

# AUDITOR-GENERAL'S REPORT

## FINANCIAL AUDITS

Volume Four 2007



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 2007 Report.

Peter Achterstraat  
Auditor-General

November 2007

## GUIDE TO USING THIS VOLUME

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

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

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

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

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

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

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

**Performance Information** 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.

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

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

**Agency Activities** 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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## Significant Items

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<b>Department of Education and Training</b>	
The Department exceeded its target for Year 7 literacy while Year 7 numeracy levels declined.	14
Although expenditure per primary student in New South Wales has increased, it has fallen below the national average and is the second lowest expenditure.	18
The Department has estimated the ratio of students to computers in government schools has improved from 22:1 in 1995 to around 6:1 in 2007.	19
The Department estimates the backlog of school maintenance has fallen from \$114 million in 2006 to \$82.6 million in 2007.	23
<b>Overview of the Electricity Industry</b>	
High electricity wholesale prices significantly impacted reported financial positions of electricity generators and distributors. The average wholesale price for 2006-07 was 58 per cent higher than in 2005-06. Total net assets for generators decreased by 80 per cent while distributors net assets increased by 48 per cent because of the accounting adjustments for electricity hedged contracts resulting from the high prices. Since 30 June 2007 prices have dropped resulting in improved net assets for generators and reduced net assets for distributors.	41
Available electricity capacity in New South Wales is forecast to fall below a minimum reliability reserve level in 2013-14. The previous forecast was 2010-11. There are a number of proposed and committed projects to increase electricity supply.	42
A government inquiry concluded a new baseload plant would be required by 2013-14.	45
Electricity agencies will need to have adequate systems and processes in place for capturing, measuring and reporting their emissions from 1 July 2008.	46
The New South Wales electricity industry continued to out perform national averages for financial performance.	47
Electricity agencies accrued distributions to the Government were \$1.4 billion.	48
Electricity agencies debt increased from \$9.4 billion to \$10.7 billion.	49
<b>Banana Industry Committee</b>	
The Australian Banana Growers Council, a national body, is currently proposing all growers pay a compulsory levy at the first point of sale. Should that occur, New South Wales growers may discontinue their association with the Committee. This would significantly impact the Committee's operations.	97

**Overview of Rail Services**

Corporate Governance has been weakened following the portfolio Minister becoming a shareholder of RailCorp, Transport Infrastructure Development Corporation and Rail Infrastructure Corporation. 110

The Rail industry has a shortage of signal engineers qualified to test and commission new infrastructure assets such as the Epping Chatswood Rail Line and rail Clearways projects. Insufficient qualified signal engineers may lead to delays in completing projects and increased project costs. 110

To encourage more rail employees to accept voluntary redundancy, an enhanced voluntary redundancy package exists. Employees with 25 years of service can receive double the standard New South Wales Public Sector redundancy entitlement. 111

**Rail Corporation New South Wales**

Fleet failures monitored on a 24 hour basis are significantly worse than target. In 2007, all trains (except 'C' and 'T' sets) experienced more failures than in the previous year. 116

The new Hunter Valley rail cars, and the Outer Suburban rail cars Stages 1 and 2 are running 30, 17 and 6 months later than their original completion date schedule. 117

On 7 December 2006 RailCorp concluded the Rolling Stock Public Private Partnership contract with Reliance Rail for the manufacture and 35 year maintenance of 626 new double deck carriages. 118

CityRail's On-time Running improved and was above target. 121

RailCorp's capital expenditure program was \$148 million below budget. 123

**Transport Infrastructure Development Corporation**

The planned completion date of the Epping Chatswood Rail Line was scheduled for mid 2008. Passenger Services on the Epping to Chatswood Rail Line are scheduled to commence in late 2008. The delay has mainly arisen from scheduling difficulties with certain works needing to be done in a particular order. The cost impact from the deferred commissioning date is being reviewed by the Transport Infrastructure Development Corporation. 134

**Sydney Water**

The construction costs of the desalination plant are likely to result in higher water prices. 156

## AUDIT COMMUNICATIONS WITH MINISTERS

In Volume Two of this year's Report to Parliament, I set out the services which the Audit Office provides to Parliament. I pointed out that financial report audits are performed in accordance with legislative requirements and Australian Auditing Standards.

