - 04
Return on assets (%)	3.3	2.3	3.6	4.8	2.0
Return on equity (%)	2.1	1.0	2.8	3.5	(0.7)
Debt to equity (%)	8.2	6.3	30.1	23.0	33.4
Cost recovery (%)	153.0	139.8	148.6	160.4	115.9

Source: Productivity Commission’s Report *Financial Performance of Government Trading Enterprises 1999-00 to 2003-04*. The 2004-05 figures are from Hunter Water.

Note: Inconsistencies in measurement bases for assets may exist between different agencies.

Operational Performance Indicators

IPART Audit

The Independent Pricing and Regulatory Tribunal (IPART) measures annually Hunter Water’s operational performance against Operating Licence standards. The most recent report available, dated 24 November 2004, was for 2003-04.

IPART found that Hunter Water performed “well against the Operating Licence and this is reflected in the generally high to full compliance Hunter Water achieved against the audit clauses”.

The overall result was impacted by Hunter Water’s failure to comply with the Licence standard for water continuity in 2003-04. Water supply interruptions of more than 5 hours duration were experienced at 15,248 properties compared to the Operating Licence requirement of no more than 14,000. This followed a figure of 13,966 in 2002-03. Hunter Water explained that 2002-03 was affected by the need to connect a large number of new dwellings while 2003-04 was affected by an unplanned trunk main failure, which affected 5,500 properties.

The IPART report referred to the long linear nature of Hunter Water’s water supply network, which makes it vulnerable to large scale trunk main breaks. It also acknowledged the introduction of a number of initiatives over 2003-04 to improve underlying performance in terms of planned interruptions including additional expenditure to improve its trunk main assets and reduce unplanned interruptions.

Benchmarking Against the Australian Water Industry

The Water Services Association of Australia (WSAA) reports on the performance of the Australian urban water industry each year. It compares performance on customers, service, and infrastructure, as well as economic and financial performance across Australian water retailers and wholesalers. WSAA reported the following data for Hunter Water:

Year ended 30 June	2004	2003	2002	2001	2000
Volume of water consumed (kl) per residential property	208.0	222.0	209.0	214.0	196.0
Operating cost per property for water* supply services (\$)	154.1	190.2	185.8	175.2	179.6
Water quality complaints per 1,000 properties	7.4	12.8	8.1	8.1	7.8
Average number of water supply interruptions per 1,000 properties **					
Unplanned	370.1	419.5	168.3	194.7	207.6
Planned	71.8	93.6	163.9	148.3	168.6
Number of wastewater reticulation main breaks and chokes per 1,000 properties	14.2	14.9	12.5	13.7	11.9
Water main breaks and leaks per 100km of water main	45.9	46.6	42.4	43.0	48.0
Number of property connection sewer breaks and chokes per 1,000 properties	12.4	12.0	9.9	10.2	9.7
Wastewater biosolids reuse (% reused/recycled)	53.0	48.0	47.0	56.0	46.0

Source: WSAA Report, except 2003-04 from Hunter Water (unaudited)

* These values would be \$153 (2001-02), \$167 (2002-03) & \$159 (2003-04) if expenses and income associated with the defined benefit superannuation fund performance were excluded from operating costs.

** The method of calculating this indicator changed from 2002-03

Hunter Water's frequency of unplanned water interruption figures per 1,000 properties was 11.8 percent lower than in 2003-04. All other key indicators have remained relatively constant or have improved on the previous year.

Hunter Water has advised us that the next public review of the Operating Licence, to be undertaken in early 2006, will assess potential higher standards with subsequent higher prices being passed on to customers.

CONTROL ISSUES

We recommended to Hunter Water that it use a more specialised index figure, rather than continuing to use a CPI index figure, as the basis for adjusting infrastructure asset values for those assets not subject to expert revaluation in years within the five year revaluation cycle.

COMPLIANCE ISSUES

We examined whether Hunter Water complied with Department of Commerce Guidelines "Acquisition of Information Technology". Hunter Water is complying with the requirements of the circular.

FINANCIAL INFORMATION**Abridged Consolidated Statement of Financial Performance**

Year ended 30 June	2005 \$'000	2004 \$'000
Tariff charges	131,316	129,934
Other revenue	62,088	37,148
TOTAL REVENUE FROM ORDINARY ACTIVITIES	193,404	167,082
Operational costs	73,688	64,759
Depreciation	35,935	33,375
Other expenses	19,939	27,469
TOTAL EXPENDITURE FROM ORDINARY ACTIVITIES	129,562	125,603
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX	63,842	41,479
Income tax equivalent expense	20,819	21,301
PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX	43,023	20,178
Total adjustments recognised directly in equity	45,320	77,538
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS	88,343	97,716

Hunter Water's revenue increased by \$26.3 million, mainly because of the \$6.0 million of proceeds received from the sale of its Head Office property, and the recognition of developer contributed assets, \$18.7 million. In past years the value of assets contributed by developers was written down to zero because the anticipated cash flows from those assets did not exceed the recoverable amount of Hunter Water's total infrastructure assets. This year the recoverable amount of total assets was some \$200 million higher than their carrying value, resulting in developer assets being recognised in revenue. Related to this recognition, other expenses decreased mainly due to developer cash contributions of \$10.0 million not being written down to zero.

Other expenses increased, due mainly to higher salaries and wages and contractor costs.

Abridged Statement of Financial Position

Year ended 30 June	2005 \$'000	2004 \$'000
Current assets	44,469	54,608
Non-current asset	2,287,797	2,190,962
TOTAL ASSETS	2,332,266	2,245,570
Current liabilities	104,248	71,710
Non-current liabilities	193,959	194,344
TOTAL LIABILITIES	298,207	266,054
NET ASSETS	2,034,059	1,979,516

Current assets were lower due to reduced cash holdings. Total liabilities were higher due to increased borrowings.

HUNTER WATER ACTIVITIES

Hunter Water is a statutory State Owned Corporation that operates within the 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.

Hunter Water as an economic entity comprises Hunter Water Corporation, Hunter Water Australia Pty Limited and the Regional Land Management Corporation Pty Ltd.

For further information on Hunter Water, refer to www.hunterwater.com.au.

CONTROLLED ENTITY - HUNTER WATER AUSTRALIA PTY LIMITED

Financial Information

The audit of Hunter Water Australia Pty Limited's (HWA) financial report for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

Year ended 30 June	2005 \$'000	2004 \$'000
Revenue	17,103	15,461
Expenses	14,550	12,812
Income tax equivalent expense	<u>498</u>	<u>891</u>
Profit from ordinary activities	<u>2,054</u>	<u>1,758</u>
Net assets (at 30 June)	7,364	5,810

Establishment and Objectives

In 1998 Hunter Water incorporated HWA as a wholly owned subsidiary. The company comprises a number of business units including engineering consulting, water treatment consulting, survey and laboratories.

The principal activity of HWA is to provide specialist support and operations services in the fields of water and wastewater. For further information on HWA, refer to www.hwa.com.au.

CONTROLLED ENTITY - REGIONAL LAND MANAGEMENT CORPORATION PTY LTD

Financial Information

The audit of Regional Land Management Corporation Pty Ltd's financial report for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

Year ended 30 June	2005 \$'000	2004 \$'000
Revenue	6,042	3,845
Expenses	6,042	3,866
Income tax equivalent (benefit)/expense	--	(21)
Profit from ordinary activities	--	--
Net assets (at 30 June)	--	--

From 1 July 2004 NSW Treasury has exempted the company from the requirement to pay income tax equivalent, due to its non-commercial nature. Therefore the taxation expense in 2004-05 was nil.

The \$2.2 million increase in expenses was mainly due to higher levels of expenditure on remediation projects.

An *Implementation Agreement* between the State, Hunter Water and the company requires the company to accept title to the managed properties upon request by the State. Because this request has not been made, and control over the properties rests with the Crown Property Portfolio, they are included in the balances of the Crown Property Portfolio.

The State has agreed to reimburse the company for the cost of its activities, and the accrual of reimbursements due from the State at 30 June 2005 has resulted in a nil profit.

Establishment and Objectives

The Regional Land Management Corporation Pty Ltd was established in March 2003 as a wholly owned subsidiary company of Hunter Water, in accordance with a direction under section 20N of the *State Owned Corporations Act 1989*.

In terms of the abovementioned Agreement, its principal activities are to assume interim management responsibility for a number of properties, most of which were previously owned by BHP Limited. The Agreement specified a maximum period of eighteen months for the company's involvement, after which responsibility would be transferred to a 'Long Term Entity'. During the year the Government extended the company's management responsibility until 30 June 2008 and approved \$77 million of additional funding.

Sydney Water Corporation

AUDIT OPINION

The audit of the consolidated financial report of Sydney Water Corporation (Sydney Water) and its controlled entities for the year ended 30 June 2005 resulted in a qualified Independent Audit Report. The qualification related to assets and liabilities from the Build-Own-Operate (BOO) schemes not being recognised in Sydney Water's statement of financial position.

The audit report for 2003-04 was similarly qualified.

KEY ISSUES

Desalination Plant

Sydney Water has short listed three consortia to submit a proposal to design, construct, operate and maintain a desalination plant. This follows a feasibility study, for which Sydney Water was given responsibility in September 2004, that found that a desalination plant represents a viable method of supplementing supplies of drinking water for Sydney. Sydney Water estimates that it would cost \$2.0 billion to construct a 500 megalitre/day desalination plant and approximately \$100 million per year to run it. On a purely financial basis, this compares favourably against recycling water into the drinking water supply in established areas, where Sydney Water estimates that it would cost \$2.8 billion to build the facilities to recycle wastewater, and a further \$140 million a year to run the facilities. At 31 August 2005, Sydney Water had spent \$2.0 million on the desalination project.

Security Upgrade Program

Sydney Water's Internal Audit unit has reviewed the outcomes of Sydney Water's security upgrade program. The Board approved the program in February 2003 with the key objective of providing basic and robust security at all Sydney Water sites. The review noted several weaknesses. Sydney Water has initiated corrective action and believes that it will complete the security upgrade program by the end of 2005.

Ability to Replace System Assets in the Future - Repeat Issue

We have reported over the last three years our concern about Sydney Water's ability to fund the replacement of its system assets given the age and condition of the system and relevant pricing structures. The estimated cost of replacing Sydney Water's assets at 30 June 2005 was \$20.0 billion (\$18.2 billion at 30 June 2004). However, based on Sydney Water's estimate of the assets' ability to generate cash inflows, their value was reduced to \$11.2 billion (\$10.8 billion).

The Independent Pricing and Regulatory Tribunal (IPART) regulates Sydney Water prices. In response to similar comments we made in 2002, IPART indicated that past investments by Sydney Water were made for a variety of economic, social and political reasons and it may be inappropriate to include them in the regulatory asset base used for pricing. Assets contributed by developers are excluded from the pricing regulatory base.

Pricing determinations take a range of factors into account. We believe that the gap between Sydney Water's 'replacement' asset values and their cash generating capability is significant and may need further analysis by key stakeholders. IPART has recently granted real price increases to Sydney Water in its 2005-2009 determination. This will help to alleviate some of our concerns.

PERFORMANCE ISSUES

IPART Operational Audit

IPART reported the results of its 2003-04 operational audit of Sydney Water in December 2004. The audit assessed Sydney Water's performance against the standards in its operating licence.

The audit found that Sydney Water managed its resources to achieve predominantly high to full compliance with its operating licence requirements. The results of the audit are summarised in the table below.

Year ended 30 June	2004	2003	2002
	%	%	%
Full compliance	65	67	69
High compliance	21	22	14
Partial compliance	7	5	11
Low compliance	1	--	3
Non compliance	--	--	1
Insufficient information	5	7	2

Source: Sydney Water

Sydney Water's performance in 2003-04 was consistent with the previous year. The percentage of high and full compliance was 86.0 per cent (89.0 per cent in 2002-03). The partial compliance of 7.0 per cent (5.0 per cent) predominantly relates to demand management and water conservation requirements. IPART assessed that Sydney Water would not meet the demand management and water conservation targets for 2004-05, and that it was unlikely to meet the 2010-11 targets unless optimistic estimates of savings are made. Sydney Water has advised that it undertook an analysis in July and August 2005 for its annual report to IPART on its water conservation and recycling programs. This indicates that it has met the 2004-05 targets with water restrictions in place, and that it is on track to meet the 2010-11 targets.

The new operating licence which commenced 1 July 2005 includes a number of new requirements, such as an evaluation and audit of Sydney Water's asset management; targets for leakage reduction; response times to water main breaks; and targets for reducing water use.

Water Services Association of Australia Benchmarking

The Water Services Association of Australia (WSAA) reports on the performance of the Australian urban water industry each year. It compares performance on customers, service performance, infrastructure, and economic and financial performance across Australian water retailers and wholesalers. WSAA no longer provides total industry averages, but organisations can use the information in the report to benchmark themselves against others.

The table below shows Sydney Water's performance over the past four years on some of the key indicators.

Year ended 30 June	2005	2004	2003	2002
Volume of water consumed (kl) per residential property	211.0	224.0	255.0	251.0
Operating cost per property for water supply services (\$)	230.1	221.2*	250.6*	239.9*
Total cost per property for water supply services (\$)	398.7	386.4*	473.6*	478.8*
Water quality complaints per 1,000 properties	1.1	1.4	2.0	2.4
Water interruption frequency per 1,000 properties - Unplanned	233.8	260.4	274.9	197.3
Average duration of an unplanned water supply interruption (hr)	1.7	1.7	2.3	2.4
Water main breaks and leaks per 100km	37.8	38.0	50.7	37.5
Wastewater reticulation main breaks and chokes per 1,000 properties	11.7	10.4	11.9	9.8
Wastewater biosolids reuse (% reused/recycled)	100.0	99.9	100.0	99.0
Water recycled (%)	2.8	3.2	2.6	2.2
Water leakage (Infrastructure Leakage Index)	1.8	2.1	2.9	2.8

Source: WSA report for 2003-04, except for 2004-05, which is from Sydney Water (unaudited).

*These numbers are escalated to 2004-05 dollars to allow comparison.

The volume of water consumed continues to decrease as a result of water restrictions and Sydney Water's demand management strategies. Costs per property have increased, mainly because of movements in the long service leave liability as well as demand management strategies. The increase in wastewater breaks and chokes is a result of the dry weather during the year. Sydney Water advise that up to 75 per cent of chokes are caused by tree roots, with around 30 per cent of roots entering the system via private customer sewer lines. To address this, Sydney Water is developing an optimal long-term choke management strategy.

The percentage of water recycled decreased, mostly because Sydney Water's sewage treatment plants and irrigation customers are using less water, including recycled water. IPART's price determination for 2005-2009 will allow Sydney Water to invest \$169 million in recycling schemes.

Sydney Water's water leakage has improved in 2004-05. The International Water Association believes an infrastructure leakage index of 1.8 indicates that Sydney Water is making a substantial effort to manage and maintain its infrastructure, and to ensure all detected leaks and bursts are promptly repaired.

Sydney Water has a number of initiatives in place to reduce water leakage by twenty-five per cent over the next four years. This includes inspecting the majority of the network each year and spending \$300 million to renew water network assets, including 95 kilometres of water mains in 2005-06.

Maintenance activities

The table below highlights that Sydney Water completed almost all of its planned maintenance for 2004-05. Following a water industry review in 2004 of asset management processes in twenty agencies, Sydney Water was ranked third for its asset maintenance processes.

Year ended 30 June 2005	Indicators
Total planned maintenance completed for network and treatment assets	96%
Total planned maintenance completed for critical assets	100%
Budgeted maintenance expenditure	\$147.2 million
Actual maintenance expenditure	\$146.3 million

Source: Sydney Water

Financial Performance Information

We extracted the following information from Sydney Water's consolidated financial report, providing a snapshot of key financial data for the past four years. It shows that Sydney Water's current ratio (a measure of its liquidity) has remained static over the last four years at 0.4. A current ratio of 1.0 is, in theory, considered optimal. However, Sydney Water can manage its cashflows with a lower liquidity ratio because its revenues and expenditures are highly predictable, and because it can quickly source funds from a 'Come and Go' facility with NSW Treasury Corporation, as well as approved borrowing facilities and a bank overdraft.

Year ended 30 June	2005 \$m	2004 \$m	2003 \$m	2002 \$m
Operating profit before tax	<u>270.1</u>	<u>305.9</u>	<u>218.8</u>	<u>334.5</u>
Dividend payable	<u>120.0</u>	115.0	115.0	110.0
Income tax payable	<u>41.1</u>	<u>58.4</u>	<u>66.9</u>	<u>103.4</u>
	<u>161.1</u>	<u>173.4</u>	<u>181.9</u>	<u>213.4</u>
Dividend + tax/profit before tax (%)	59.6%	56.7%	83.1%	63.8%
Capital expenditure	426.0	506.9	514.5	556.2
Total borrowings	2,638.9	2,483.3	2,248.7	2,030.3
Total assets	12,120.1	11,827.0	13,856.3	14,251.4
Total liabilities	3,548.8	3,356.2	3,161.5	2,913.1
Current ratio	0.4	0.4	0.4	0.5

The dividend payable increased from \$115 million to \$120 million, even though profit before tax decreased in 2004-05. At the same time borrowings have increased by \$155.6 million.

Sydney Water advised us that the recent IPART determination should enable it to maintain its dividend levels, given that the real price increases are expected to improve its profitability and cash flows. When negotiating future dividend targets with its shareholder Ministers, Sydney Water will ensure that factors that may impact profitability and cash flows, such as continuing demand management strategies and increasing capital commitments, are incorporated in the negotiations. It believes that this will ensure dividends continue to be met from after tax profits.

The following table compares Sydney Water to the Australian water industry and other GTEs.

Year ended 30 June	Sydney Water		All States	
	2004	2003	Water 2004	All GTEs 2004
Performance Measure				
Return on assets (%)	3.6	2.6	4.8	2.0
Return on equity (%)	2.8	1.1	3.5	-0.7
Debt to equity (%)	30.1	21.8	23.0	33.4
Cost recovery (%)	148.6	132.9	160.4	115.9

Source: The Productivity Commission's *Financial Performance of Government Trading Enterprises 1999-2000 to 2003-04*

Sydney Water's return on assets, return on equity and cost recovery improved in 2003-04, although they are still below the average for the water industry. Because of differences in the market environment and the valuation of assets, it is difficult to make a direct comparison between Sydney Water and the water industry and all GTEs. For example, the water entities that value infrastructure assets at historic cost will report a higher rate of return on assets than those applying fair value, such as Sydney Water.