One of the consequences of recent changes to Australian Auditing Standards (in line with changes to International Auditing Standards) is that the auditor must determine the relevant persons who are charged with governance of an entity and with whom audit matters of governance interest are to be communicated.

I have concluded that a Minister may be one of the relevant persons charged with governance in respect of the agencies in his or her portfolio, and in respect of statutory State-owned corporations in which they are shareholders. Accordingly, I have written to all Ministers, (refer the letter below). A similar letter has been sent to Chief Executive Officers of major NSW government agencies.

### **Audit Communications**

As you may be aware, from 1 July 2006, financial audits are governed by new Australian Auditing Standards (Standards). One of the many consequences of the new Standards is that the auditor must determine the relevant persons who are charged with governance and communicate with them on a range of specified issues. I am writing to all Ministers to provide them with the opportunity to discuss the implications this has for the nature and timing of communications from my Office with them.

Under the Standards, those charged with governance include persons entrusted with the oversight, control and direction of an entity. I believe for agencies in your portfolio and any where you are a shareholding Minister, for the purposes of the Standards you may be one of the relevant persons charged with governance who I must communicate with on specified matters. For your information, other relevant persons charged with governance normally include the Head of the agency, the agency's board and the agency's audit committee but this can vary depending on the circumstances.

The Standards require auditors to communicate openly and candidly with relevant persons charged with governance at various points in the audit, with the timing dependent upon the nature and importance of the particular matters to be communicated. At present, communications with you from the Audit Office are normally limited to the Statutory Audit Report which is usually sent at the conclusion of the audit as required by the *Public Finance and Audit Act, 1983*. As a consequence of the new Standards, this will change and the following are some examples of the timing and type of audit communications which you are now likely to receive:

- when planning the audit we may need to discuss with you your knowledge of an agency, its environment and any particular risks you feel may exist
- during the audit we will progressively communicate to you instances of fraud, material weaknesses in internal control, and major instances of non-compliance with laws and regulations which come to our attention
- at the completion of the audit I will report to you (as I do at present) on the results of the audit and details of matters found during the audit. These matters will now include details of uncorrected misstatements identified during the audit that management has determined to be immaterial, both individually and in the aggregate, to the financial report but which you, nonetheless, may wish to know of.

I hope these changed arrangements are beneficial to you by giving you early advice of important matters which arise during the course of the audit and by giving you the opportunity to suggest where I can add value for you through the audit.

If you wish, I would be pleased to elaborate further on the matters outlined above and to answer any questions you may have.

Yours faithfully

Peter Achterstraat  
Auditor-General





# Section One



## Commentary on Government Agencies



# Minister for Arts

Refer to Appendix 1 for:

Art Gallery of New South Wales Foundation

The Brett Whiteley Foundation



# Minister for Climate Change, Environment and Water

Royal Botanic Gardens and Domain Trust

## **Refer to Appendix 1 for:**

Border Rivers-Gwydir Catchment Management Authority

Central West Catchment Management Authority

Dams Safety Committee

Dumaresq-Barwon Border Rivers Commission

Hawkesbury-Nepean Catchment Management Authority

Hunter-Central Rivers Catchment Management Authority

Lachlan Catchment Management Authority

Lake Illawarra 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



# Royal Botanic Gardens and Domain Trust

## AUDIT OPINION

The audit of the Royal Botanic Gardens and Domain Trust's financial report for the year ended 30 June 2007 resulted in an unqualified Independent Auditor's Report.

## OTHER INFORMATION

We identified some minor opportunities for improving the Trust's internal controls. We reported these matters to management.