The Productivity Commission report found that, on average, debt levels in recent years for monitored water agencies have declined. Sydney Water however continues to go against this trend, with increased borrowings. In its draft 2005-06 Statement of Corporate Intent (SCI), Sydney Water has indicated that it will borrow a further \$870 million over the next three years to fund capital projects. This does not include the construction and financing of the desalination plant.

The table below shows how Sydney Water intends funding its future capital program.

Year ended 30 June	2006	2007	2008
New Borrowings (\$m)	245	315	310
State Budget (\$m)	2	5	3
Internal Funding (\$m)	255	332	359
Total (\$m)	502	652	672

Source: Draft Sydney Water 2005-06 SCI

CONTROL ISSUES

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

COMPLIANCE ISSUES

We tested whether Sydney Water complied with:

- the *State Owned Corporations Act 1989* and the *Sydney Water Act 1994* regarding the appointment of directors and operation of the board, and
- the *Fringe Benefits Tax Assessment Act 1986*.

Sydney Water complied with these requirements.

OTHER ISSUES

Insurance Fraud

We have previously reported on this matter, arising from an internal audit that identified issues with Sydney Water's insurance broking contracts. Sydney Water has negotiated an out of court settlement with its insurance broker for wrongfully earned commissions and associated loss.

Customer Information Billing System (CIBS)

Sydney Water commenced litigation in the Supreme Court against PricewaterhouseCoopers (PwC) in 2003. The litigation claim seeks damages against PwC under several heads of claim, including contract law and negligence. The claim also seeks legal costs and interest on the damages. The litigation is nearing the end of the discovery process.

Our key findings and recommendations following the termination of the CIBS project were reported in Volume One of the Auditor-General's 2003 Report to Parliament.

Review of Major Capital Projects

Sydney Water's capital expenditure in 2004-05 was \$426 million (\$507 million in 2003-04). This was below the SCI target of \$507 million, mainly because of scope changes, deferrals, delivery and approval delays and efficiency savings. Sydney Water has advised that the under-spending will not result in any material increase in risk to business outcomes or asset performance.

The original and current cost estimates and service delivery dates of some of Sydney Water's major capital projects are listed in the table below. Reasons for cost variances principally relate to escalation in costs for projects that were approved some time ago, and increases in the scope of works. Delayed regulatory approvals and construction related delays are also factors. Sydney Water considers the risk profile of its major projects to be low.

Project	Original Cost Estimate \$m	Current Cost Estimate \$m	Original Service Delivery Date	Current Service Delivery Date
Malabar System Risk Reduction - Stages 1-3	53.0	167.9	Mid 2007	Late 2006
Illawarra Wastewater Strategy	104.0	223.9	Mid 2005	Late 2005
Blue Mountains Sewerage Scheme Stage Two	51.2	128.0	Late 2006	Late 2008
Liverpool Sewerage Treatment Plant (STP) Upgrade - Stage 4a	76.0	116.0	2005	Late 2005
Mulgoa, Wallacia and Silverdale Sewerage Scheme	27.3	66.7	2003	Late 2006
South Western Sydney Sewerage Scheme	201.0	125.0	2007	Early 2009
IICATS Wastewater Strategy	57.0	88.0	Late 2003	Mid 2006
SewerFix Pumping Station Upgrade Program	144.0	230.3	Mid 2005	Nov 2005
Bondi STP	95.0	95.0	Early 2007	Late 2006

Sydney Water completed several major projects during 2004-05, including the SewerFix Pumping Station upgrade program; the Northern Illawarra Towns sewerage scheme; and the Oaks sewerage scheme.

Sydney Water has advised that the 2005 IPART review has suggested capital efficiency targets of 3.5 per cent for 2005-06, rising to 9 per cent in 2008-09. Sydney Water has advised that while it does not accept the capital efficiency gains suggested by IPART, it will use its best endeavours to continue to drive capital efficiencies into its forward program.

Walter Construction Group (Walter) Collapse

Walter was placed into voluntary administration at the beginning of 2005. As a result, Sydney Water has incurred additional costs on projects partly delivered by Walter. The collapse has also delayed the completion of some projects.

Most of the additional costs incurred by Sydney Water relate to the Illawarra Waste Water Strategy Project. Sydney Water advises that the bank guarantee provided by Walter as part of the contract for this project gives it an unconditional right to \$7.8 million, as long as it can demonstrate that the extra costs were a direct result of the collapse. Sydney Water is confident it will recover the additional costs incurred.

Following the Walter collapse, Sydney Water reviewed its contract and project management procedures to ensure they adequately address the risks associated with a contractor being placed into administration. Although it found that current procedures were adequate, Sydney Water will consider any additional procedures developed by the NSW Department of Commerce.

Golf Courses

Sydney Water was directed in 1999 by the Minister under section 20P of the *State Owned Corporations Act 1989* (SOC Act) to renegotiate the leases of the lands with the Lakes, Eastlakes and Bonnie Doon Golf Clubs. Lease negotiations have now been completed. Sydney Water estimates that the cost of complying with the Ministerial Direction is \$3.1 million.

Sale of Property at Miranda

In 2002-03 a Ministerial Direction was given under section 20N of the SOC Act for the sale of property at Bellingara Road, Miranda. Sydney Water was directed that the property be developed by a not-for-profit organisation for three tier aged care accommodation and should contain some affordable housing. Sydney Water is currently negotiating with the preferred tenderer. We will review the outcome to ensure compliance with the Ministerial Direction.

Procurement Reform

Sydney Water commenced its procurement reform program in November 2004. The key objectives of the program are to improve Sydney Water's governance, efficiency and competence in executing and managing procurement. The results to date indicate that Sydney Water has improved the efficiency and management of procurement, and that it has achieved substantial savings.

In 2006, Sydney Water will develop a procurement strategy, implement e-commerce initiatives, and benchmark itself against industry standards.

FINANCIAL INFORMATION

Abridged Consolidated Statement of Financial Performance

Year ended 30 June	2005 \$'000	2004 \$'000
Service charges	635,309	618,504
Usage charges	549,666	549,845
Other	244,116	260,150
TOTAL REVENUE	1,429,091	1,428,499
Employee related	258,212	232,580
Bulk water	120,299	121,555
Water treatment	95,187	93,227
Maintenance and operational services	130,883	113,779
Borrowing	153,169	152,921
Depreciation and amortisation	184,152	193,111
Other	217,083	215,405
TOTAL EXPENSES	1,158,985	1,122,578
PROFIT BEFORE TAX	270,106	305,921
Tax	55,025	36,404
PROFIT AFTER TAX	215,081	269,517

The increase in service charges was mainly due to a price increase in July 2004.

The increase in employee related expenses was largely due to higher salary rates and a \$16.5 million increase in the actuarially assessed long service leave liability.

Operational service expenses rose mainly because of expenditure incurred on the desalination plant and increased IT costs.

Abridged Consolidated Statement of Financial Position

At 30 June	2005 \$'000	2004 \$'000
TOTAL CURRENT ASSETS	180,120	184,779
Investments and receivables	7,069	22,665
Property, plant and equipment	11,877,081	11,567,346
Tax asset	55,910	52,168
TOTAL NON-CURRENT ASSETS	11,940,060	11,642,179
TOTAL ASSETS	12,120,180	11,826,958
TOTAL CURRENT LIABILITIES	440,711	434,868
TOTAL NON-CURRENT LIABILITIES	3,108,050	2,921,374
TOTAL LIABILITIES	3,548,761	3,356,242
NET ASSETS	8,571,419	8,470,716

The rise in property, plant and equipment reflects the revaluation of system assets and easements.

Total liabilities increased because of new borrowings.

SYDNEY WATER'S SUBSIDIARIES

Sydney Water's subsidiaries during the year were the Special Environmental Levy (SEL) Unit Trust (Trust), Australian Water Technologies Pty Ltd (AWT), AWT International (Thailand) Limited and AWT Philippines, Inc.

AWT Philippines, Inc did not prepare a financial report for 2004-05. It was given an exemption from the Treasurer because it did not trade during the year and was in the process of being liquidated. The audits of the remaining subsidiaries for the year ended 30 June 2005 resulted in unqualified Independent Audit Reports.

AWT overcharged its trade waste customers by approximately \$160,000 in 2004-05 because an incorrect rate was used to calculate the invoices. Total revenue was \$7.8 million. Sydney Water management has identified the cause of this matter and affected customers will be credited with the overcharged amounts.

All of the Trust's capital and income was distributed to Sydney Water during the year and the Trust was closed on 30 June 2005 in accordance with the Trust Deed.

The contribution to the Sydney Water Group result was:

Year ended 30 June	2005		2004	
	Sydney Water %	Subsidiaries %	Sydney Water %	Subsidiaries %
Total revenues*	99.2	0.8	98.4	1.6
Profit before tax*	99.1	0.9	95.8	4.2
Total assets	100.0	--	99.9	0.1
Total liabilities	100.0	--	100.0	--

*Excluding intra group dividends

SYDNEY WATER ACTIVITIES

Sydney Water 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, protection of the environment, and to be a successful business.

For further information on Sydney Water, refer to www.sydneywater.com.au.