## FINANCIAL INFORMATION

Year ended 30 June	2007 \$'000	2006 \$'000
Revenue	11,466	11,312
Personnel related expenses	19,524	19,792
Other expenses	14,660	12,993
Net cost of services	22,718	21,473
Government contributions	24,127	22,059
Net assets (at 30 June)	273,128	271,719

## Abridged Program Information

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

Year ended 30 June	2007			2006
	Revenues \$'000	Expenses \$'000	Net Cost of Services \$'000	Net Cost of Services \$'000
Research	1,328	6,620	5,292	1,579
Botanic Gardens and Parks	2,300	18,694	16,393	15,906
Public Programs	379	1,356	977	(439)
Commercial Services	<u>7,459</u>	<u>7,508</u>	<u>56</u>	<u>4,427</u>
Total all programs	<u>11,466</u>	<u>34,178</u>	<u>22,718</u>	<u>21,473</u>

## TRUST ACTIVITIES

The Trust is established under the *Royal Botanic Gardens and Domain Trust Act 1980*. Its principal objective is to maintain the Royal Botanic Gardens, the Domain, the National Herbarium of New South Wales, Mount Tomah Botanic Garden and Mount Annan Botanic Garden. The Trust also provides scientific and horticultural research, together with advice and education on botanical, horticultural and biodiversity issues. It also maintains the grounds of Government House.

For administrative purposes the Trust is part of the Department of Environment and Climate Change. It is governed by a Board and is not a controlled entity of the Department.

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



# Minister for Commerce

**Refer to Appendix 1 for:**

Fair Trading Administration Corporation

Financial Counselling Trust Fund

Motor Vehicle Repair Industry Authority

NSW Architects Registration Board



# Minister for Education and Training

Department of Education and Training

Technical and Further Education Commission

**Refer to Appendix 1 for:**

Arts Education Foundation Trust

Coffs Harbour Technology Park Limited

NSW Institute of Teachers

NSW Board of Vocational Education and Training

NSW Vocational Education and Training Accreditation Board

The Board of Studies



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# Department of Education and Training

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## AUDIT OPINION

The audits of the financial reports of the Department of Education and Training (the Department), and its controlled entities, for the year ended 30 June 2007 resulted in unqualified Independent Auditor's Reports.

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

## PERFORMANCE INFORMATION

The Department measures whether it is achieving its priority outcomes by using performance indicators, such as:

- literacy and numeracy
- class sizes
- year 12 retention 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 Department evaluates literacy and learning outcomes for school students using the following tools:

- the Basic Skills Test (BST) which is used to assess primary school students (Years 3 and 5)
- the English Language and Literacy Assessment (ELLA) and Secondary Numeracy Assessment Program (SNAP) which are used to assess secondary school students (Years 7 and 8).

Students are placed in bands depending on the results of their test.

The table below shows primary school literacy and numeracy outcomes from 2004 to 2006 school years and compares them to the Department's 2006 targets.

Year ended 31 December	Actual			Target
	2004*	2005*	2006**	2006**
Year 3 Literacy at band 2 or higher (%)	94.8	91.8	92.0	94.8
Year 3 Numeracy at band 2 or higher (%)	89.9	90.8	90.9	91.8
Year 5 Literacy at band 3 or higher (%)	95.4	94.1	93.9	95.1
Year 5 Numeracy at band 3 or higher (%)	93.6	93.4	94.6	94.0

\* Source: DET Results and Services Plan 2006-07.

\*\* Source: Department of Education and Training (DET) Annual Report 2006.

Notes: The 2003-04 trend data for the BST Literacy indicator should be interpreted with caution. From 2005, the BST Literacy indicator is based on students' performance on the reading, language and writing components of the one BST test. Prior to 2005, students' performance in reading and language was assessed via the BST and students sat a separate test, the Primary Writing Assessment (PWA), for writing. Hence the 2003-04 data has been created retrospectively by matching students who sat both the BST and the PWA. Students who could not be matched or did not sit both tests have been excluded.

Although the actual percentages have increased from 2005, except for Year 5 numeracy, they are marginally below the targets for 2006. The Department advised us that the targets for 2006 increased from 2005.

The table below shows secondary school results from 2004 to 2006 school years and compares them to the Department's 2006 targets.

Year ended 31 December	Actual			Target
	2004*	2005*	2006**	2006**
Year 7 Literacy at elementary band or higher (%)	95.5	95.5	96.2	95.8
Year 7 Numeracy at elementary band or higher (%)	95.4	96.2	92.9	96.3
Year 8 Literacy at elementary band or higher (%) ***	97.1	97.2	97.6	na
Year 8 Numeracy at elementary band or higher (%) ***	97.2	97.6	95.4	na

\* Source: DET Annual Report 2005.