TransGrid

AUDIT OPINION

The audit of TransGrid's financial report for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

KEY ISSUES

Change in Valuation of Easements

A qualified Independent Audit Report was issued for the year ended 30 June 2004, as TransGrid's valuation methodology for easements did not comply with the requirements of NSW Treasury's accounting policy guidelines for the 'Valuation of Physical Non-Current Assets at Fair Value'. In 2005 Treasury granted TransGrid an exemption from this policy which allowed TransGrid to change its accounting policy and value easements at cost. This removed the requirement to issue a qualified audit opinion.

PERFORMANCE ISSUES

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

Operational Performance

Energy Maximum Demands

Energy demands continue to rise and TransGrid has forecast demand to increase by an average of 1.9 per cent each year over the next ten years. Total annual energy consumption and the system peaks for the last three years are shown below:

Year ended 30 June	2005	2004	2003
Annual energy consumption (GWh)	74,584	73,785	71,687
Peak demand (MWh)	13,126	12,476	12,456

Source: TransGrid

TransGrid is participating in a number of initiatives to identify and pursue demand management opportunities, so as to reduce electricity demand and minimise the need for network expansions. It also has recognised the need for the timely replacement of existing ageing assets to ensure the continued reliability of the network.

Reliability

The reliability of the network is measured by summing the total amount of energy not delivered due to temporary failures of an element of the network in any one year. Described in terms of 'system minutes' lost, it is a measure from the customer's perspective of the transmission network electricity delivery service level.

The system interruption to supply for 2004-05 was 0.15 system minutes (2.22 in 2003-04). When converted to a percentage of energy delivered, this equates to a reliability exceeding 99.999 per cent.

Availability

Availability measures the total time transmission circuits were in service compared to the total possible hours available for all circuits.

Year ended 30 June	2005	2004	2003
Target			
99.5% per annum	99.59	99.65	99.64

Source: TransGrid 2004-05 Annual Report

TransGrid has exceeded its target each year.

Financial Performance

Year ended 30 June	Target*	Actual		
	2005	2005	2004	2003
Earnings before interest and tax (\$m)	203.5	220.5	203.5	169.7
Return on equity (%)	4.0	4.6	6.3	4.2
Return on assets (%)	5.9	6.2	6.6	6.2
Interest cover (times)	1.9	2.1	2.3	1.9
Debt to equity (%)	101.4	81.4	100.5	123.6
Distributions accrued to government (\$m)	83.7	77.3	101.8	81.1
Capital expenditure (\$m)	161.4	132.3	279.8	260.9

*Source: TransGrid 2004-05 Statement of Corporate Intent

The decreasing trend in the debt to equity ratio has largely been driven by increases in the asset revaluation reserve within equity rather than decreases in the amount of debt.

Distributions to government, \$77.3 million, comprised a dividend of \$38.0 million and a taxation expense of \$39.3 million.

Capital expenditure declined during 2004-05 following the completion of a number of major projects. However new major projects were progressed through the planning and development stages and capital expenditure is expected to increase in 2005-06.

The latest Australian Consumer and Competition Commission (ACCC) revenue determination has allowed for capital expenditure over the next four years of \$1,034 million. It is expected that TransGrid's level of debt will need to increase in order to meet this level of expenditure.

COMPLIANCE ISSUES

We examined whether TransGrid complied with the *Fringe Benefits Tax Assessment Act 1986*. We also examined TransGrid's preparedness for the introduction of Australian Equivalents to International Financial Reporting Standards.

The results of both these reviews were satisfactory.

CONTROL ISSUES

We identified opportunities for improvement in internal control/procedures. These were minor, and we reported them to management.

Australian Equivalents to International Financial Reporting Standards (AEIFRS)

The implementation of AEIFRS for the year beginning 1 July 2005 will lead to material changes in account balances on that date. These changes reduce equity from \$1,868 million to \$1,536 million as at 1 July 2005. Deferred tax liabilities increase by \$218 million and the prepaid superannuation asset of \$34.8 million is transformed into a liability of \$55.6 million.

FINANCIAL INFORMATION

Abridged Statement of Financial Performance

Year ended 30 June	2005 \$'000	2004 \$'000
TOTAL REVENUE	<u>471,911</u>	<u>452,648</u>
OPERATING PROFIT BEFORE BORROWING COSTS AND DEPRECIATION	339,693	315,821
Borrowing costs	104,091	88,482
Depreciation	<u>119,153</u>	<u>112,344</u>
OPERATING PROFIT BEFORE TAX	116,449	114,995
Income tax equivalent	<u>39,320</u>	<u>31,814</u>
OPERATING PROFIT AFTER TAX	77,129	83,181
Dividend provided	38,000	70,000

Abridged Statement of Financial Position

At 30 June	2005 \$'000	2004 \$'000
Current assets	146,967	117,726
Non-current assets	<u>3,585,650</u>	<u>3,265,631</u>
TOTAL ASSETS	<u>3,732,617</u>	<u>3,383,357</u>
Current liabilities	351,498	344,087
Non-current liabilities	<u>1,513,175</u>	<u>1,522,862</u>
TOTAL LIABILITIES	<u>1,864,673</u>	<u>1,866,949</u>
NET ASSETS	<u>1,867,944</u>	<u>1,516,408</u>

TransGrid's income included \$435 million from the transmission of electricity (\$408 million in 2003-04).

In 2004-05 TransGrid revalued land, infrastructure assets and staff cottages resulting in an increase in non-current assets of \$312 million. The carrying value of land increased by \$245 million from \$52.2 million as significant land holdings had not been revalued since corporatisation in 1998. The change in accounting policy to value easements at cost did not result in any change in the carrying value of easements in the Statement of Financial Position.

Current liabilities include \$35.3 million (\$35.6 million) for monies received for electricity transmission services in excess of the revenue cap determined by the Australian Competition and Consumer Commission. This amount was taken into account when setting the 2005-06 transmission services prices, resulting in lower prices to users.

CORPORATION ACTIVITIES

See 'Overview of the Energy Industry' 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 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.

Minister for Youth

Commission for Children and Young People

Commission for Children and Young People

AUDIT OPINION

The audit of the Commission's financial report for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

PERFORMANCE ISSUES

The Commission and its approved agencies screened 226,441 people in 2004-05 (215,792 in 2003-04). Fluctuations in screenings are dependent on labour movements within the industries that require screening under the legislation. Screening is not transferable from one employer group to another.

CONTROL ISSUES

We identified opportunities for minor improvements in internal control procedures and we reported them to management.

FINANCIAL INFORMATION

Year ended 30 June	2005 \$'000	2004 \$'000
Revenue	122	1,062
Employee related expenses	3,569	3,232
Other expenses	4,695	3,994
Net cost of services	8,145	6,164
Government contributions	8,359	6,290
Net assets (at 30 June)	1,016	802

Revenue decreased mainly due to changed funding arrangements. The Department of Community Services transferred its screening function to the Commission in March 2004 and the budget to fund this service was paid to the Committee as revenue in 2003-04. From 2003-04, the Commission receives this funding through increased government contributions.

Employee related expenses increased mainly due to higher staff numbers and award increases. Other expenses increased mainly due to 2004-05 being the first full year of employee screening for both the Commission's clients and Department of Community Services.

COMMISSION ACTIVITIES

The *Commission for Children and Young People Act 1998* establishes the Commission for Children and Young People. It aims to involve children and young people in decisions that affect them and to promote their interests and well-being. The Commission undertakes inquiries, conducts research and public education, and provides information and advice to assist children and their families. The Commission is an approved screening agency under the Act.

The Act requires employers to screen the background of preferred applicants for paid child-related employment, foster carers, ministers of religion and members of religious organisations. The purpose of employment screening is to protect children.

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

Premier

Cowra Japanese Garden Maintenance Foundation Limited

Cowra Japanese Garden Trust

Premier's Department

Cowra Japanese Garden Maintenance Foundation Limited

AUDIT OPINION

The audit of the Foundation's financial report for the year ended 31 March 2005 resulted in an unqualified Independent Audit Report.

FOUNDATION ACTIVITIES

The Foundation is a company limited by guarantee that acts as trustee for the Cowra Japanese Garden Trust.

The Foundation does not trade in its own right. However, in its capacity as trustee, it is liable for all debts incurred on behalf of the Trust. In discharging these liabilities, the trust deed provides for a right of indemnity against the assets of the Trust. There are sufficient assets to discharge all liabilities at 31 March 2005.

Cowra Japanese Garden Trust

AUDIT OPINION

The audit of the Trust's financial report for the year ended 31 March 2005 resulted in an unqualified Independent Audit Report.

FINANCIAL INFORMATION

Year ended 31 March	2005 \$'000	2004 \$'000
Revenue	46	25
Expenses	102	22
Operating surplus/(deficit)	(56)	3
Net assets (at 31 March)	503	559

The Trust received a donation of \$20,000 from the Urasenke Corporation of Japan. This was used to assist in the installation of acoustic equipment at the Garden.

TRUST ACTIVITIES

The Tokyo Metropolitan Government endowed \$470,000 to the Trust in 1989. The endowment is used to maintain, repair and develop the Cowra Japanese Garden and Cultural Centre.

The Centre is located on a five-hectare site near Cowra. The Garden and Cultural Centre symbolises the close relationship of the people of Cowra with those of Japan.

Premier's Department

AUDIT OPINION

The audit of the Department's financial report for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

KEY ISSUES

Marine Parks Authority (Repeat Issue)

The *Marine Parks Act 1997* established the Marine Parks Authority. Premier's Department, the Department of Primary Industries, and the Department of Environment and Conservation administer the operations of the Authority.

Because the *Public Finance and Audit Act 1983* (Act) does not schedule the Authority as a separate entity, it is not required to submit a financial report for audit or table an annual report. However in some years it has produced an annual report containing unaudited expenditure information for tabling in Parliament. We consider that the Authority is a reporting entity and should produce a general purpose financial report, which should be audited.

The Department of Primary Industries intends to produce a general purpose financial report for the Authority for the year ended 30 June 2006.

COMPLIANCE ISSUES

We tested whether the Department complied with its policy regarding salary packaging for graded officers within the Public Service. The Department is substantially complying with the requirements except for the monitoring of the benefits being packaged by its employees. The Department relies on its service provider to ensure only the allowable items are packaged.

We also assessed the Department's preparedness for the transition to Australian Equivalents to International Financial Reporting Standards. We found that the Department is prepared for the transition to the new reporting framework.

CONTROL ISSUES

Audit Committee

We believe the Department's internal control would be enhanced if it had an audit committee.

The Public Accounts Committee has also recommended that agencies generally should have audit committees.

Other issues

We identified other minor opportunities for the Department to improve internal controls and reported these to management.

FINANCIAL INFORMATION

Abridged Statement of Financial Performance

Year ended 30 June	2005 \$'000	2004 \$'000
Employee related	61,188	55,271
Grant and subsidies	13,619	35,607
Other expenses	57,333	56,757
TOTAL EXPENSES	132,140	147,635
TOTAL REVENUE	10,557	13,992
Loss on disposal of non-current assets	7	3
NET COST OF SERVICES	121,590	133,646
Government contributions	125,607	133,403
SURPLUS/(DEFICIT) FOR THE YEAR	4,017	(243)

Employee related expenses rose due to higher staff numbers as a result of the Department hosting additional Ministers' offices and public sector award increases.

Grants and subsidies decreased largely due to lower grants to other budget sector agencies of \$3.2 million, and no expenditure on the Newcastle Steel Project (\$8.6 million in 2003-04) or in relation to the Community Solution Fund (\$13.7 million), responsibility for which was transferred to the Department of Community Services.

Revenue declined largely due to one-off Rugby World Cup sponsorship monies received in 2003-04.

Abridged Statement of Financial Position

As at 30 June	2005 \$'000	2004 \$'000
Current assets	7,666	6,657
Non-current assets	12,595	9,788
TOTAL ASSETS	20,261	16,445
Total liabilities	15,999	16,278
NET ASSETS	4,262	167

Non-current assets increased mainly due to the Department starting its Record Management System (RIMS). At year-end \$1.7 million had been spent on this project (\$13,000 in 2003-04).

Program Information

The table below details the net cost of services for the Department on a program basis:

Year ended 30 June	2005		2004	
	Revenue \$'000	Expense \$'000	Net Cost of Services* \$'000	Net Cost of Services* \$'000
Services for the Governor's Office	--	1,880	1,880	1,951
Services for the Leaders of the Opposition	--	1,854	1,854	1,771
Performance Measurement and Review	143	6,793	6,652	2,708
Service Delivery Improvement	--	--	--	2,265
Ministerial and Parliamentary Services	1,193	42,488	41,299	33,763
Public Employment Office	2,669	14,095	11,426	10,775
Strategic Projects	1,435	19,153	17,719	64,305
State Administration Services	<u>5,117</u>	<u>45,877</u>	<u>40,760</u>	<u>16,108</u>
Total all programs	<u>10,557</u>	<u>132,140</u>	<u>121,590</u>	<u>133,646</u>

*Includes loss on disposal of non-current assets

DEPARTMENT ACTIVITIES

The Premier's Department role is to:

- provide strategic advice and services to the Premier
- manage issues and projects of significance to the State
- provide leadership to the New South Wales public sector
- maintain the effective management of public sector staff and resources and
- ensure a whole-of-government approach to policy development and service provision within the public sector, especially in regional and rural areas.

For further information on the Department, refer to www.premiers.nsw.gov.au.

Treasurer

Electricity Tariff Equalisation Ministerial Corporation

NSW Self Insurance Corporation

New South Wales Treasury Corporation

Electricity Tariff Equalisation Ministerial Corporation

AUDIT OPINION

The audit of the Corporation's financial report for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

KEY ISSUES

Investments held by the Fund

The Electricity Tariff Equalisation Fund has a significant short-term money market investment of \$177 million (\$238 million in 2003-04). The Fund is due to cease operations on 30 June 2007 under a regulation of the *Electricity Supply Act 1995* (the Act). It is unclear to us whether the policy makers intended for this level of monies to be held in the Fund. There is no clause within the Act for the distribution of the surplus funds.

COMPLIANCE ISSUES

We examined the Corporation's preparedness for the introduction of Australian Equivalents to International Financial Reporting Standards.

We found that the Corporation is appropriately prepared.

FINANCIAL INFORMATION

Statement of Financial Performance

Year ended 30 June	2005 \$'000	2004 \$'000
Tariffs to retailers	391,356	266,380
Other	<u>190</u>	<u>255</u>
TOTAL EXPENSES	<u>391,546</u>	<u>266,635</u>
Tariffs from retailers	331,411	385,411
Other	<u>10,577</u>	<u>11,183</u>
TOTAL REVENUES	<u>341,988</u>	<u>396,594</u>
OPERATING (DEFICIT)/SURPLUS FOR THE YEAR	<u>(49,558)</u>	<u>129,959</u>

There were no tariffs paid to, or received from generators during the year.

Statement of Financial Position

At 30 June	2005 \$'000	2004 \$'000
TOTAL ASSETS	210,210	258,034
TOTAL LIABILITIES	<u>1,777</u>	<u>43</u>
NET ASSETS	<u>208,433</u>	<u>257,991</u>

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 regulates the tariffs that retailers charge standard customers.

NSW 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. NSW 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. On 19 September 2003 a regulation was gazetted that extended its operations to 30 June 2007.

NSW Self Insurance Corporation (formerly NSW Insurance Ministerial Corporation)

AUDIT OPINION

The audit of the Corporation's financial report for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report. A separate unqualified Independent Audit Report was issued for the Treasury Managed Fund (TMF), which is the major component of the Corporation.

KEY ISSUES

Reforms to the Treasury Managed Fund (TMF)

In developing a more open competitive market for the delivery of claim management services, TMF has engaged three separate service providers from 1 July 2005. Previously only one service provider managed claims. Under the new arrangement there are five claims management roles for the three providers:

- GIO General Limited will manage Workers' Compensation No. 1, Health Liability Claims and Other Claims portfolios.
- Employers Mutual Limited will manage Workers' Compensation No. 2 portfolio.
- Allianz Australia Insurance Limited will manage Workers' Compensation No. 3 portfolio.

The Treasury expects the increase in service providers will encourage competition leading to lower costs for the TMF. Treasury estimates that the new management arrangements will generate savings of 1 per cent from 2006-07 onward for liability and 2.5 per cent from 2006-07 onward for workers' compensation.

Service providers have also been or will be engaged for actuarial information, reinsurance and risk management services.

Surplus Assets

We reported last year the Corporation had surplus net assets. This surplus has increased from \$505 million to \$780 million as at 30 June 2005. The Corporation had not instigated effective measures to manage this surplus. Last year the Corporation advised that decisions on the surplus would not be made until the full impact from the adoption of Australian equivalents to international financial reporting standards (AEIFRS) was known. Although AEIFRS will increase the reported liabilities, it will not, in itself, require increased levels of funding. We recommend that the Corporation reassess the level of funding required to meet outstanding claim liabilities and develop a strategy for the surplus funds.

The NSW Treasury has advised that it will monitor the position and is considering options to effectively manage the Corporation's financial assets.

Uncertainty of Outstanding Claims Liabilities

There is a degree of uncertainty in the estimate of outstanding claims in the liability portfolio due to:

- outstanding claims rising significantly over recent years, despite payments and case estimates remaining stable
- 2001 and 2002 legislative changes having the potential to defer, reduce or remove claims
- the estimate for large claims is very uncertain and volatile
- few large claims have been settled, or partially settled, so the adequacy of case estimates are unknown
- changes to claims management arrangements effective from 1 July 2005 were not factored into the claims handling expenses.

We have advised management of the Corporation of our concerns over the increasing uncertainty in outstanding claims estimates for the liability portfolio. Management advised us that during 2005-06 they would undertake a detailed review of actuarial assumptions used in estimating liabilities.

Delays in Financial Incentives

The Corporation uses hindsight premium adjustments to motivate agencies to adopt best practice in risk management. In recent years, adjustments have been delayed negating the effectiveness of the process. Changes in legislation have complicated calculation methods causing the delays. We recommend that the Corporation redesign its process to better align with the legislative changes.

In response to our concern the Corporation advised that an independent actuarial review of the process has been commissioned. We were advised that the review would examine current arrangements, consider alternative options, analyse the impact of options and consider the potential timing of any change before making final recommendations. The Corporation expects this review will be finalised in November 2005.

Performance Indicators

The Corporation does not maintain or report performance indicators that measure the efficiency of its total operations. We again recommend the Corporation develop, maintain and publish relevant performance information on the efficiency of its operations in an Annual Report.