\*\* Source: DET Annual report 2006.

\*\*\* Source: 2006 - DET Statistical Compendium 2006. No targets are set for Year 8 literacy and numeracy as the tests are carried out on a voluntary basis.

The Department exceeded its target for Year 7 literacy. Compared to 2004 the literacy performances have increased, while numeracy levels have shown a substantial decline. The Department informed us the decline in numeracy achievement levels was expected in 2006 and is attributable to the conduct of testing two months earlier, in March rather than May.

The Department spent \$129 million on the literacy and numeracy plan in 2005-06 compared to \$130 million in 2004-05.

Targets for all students in literacy and numeracy were determined in accordance with the criteria set out in the State Priority Delivery Plan. This aims to reduce the proportion of the lowest performing students in literacy and numeracy by ten per cent by 2008 with a further 20 per cent reduction by 2016. In addition the plan aims to increase the proportion of students meeting or exceeding national literacy and numeracy proficiency standards by ten per cent by 2012 with a further five per cent increase by 2016.

The Department advised us that:

- minimum standards for all students in Year 5 numeracy and Year 7 literacy are on track and likely to be achieved in 2008
- considering proficiency standards achieved in 2005 (base year), it is likely that all students in Year 5 literacy and numeracy and Year 7 literacy are on track to achieve these standards in 2008
- proficiency standards for Year 3 literacy and numeracy students and Year 7 numeracy students are unlikely to be achieved by 2008.

In order to reduce the gap between the highest performers and those who need support, several initiatives have been implemented to improve literacy and numeracy standards for all students. The Department is to spend \$616 million over the next four years to further improve student literacy and numeracy levels.

### Student performance against national literacy and numeracy benchmarks

The most recently published literacy and numeracy benchmarks are for 2005. Benchmarks refer to nationally agreed minimum acceptable standards below which students will have difficulty progressing satisfactorily at school. The following table shows the achievement of NSW students against the national benchmark in 2005 for literacy and numeracy skills.

	Year 3		Year 5		Year 7	
	NSW Result	National	NSW Result	National	NSW Result	National
Reading (%)	93.3	92.7	89.7	87.5	88.1	89.8
Writing (%)	93.6	92.8	95.9	93.3	92.1	92.2
Numeracy (%)	95.4	94.1	91.7	90.8	75.8	81.8

Source: National Report on Schooling in Australia 2005.

The NSW results for Years 3 and 5 were higher than the national benchmark. However the Year 7 numeracy results were below the national benchmark. The Department has told us that the Year 7 numeracy result indicated it may have been affected by the method used to set the benchmark on each State or Territory's test. It is anticipated that this shall be corrected when the national assessment program is implemented.

### Reduced Class Sizes in Kindergarten to Year 2

In 2006, the Department completed phase three of its Class Size Reduction program. The following table illustrates the progress since 2004.

Year ended 31 December	Actual			Target
	2004*	2005*	2006*	2006**
Average number of students in classes:				
Kindergarten	22.1	19.7	19.3	20.0
Year 1	24.6	23.6	21.3	22.0
Year 2	25.4	25.1	24.1	25.0

\* Source: DET Annual Report 2006.

\*\* Source: DET Results and Services Plan 2006-07.

The Department has met its 2006 targets. Class sizes for Kindergarten students has reduced to a statewide average of 19.3, an average of 2.8 students less than in 2004 and 4.8 students less than in 1997. For Year 1 students the statewide average of 21.3 students is an average of 3.3 students less than in 2004 and 4.2 students less than in 1997.

### Year 12 Retention 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 government schools since 2002 from 63.8 per cent to 65.1 per cent in 2006. Although there was a deterioration in 2006 significant decreases from the previous year were noted in students from language backgrounds other than English and geographically isolated students.

## Retention Rates from Years 7 to 12 for Government Schools

Year ended 31 December	2002 %*	2003 %*	2004 %*	2005 %*	2006 %**
All students	63.8	65.0	65.8	65.8	<i>65.1</i>
Aboriginal students	29.0	29.2	29.9	29.4	<i>28.7</i>
Students from language backgrounds other than English	102.3	104.6	108.2	109.5	<i>105.4</i>
Students from low socio-economic status backgrounds	54.0	55.0	56.4	55.5	<i>52.9</i>
Geographically isolated students	47.5	48.8	43.7	45.6	<i>41.3</i>

\* Source: DET Annual Report 2005.

\*\* Source: DET Statistical Compendium 2006.

## Notes:

- Retention rates are 'apparent' as they do not track individual students through their secondary schooling.
- Retention rates for students from low socio-economic status backgrounds and geographically isolated students are based on participating schools in 2006.
- Year 12 retention rates can exceed more than 100 per cent due to a number of factors including migration of students from interstate and overseas.

## Retention rates for full-time students by State (2001-2006) for Years 7/8 to 12

Years	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	National
<i>2006</i>	<i>65.1</i>	<i>72.6</i>	<i>71.6</i>	<i>61.9</i>	<i>65.1</i>	<i>63.2</i>	<i>72.3</i>	<i>103.2</i>	<i>68.5</i>
2005	65.8	74.0	73.0	61.7	65.4	65.5	70.5	99.6	69.4
2004	65.8	74.4	75.3	58.0	65.9	70.7	72.0	100.5	69.8
2003	65.0	74.9	76.1	56.8	64.8	74.5	69.0	101.0	69.6
2002	63.8	74.4	76.5	56.9	69.0	72.9	63.1	98.7	69.5
2001	62.0	73.7	73.6	57.4	65.9	68.5	59.7	107.6	67.8

Source: DET Statistical Compendium 2006.

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 per cent due to a number of factors including migration of students from interstate and overseas.

Although there was a slight decrease in retention rates of Year 7 to 12 students in New South Wales it retained its ranking of fifth amongst all States and Territories. This still remains well below the national average.

## The Achievement Gap for Aboriginal Students

The comparison of Year 3 and Year 5 Aboriginal students' basic skills test (BST) results for numeracy and literacy against all student peers show significant gaps. From 2002 to 2006, BST results for Year 5 Aboriginal students have shown a gradual improvement, reducing the gap from 14.8 per cent to 11.9 per cent for numeracy. However, for literacy, the gap increased from 10.8 per cent to 14 per cent. The gap for Year 3 literacy widened from 11.7 per cent to 16.7 per cent while the gap for Year 3 numeracy increased slightly.



Minimum standard targets set for Aboriginal and Torres Straits Island (ATSI) students required all states to reduce the 2004 literacy and numeracy gap between ATSI students and all students by 50 per cent by 2008, and by a further 50 per cent by 2012.

The Department told us that:

- minimum standards for ATSI students in Year 3 and Year 7 numeracy are presently not on track and are unlikely to be achieved by 2008
- the remaining minimum standards for ATSI students for Year 3, Year 5 and Year 7 literacy and Year 5 numeracy has decreased since 2004, however the rate of decrease is likely to be insufficient to achieve the targets in 2008
- proficiency standards for ATSI students in Year 5 literacy and numeracy are on track and likely to be achieved in 2008. There is some concern the remaining proficiency targets set for ATSI students for Year 3 and Year 7 literacy and Year 3 and Year 7 numeracy may not be achieved by 2008.

In 2006, there were 6,663 students (6,661 in 2005) who were recognised on the HSC Distinguished Achievers List, of which only 0.2 per cent (0.2) were Aboriginal students.

The Department has made it a priority to allocate funding of \$65.0 million over four years to improve the academic achievements for Aboriginal school students, by designing specialised teaching programs in order to reduce the gap. The Department advised us that of the \$13.3 million allocated in 2006-07, \$13.1 million was spent.

#### Government Schools

	NSW	National	NSW Ranking amongst all States and Territories	NSW Ranking Previous Year (d)
<b>Recurrent Expenditure (\$) per student on Government Schools 2005-06 (a)</b>				
Primary	10,195	10,280	2	4
Secondary	12,823	12,729	4	4
Overall	11,279	11,243	3	4
<b>Student to Teaching Staff Ratios - Government Schools 2006 (b)</b>				
Primary	16.2	15.8	7	8
Secondary	12.4	12.4	4	5
Overall	14.4	14.3	5	6
<b>Full-Time Student Enrolment - Government Schools as a percentage of all schools 2006 (c)</b>				
Primary	70.0	70.6	5	5
Secondary	62.4	61.6	4	4
Overall	66.7	66.8	5	5

(a) Source: Ministerial Council of Education, Employment Training and Youth Affairs - National Report on Schooling in Australia, 2006. Incorporates both salaries and non-salary costs. Includes actual or notional payroll tax and notional eight per cent user cost of capital.