In response the Corporation advised that performance indicators will be built into future reports once measures are built into data warehouse reports.

FINANCIAL INFORMATION

The financial results and positions of the insurance funds that comprise the Corporation - the Treasury Managed Fund, the Transport Accidents Compensation Fund and the Governmental Workers Compensation Account - are aggregated for reporting.

Abridged Statement of Financial Performance

Year ended 30 June	2005 \$'000	2004 \$'000
Premium revenue	915,111	911,984
Outwards reinsurance expense	<u>(22,926)</u>	<u>(22,247)</u>
	<u>892,185</u>	<u>889,737</u>
Claims expense	(1,054,499)	(1,108,558)
Reinsurance and other recoveries revenue	<u>60,369</u>	<u>14,279</u>
Net claims incurred	<u>(994,130)</u>	<u>(1,094,279)</u>
Other underwriting expenses	<u>(24,034)</u>	<u>(23,779)</u>
UNDERWRITING RESULT	<u>(125,979)</u>	<u>(228,321)</u>
Grants from NSW Government	10,493	35,862
Investment revenue	483,806	405,092
Other revenue	1,706	1,795
General administration expenses	(5,759)	(5,185)
Crown debt written-off	<u>(89,500)</u>	<u>--</u>
	<u>400,746</u>	<u>437,564</u>
SURPLUS FROM ORDINARY ACTIVITIES	274,767	209,243

Abridged Statement of Financial Position

At 30 June	2005 \$'000	2004 \$'000
Investments	5,194,041	4,464,094
Other	<u>438,944</u>	<u>616,120</u>
TOTAL ASSETS	<u>5,632,985</u>	<u>5,080,214</u>
Outstanding claims	4,821,576	4,441,645
Other	<u>31,328</u>	<u>133,255</u>
TOTAL LIABILITIES	<u>4,852,904</u>	<u>4,574,900</u>
NET ASSETS	<u>780,081</u>	<u>505,314</u>
Contributed capital	94,000	94,000
Accumulated surplus	<u>686,081</u>	<u>411,314</u>
TOTAL EQUITY	<u>780,081</u>	<u>505,314</u>

Claims liabilities increased by \$380 million or (8.6 per cent) due to new claims and a decrease in discount rates, offset by savings from the 2001 and 2002 legislative reforms.

Receivables, included in other assets, were reduced by \$89.5 million following the Corporation forgiving loans owed by the Crown.

Investment earnings rose by 19.4 per cent following increased funds available for investment. Investment performance was slightly below industry benchmarks.

Investment Sector	Sector Exposure 2005		Return 2005	
	\$'000	%	Actual % pa	Benchmark %pa
Treasury Managed Fund				
Cash	53,799	1.0	5.58	5.64
Bonds	2,861,540	55.5	7.96	8.03
Australian shares	695,957	13.5	25.56	26.03
Indexed Australian shares	246,196	4.8	26.14	26.35
International shares	849,732	16.5	(1.53)	0.08
Indexed international shares	249,449	4.8	(0.15)	0/08
Listed property	200,041	3.9	18.76	18.10
Total	5,156,714	100.0	9.37	9.67
Government Workers Compensation Fund				
Cash	4,530	100.0	5.59	5.64
Transport Accidents Compensation Fund				
Cash	32,797	100.0	5.59	5.64

Source: NSW Treasury Corporation

CORPORATION ACTIVITIES

The Insurance Ministerial Corporation was constituted under section 24 of the *Government Insurance Office (Privatisation) Act 1991*. From 1 April 2005 the *NSW Self Insurance Corporation Act 2004*, reconstituted the Insurance Ministerial Corporation as the NSW Self Insurance Corporation and clarified its functions. The Corporation continues to administer the assets and outstanding claims liabilities of insurance funds formerly managed by the Government Insurance Office.

The Corporation's insurance funds include:

- **Treasury Managed Fund**

The Treasury Managed Fund 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 coverage provides protection from loss to personnel, property and legal liability under workers' compensation, motor vehicle, property, liability and miscellaneous. The premium-based structure incorporates hindsight adjustments to workers' compensation and motor vehicle premiums.

- **Transport Accidents Compensation Fund**

This Fund pays the costs of motor transport accident claims under the common law system, which operated until 30 June 1987, and the succeeding TransCover system, which operated until 30 June 1989.

- **Governmental Workers Compensation Account**

The account pays workers' compensation claims incurred before 1 July 1989. Since that date, workers' compensation claims are covered through the TMF.

New South Wales Treasury Corporation

AUDIT OPINION

Unqualified Independent Audit Reports were issued for:

- New South Wales Treasury Corporation (TCorp) - full consolidated financial report and concise consolidated financial report
- TCorp Nominees Pty Limited financial report.

PERFORMANCE ISSUES

TCorp generally outperformed its performance targets and benchmarks in 2004-05 in providing funding and managing clients' investments.

Funding for the Public Sector

Standard and Poor's reaffirmed the State's credit rating at AAA stable. This rating influences TCorp's ability to obtain cost effective funding.

TCorp raised more than \$7,200 million in new funding during the year from the domestic and offshore markets. A significant proportion of this funding was raised in Japan at rates lower than those available in Australia.

The Government has planned for net debt of the Total State Sector to increase by \$8,700 million over the next four years following a number of years of debt reduction. TCorp will need to carefully manage this increased borrowing program to ensure that the State's credit rating does not come under pressure.

Management of Client Debt

TCorp reported its performance as a debt manager ranked in the second quartile against a group of similar interest fund managers. TCorp is unable to compare its effective funding cost with other Australian central borrowing agencies due to differences in borrowing arrangements.

The Corporation reported a modest savings against agreed benchmarks in its management of the Crown and government business enterprise debt portfolios. Total managed debt portfolios were \$17,757 million at 30 June 2005.

TCorp actively manages debt portfolios by taking a view on likely interest rate movements and adjusting the portfolios to take advantage of the expected movements. The benchmarks vary from agency to agency and are not based on standard market indices. TCorp constructs a notional debt portfolio as the benchmark based on the unique requirements of each agency.

Management of Client Investments

Hour-Glass Investment Facilities

TCorp is trustee for a number of investment facilities used by public sector agencies.

The Cash and Bond Market facilities, as indexed facilities, slightly under performed against the benchmark after deduction of fees. The Medium Term Growth facility and the Long-Term Growth facility are designed for longer-term investments and over a three-year and five-year basis respectively have both significantly outperformed the benchmark.

Funds invested at 30 June 2005 were \$7,398 million (\$5,321 million at 30 June 2004).

Hour-Glass Facility Trusts	1 Year Return		3 Year Return		5 Year Return	
	TCorp Return % pa	Benchmark % pa	TCorp Return % pa	Benchmark % pa	TCorp Return % pa	Benchmark % pa
Cash facility	5.59	5.64	5.23	5.30	5.26	5.33
Bond market facility	6.95	7.09	5.94	6.11	6.01	6.17
Medium term growth facility	9.24	8.93	7.47	6.61	6.63	5.12
Long term growth facility	12.06	13.08	8.32	8.57	6.23	5.22

Source: NSW Treasury Corporation

TCorp returns are net of fees and expenses. Benchmark returns for the Cash and Bond Market facilities have no adjustment for fees and expenses. For the 1 Year Return, TCorp's estimates of its fees deducted were 0.07 per cent for the cash facility and 0.10 per cent for the Bond facility.

Tailored Investment Portfolios

TCorp manages investment portfolios for a number of public sector agencies. This is a growing area of business for TCorp and it has implemented a new asset management system to improve control and reporting for investment portfolios.

Funds invested at 30 June 2005 were \$9,001 million (\$7,607 million at 30 June 2004).

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

COMPLIANCE ISSUES

We examined TCorp's preparedness for the introduction of Australian Equivalents to International Financial Reporting Standards (AEIFRS).

We also examined whether TCorp complied with the *Fringe Benefits Tax Assessment Act 1986*.

The result of these reviews was satisfactory.

FINANCIAL INFORMATION

The consolidated financial statements include TCorp and its controlled entity - TCorp Nominees Pty Limited.

Abridged Consolidated Statement of Financial Performance

Year ended 30 June	2005 \$'000	2004 \$'000
Interest revenue	2,110,637	864,646
Interest expense	(2,065,340)	(815,789)
Net interest margin from ordinary activities	45,297	48,857
Other revenue from ordinary activities	19,129	17,018
REVENUE	64,426	65,875
Staff costs	(10,593)	(10,791)
Other costs	(10,587)	(9,932)
OPERATING EXPENSES	(21,180)	(20,723)
Profit before income tax equivalent expense	43,246	45,152
Income tax equivalent expense	(11,244)	(11,739)
NET PROFIT	32,002	33,413

The increased interest revenue and interest expense were due to market interest rate movements during the year. Changes in market interest rates have a significant impact on TCorp as its assets and liabilities are valued using these interest rates. Net profit in 2003-04 benefited by \$6.3 million from the write back of a provision. Net profit in 2004-05 actually increased by \$4.9 million if the effect of this write back is ignored.

Abridged Consolidated Statement of Financial Position

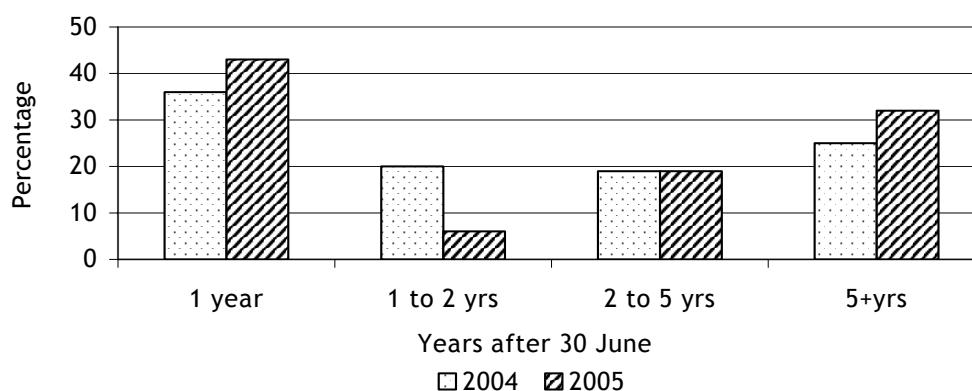
At 30 June	2005 \$'000	2004 \$'000
Cash and liquid assets	782,796	864,056
Due from financial institutions	21,153	119,148
Securities held	4,771,274	3,588,661
Derivative financial instruments receivable	63,446	85,021
Loans to clients	25,360,947	22,966,317
Other assets	20,588	24,985
TOTAL ASSETS	<u>31,020,204</u>	<u>27,648,188</u>
Due to financial institutions	12,061	59,183
Client deposits	1,078,721	1,425,918
Borrowings	29,362,198	25,813,940
Derivative financial instruments payable	494,565	269,607
Other liabilities and provisions	34,395	49,478
TOTAL LIABILITIES	<u>30,981,940</u>	<u>27,618,126</u>
NET ASSETS	<u>38,264</u>	<u>30,062</u>

TCorp maintains a relatively small equity base as reflected in its net assets position. Excess amounts are paid to the Crown as dividends. In 2004-05 TCorp increased its equity by \$8.2 million after assessing the required capital to support its market exposures and to allow for the impact of AEIFRS from 1 July 2005. Profit earned by TCorp is returned to the Crown as either tax equivalent payments or dividends. A dividend of \$23.8 million was payable for 2004-05 (\$33.4 million 2003-04).

Maturity Profile

During 2004-05 TCorp issued more bonds on its existing series of maturities particularly the longer dated benchmarks of 1 May 2012 and 1 August 2014. Total financial liabilities of \$30,948 million as at 30 June 2005 were repayable over the following timeframe.

Projected Payment Cash Flows for TCorp Debt



The continuing high level of debt for repayment up to one year reflects the liquidity needs to manage ongoing maturities, particularly of offshore borrowings.

Derivative Financial Instruments

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

Credit Risk

TCorp prudentially manages its financial assets by ensuring its counterparties have acceptable credit ratings. The New South Wales Government fully guarantees the large majority of amounts owed to TCorp.

SUBSIDIARY COMPANY

TCorp Nominees Pty Limited makes loans funded by borrowings from TCorp. The terms of the lending transactions and the borrowings are identical, resulting in no profit or loss for the year. The company was essentially dormant during the year as no new loans were made and all loans previously made had matured by 2003-04. Total assets and liabilities were \$2. Revenues and expenses were nil in 2004-05 (\$3.9 million in 2003-04).

TCORP 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 general market and lends the funds to agencies. TCorp borrows funds more cheaply than private sector organisations due to Government guarantees. Public sector agencies are required to borrow funds through TCorp unless specific approval is obtained from the Treasurer.

While TCorp is able to raise funds using the high credit rating of the State, borrowing costs for individual agencies are based on their individual credit ratings. If an agency has a lower credit rating than the State, NSW 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 position.

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.

Section Four



Performance Auditing

Reports Tabled in Parliament Since Volume Two of 2005

Performance Audits in Progress

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

Performance Audit Reports Tabled in Parliament Since Volume Two of 2005

We have tabled nine performance audit reports in Parliament since Volume Two 2005 of our New South Wales Auditor-General's Report on financial audits.

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

EMERGENCY MENTAL HEALTH SERVICES: DEPARTMENT OF HEALTH

In this audit we examined the adequacy of emergency mental health services in NSW and whether patients face difficulties gaining access to an acute bed.

Much has been done over the last decade to improve the quality and access to emergency mental health services.

Spending on mental health has increased along with an increase in the number of mental health beds. All Area Health Services have introduced 24/7 crisis telephone services and some Areas have set up call centres to better manage patient intake and urgent assessments.

However, despite this increased funding the mental health system is still under considerable pressure. More mental health patients are presenting to emergency departments than ever before, these patients are often sicker and a greater number require admission. Patients can also face lengthy delays before being admitted to a bed.

The report was tabled in Parliament on 26 May 2005.

DEPARTMENT OF COMMUNITY SERVICES HELPLINE

In this audit we examined how well the Department of Community Services Helpline receives, assesses and refers child protection information for investigation.

The Department has significantly improved the performance of the Helpline since it was established in December 2000.

Each week the Department handles over 4,000 contacts concerning children at risk of neglect or physical, emotional or sexual abuse.

The average time callers wait to speak to a caseworker has fallen from over 20 minutes in 2001 to less than five minutes in 2005. Cases where there is an immediate or serious risk of harm are being referred promptly to local offices for investigation. Helpline receives an average of 186 of these a day.

The rate of callers hanging up before speaking to a caseworker has fallen from just over 16 per cent in 2004 to just under 10 per cent in 2005.

The Department needs to work on reducing this further as well as addressing significant delays in referring moderate to low risk cases to local DOCS offices. In April 2005, Helpline had 861 of these on hand, of which 305 were over 10 weeks old.

The Department has also recognised the need for additional procedures and training to improve caseworker decision-making.

The report was tabled in Parliament on 1 June 2005.

FOLLOW-UP OF PERFORMANCE AUDIT: BUS MAINTENANCE AND BUS CONTRACTS

In this follow-up audit we examined State Transit Authority and Ministry for Transport have done in response to our 2002 report on bus maintenance and bus contracts. The 2002 report found that:

- State Transit was not meeting its own standards for maintaining buses, with defects being missed, buses failing in service and a significant backlog in repairs
- the Ministry had not implemented performance assessments for bus operators, proposed as part of the 1997 amendments to the *Passenger Transport Act*.

There has been some improvement in the reliability of State Transit's buses and a reduction in outstanding maintenance.

In response to our 2002 recommendations State Transit:

- has revised and improved its performance indicators, to better monitor garage performance
- has implemented various initiatives to improve the quality of fleet records
- now reports quarterly to the Board on the results of fleet maintenance audits, and monthly to its executive committee on the number of outstanding work orders.

It has also obtained certification of its bus maintenance systems to the ISO 9001:2000 quality standard.

State Transit recognises that its garage operations still need to improve and has advised us it is taking action to address this.

The Ministry of Transport has made good progress in addressing our 2002 recommendations. It has overseen changes to the *Passenger Transport Act*, to allow more competition in the provision of passenger bus services, and improved measurement and public reporting of bus operator performance. It is negotiating new performance-based contracts with bus operators and is finalising ways to improve operator compliance with accreditation requirements.

The report was tabled in Parliament on 14 June 2005.

COPING WITH DISRUPTIONS TO CITYRAIL PASSENGER SERVICES

Routine disruptions to train services occur even on the most sophisticated rail networks. What influences a passenger's opinion of the service is:

- how quickly the operator resolves the problem and minimises the impact of the delay
- the provision of clear, accurate and timely information.

Because of the complexities of Sydney's rail network, a single event can disrupt many services.

In this audit, we looked at how well RailCorp responds when there are unplanned routine disruptions to its CityRail passenger services. We focused on how it manages passenger journeys and informs passengers.

This report informs Parliament and the community about the limitations of the current system, and what more needs to be done in order to minimise the impact of disruptions on passengers.

It should also help passengers judge the extent to which they can rely on the information they receive, and to better understand some of the obstacles faced by staff.

RailCorp is making a serious effort to improve its performance in managing disruptions. Much is being spent on improvements. It has a large number of projects underway that are developing and implementing long-term engineering solutions, new technology, timetable and staffing changes to help it reduce disruptions and recover faster.

But for the best part of the next decade, any major improvement in service quality will rely more on good day-to-day management and the performance of rail staff than these innovations.

RailCorp has initiated many programs to improve practices. But, we believe that RailCorp needs to make a quantum leap to focus the business more on responding to passenger needs and achieving service excellence while we await the engineering solutions to reduce disruptions and enhance reliability.

We believe that RailCorp's efforts and resources need to focus intensively in the short term on better communication between staff and with passengers. Some of this is about systems and processes. Some of it is about staff being well informed and having a total passenger focus.

The report was tabled in Parliament on 22 June 2005.

COORDINATION OF RESCUE SERVICES: STATE RESCUE BOARD OF NEW SOUTH WALES

In this audit we examined how well the State Rescue Board coordinates the various rescue providers in New South Wales.

The Board was set up in 1989. Its primary role is to ensure that efficient and effective rescue services are maintained throughout the State.

Three emergency services provide general land rescue services in metropolitan areas - NSW Police, the Ambulance Service and the NSW Fire Brigades. The two volunteer services, the State Emergency Service and the Volunteer Rescue Association, generally cover the rest of the State.