(b) Source: Australian Bureau of Statistics, Schools Australia 2006 (Table 25).

(c) Sources: Australian Bureau of Statistics, Schools Australia 2006 (Table 8).

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

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 secondary schools in 2005-06. Expenditure per primary student in NSW increased from \$9,944 in 2004-05 to \$10,195 in 2005-06. At this level it has fallen below the national average of \$10,280 and has the second lowest expenditure per primary school student. While the primary student to teacher ratio remained higher than the national average, NSW's ranking among other States and Territories improved slightly for both primary and secondary student to teacher ratios. At this level the overall ratios remained slightly above the private sector ratio of 13.8 students per teacher.

In 2006, the overall ratio of students per teacher in NSW was 14.4. This ratio includes 43 schools with ten or less students and 293 schools with student numbers between ten and 50. These schools have a low student teacher ratio which to some extent skews the overall student teacher ratio. The larger schools with 50 to 1,000 students have a 15.3 ratio while 91 schools with greater than 1,000 students have a ratio of 14.4.

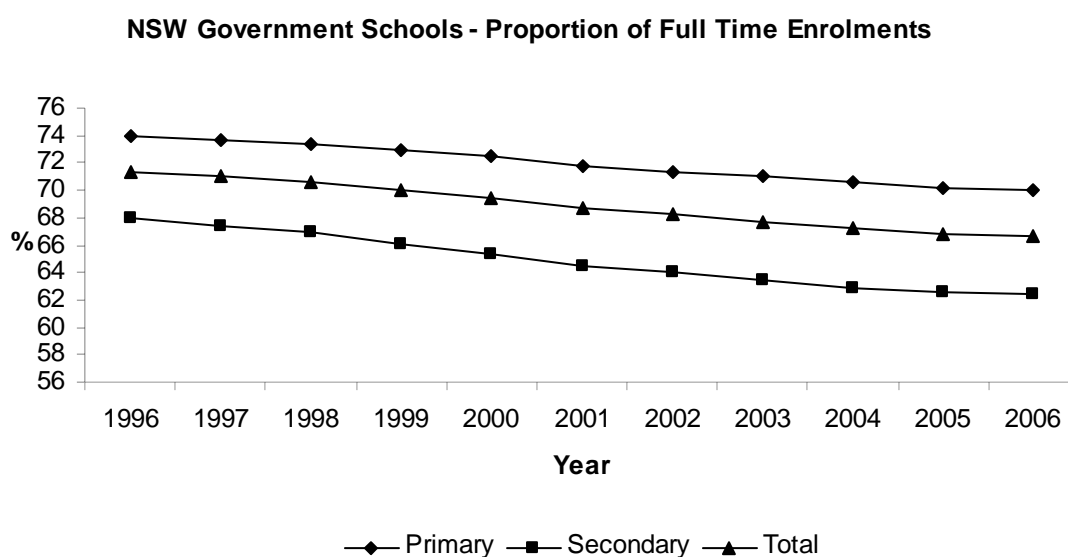
In comparison with other jurisdictions, NSW continues to be ranked fifth in attracting student enrolments to government schools.

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

NSW Student Numbers	Government			Non-Government		
	2004	2005	2006	2004	2005	2006
Primary	440,309	436,551	<b>434,366</b>	183,670	185,342	<b>185,840</b>
Secondary	<u>303,920</u>	<u>303,888</u>	<b><u>304,941</u></b>	<u>179,150</u>	<u>181,905</u>	<b><u>183,800</u></b>
Total	<u>744,229</u>	<u>740,439</u>	<b><u>739,307</u></b>	<u>362,820</u>	<u>367,247</u>	<b><u>369,640</u></b>

Source: Australian Bureau of Statistics, Schools Australia 2006 (Table 6).