The Board has established policies and procedures that:

- effectively coordinate single incident rescue
- establish minimum requirements for equipment and training
- remove confusion over areas of responsibility.

However, metropolitan rescue arrangements in NSW are different to all other mainland states. Elsewhere the trend has been towards consolidation, with only one provider of rescue services.

The challenges for the Board are to:

- determine whether existing arrangements for metropolitan rescue services provide the best value for money. At present the Board is not in a position to be confident about this
- implement performance standards for rescue.

The report was tabled in Parliament on 20 July 2005.

IN-YEAR MONITORING OF THE STATE BUDGET

In this audit we examined how well NSW Treasury and a selection of key budget dependent agencies monitor performance against budget, understand the impact of variations on the State's overall financial position and if necessary take corrective action. The agencies reviewed were NSW Health, Department of Education and Training, NSW Police, Roads and Traffic Authority and Department of Ageing, Disability and Home Care.

Budget monitoring has been improving in recent years with:

- well established processes, including extensive monthly analysis and reporting of budget trends
- businesslike relationships between agencies and Treasury.

Treasury and agencies also closely monitor how they allocate and spend funds provided by Parliament.

The main concerns identified were:

- large adjustments and accelerated spending patterns by agencies at year-end
- Treasury and agencies sometimes not effectively sharing information
- Treasury and agencies focussing on year-end budget results and limited focus on monthly targets
- Parliamentary budget controls still focusing largely on a cash basis, despite the Government adopting accrual accounting a decade ago.

The report was tabled in Parliament on 28 July 2005.

DEPARTMENT OF JUVENILE JUSTICE: MANAGING AND MEASURING SUCCESS

In this audit we examined how the Department of Juvenile Justice measures its success in managing young offenders, and whether it has adequate information to make sound planning decisions and recommend appropriate 'interventions' for young offenders.

The Department has:

- made significant changes to support its work with young offenders. It has improved its financial, human resource and IT systems, and changed its structure and staffing of detention centres
- sufficient information to manage offenders and plan effectively in the short to medium term. For example, it captures substantial data on young offenders in its client database, identifies outside factors that affect its activities, and researches the latest thinking on what works in reducing re-offending.

However, we could not determine how well the Department meets its long-term goal of rehabilitating young offenders and reducing re-offending. It has limited performance information on the effectiveness of its activities and programs. This is partly due to limitations with its client information system, which prevents it extracting quality performance data. The Department also has problems in accessing some of the information it needs from other agencies such as court data.

We also found that the quality of individual offenders' case plans varied considerably and it was sometimes difficult to determine whether the Department's interventions addressed an offender's needs or risk of re-offending.

The report was tabled in Parliament on 14 September 2005.

IMPLEMENTING ASSET MANAGEMENT REFORMS

The NSW Government currently holds assets worth about \$167 billion and spends around \$2 billion each year maintaining them.

In this audit we examined NSW Treasury's efforts to improve asset management practices in the public sector and the progress made by 3 agencies - the Department of Corrective Services, NSW Fire Brigades and the Powerhouse Museum - towards better managing their asset portfolios.

We found that in NSW, asset management for the general government sector is heading in the right direction. The approach taken by NSW Treasury of linking asset management plans to the budget process has been an effective way of further improving asset management practices in agencies.

From the cases we examined some very good practice can be seen. But overall, a lot of room still exists for improvement.

Agencies need to improve asset management by:

- identifying all assets essential to service delivery and including these in TAM plans
- specifying the contribution that assets make to services
- developing performance standards or measures to help judge whether assets are needed or could be disposed of
- considering the risks assets pose to service delivery if they fail and how best to manage those risks
- implementing asset management systems that can provide information on asset condition, maintenance, performance and useful life.

One problem may be the one size fits all approach to asset management that may overwhelm agencies with a small portfolio of assets. About one third of agencies required to submit asset management plans to NSW Treasury control assets worth less than \$10 million yet the reporting requirements are the same for agencies controlling large portfolios.

In the Department of Corrective Services, there were examples of best practice that highlight the benefits of good asset management.

The report was tabled in Parliament on 12 October 2005.

OVERSIGHT OF STATE OWNED ELECTRICITY CORPORATIONS

In this audit we examined how well the Government oversees State owned corporations (SOCs) in the electricity sector to ensure that they meet its needs as an owner.

These corporations represent an investment of around \$20 billion, and return dividends and tax equivalent payments to the State of around \$1 billion a year.

While the structure for overseeing electricity SOC is fundamentally sound, the Government should be more informed, active and transparent about its dealings with these corporations.

We found that:

- There is no clear statement of the Government's purpose or its shareholder objectives in owning electricity SOC. If there was, SOC boards could be given greater autonomy and held more accountable for performance.
- Shareholder ministers rely on NSW Treasury to monitor the SOC's commercial operations and performance.
- While Treasury monitors the financial performance of SOC because of the impact of SOC dividends on the State budget, they do little analysis of non-financial information. There is also little evidence of feed-back to the SOC in relation to their Statement of Corporate Intent (sets out key targets and business initiatives) and little evidence that SOC have responded to any concerns raised.

The report was tabled in Parliament on 19 October 2005.

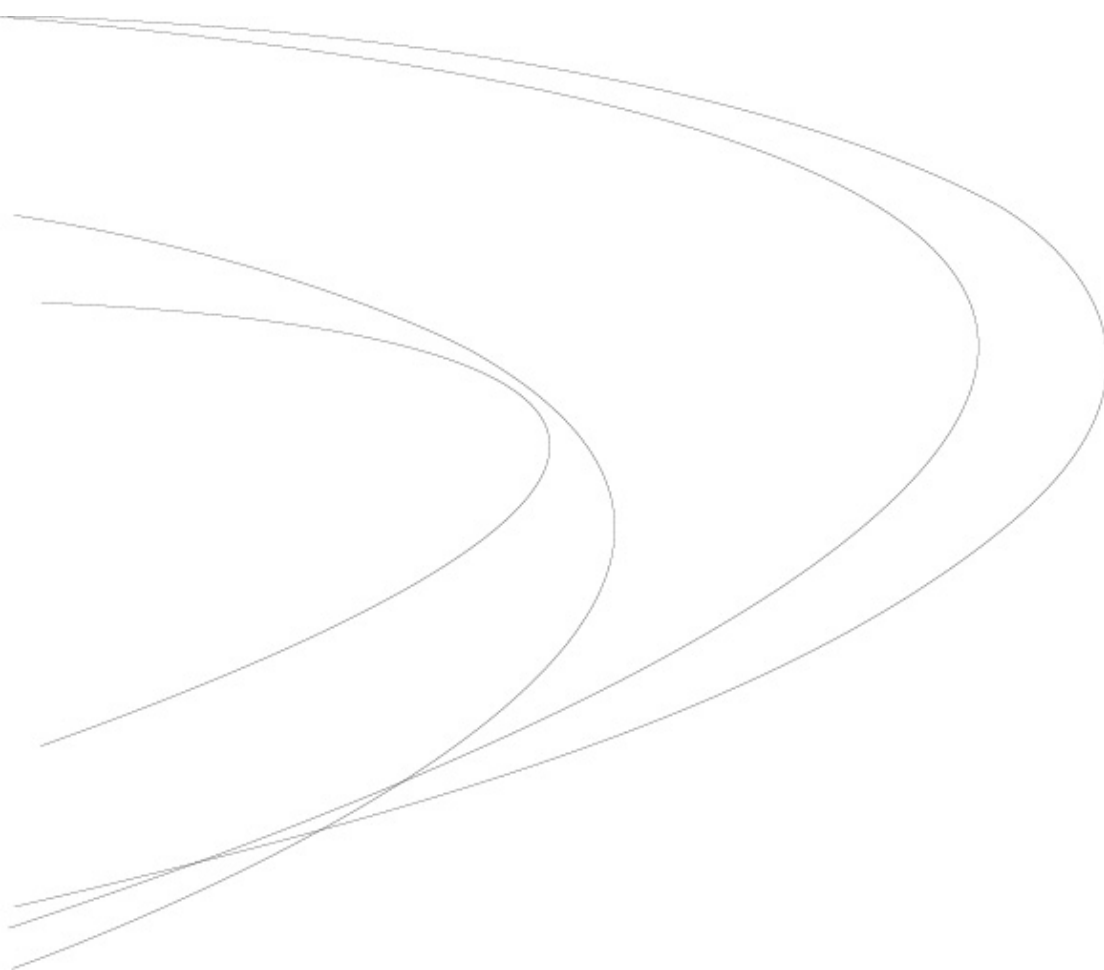
Performance Audits in Progress

The planned tabling dates for audits in progress are:

Title	Planned Tabling Date
Purchasing Hospital Supplies: NSW Health	23 November 2005
Bus Transitways	7 December 2005
Agency Relocations to Regional Areas	14 December 2005
Agency Collaboration in Service Delivery	1 st quarter of 2006
Follow-up of Performance Audit: Fare Evasion on Public Transport	1 st quarter of 2006
Agency Use of Performance Information to Manage Service Delivery	1 st quarter of 2006
New Schools Privately Financed Project	2 nd quarter of 2006
Roads and Traffic Authority - Condition of our Roads	2 nd quarter of 2006
Cross City Tunnel	2 nd quarter of 2006

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

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