The proportion of all students enrolling in government schools has been declining for the past 14 years. The most significant decline has been in secondary schools, falling from 69.2 per cent in 1992 to 62.4 per cent in 2006. Overall, the reduction has been 6.8 per cent. However this declining trend has been somewhat reduced during 2005-06. The chart below illustrates the decline over the last decade.



Source: Australian Bureau of Statistics, Schools Australia 2006 (Table 8)

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	2006	2007
Permanent and temporary teachers	50,905	50,601	<i>51,190</i>
Long term casual teachers	2,809	2,801	<i>2,816</i>
Short term relief casuals	<u>1,933</u>	<u>1,848</u>	<u><i>1,895</i></u>
	<u>55,647</u>	<u>55,250</u>	<u><i>55,901</i></u>

Source: DET Statistics.

The number of teachers employed in 2007 increased slightly from 2006. Departmental statistics indicate that on average 4.8 per cent of teachers are expected to retire each year over the next four years with an average 4.7 per cent of new teachers selected to be employed annually during this period. In order to minimise the effect of these shortfalls, the Department has a range of initiatives in place to ensure that shortages in areas such as secondary mathematics, science and technological and applied studies, do not occur. These initiatives include scholarships, accelerated teacher training and retraining for teacher recruitment in areas of anticipated shortfalls.

### Computers in Schools

A key initiative of the Department is to provide sufficient numbers of up-to-date computers and related technology to schools, to enhance the computer skills of all students and to train teachers. The expenditure in this area is detailed in the table below.

Year ended 30 June	2005 \$'000	2006 \$'000	2007 \$'000
Purchase of computers	--	30,331	<i>34,587</i>
Computers in schools leasing costs	34,438	20,080	<i>3,085</i>
Internet and related expenditure	29,763	25,510	<i>25,509</i>
Computer co-ordinator funding to schools	46,173	48,809	<i>49,339</i>
Other	<u>17,822</u>	<u>9,129</u>	<u><i>5,784</i></u>
<b>Total</b>	<u>128,196</u>	<u>133,859</u>	<u><i>118,304</i></u>

Source: DET Statistics.

Expenditure decreased mainly due to reduced computer leasing costs during the year. During the year, the Department delivered and installed 23,398 computers to 1,588 schools at a cost of \$34.6 million (\$30.3 million). It is anticipated that a further 41,000 computers will be delivered in Term 4, 2007 and during 2008.

The Department estimates that the ratio of students to computers in government schools has improved from 22:1 in 1995 to around 6:1 in 2007.

The Audit Office conducted a follow-up of a 2000 audit of the Department's use of computers in schools for teaching and learning. The report found that student and teachers had significantly better access to computers in 2007 than they had in 2000 and that the Department had been proactive in advancing Information Computer Technology (ICT) into schools.

The main recommendation coming out of the report was for the Department to identify ICT needs in schools and develop strategies to systematically address the needs of any schools falling behind in the use of computers.

For further information regarding the report, refer to [www.audit.nsw.gov.au/publications/reports/performance/performance\\_reports.htm](http://www.audit.nsw.gov.au/publications/reports/performance/performance_reports.htm).

## Workers' Compensation Claims

	2005*	2006*	2007*
Workers' compensation premium (\$'000)	129,733	151,125	126,120
Total number of claims **	7,317	10,762	12,376
Total number of claims incurring cost	5,477	5,782	6,008
Number of working days lost	111,284	36,621	43,721
Number of stress claims incurring cost	927	849	949
Number of working days lost due to stress claims	24,176	14,294	19,816

Source: DET Statistics.

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

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

The workers' compensation insurance premium decreased in 2006-07 while the total number of claims incurring costs rose 3.9 per cent. The premiums paid for the financial year 2005-06 and 2006-07 exceeded the benchmark set by the Treasury Managed Fund by \$36.6 million and \$20.2 million respectively. The Department had to fund the excess.

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

Based on a comparison between 2004-05 figures (base data) and the 2006-07 figures, workplace injuries reported have increased 70 per cent, the average cost of claims has increased two per cent and average time lost due to workplace injury has decreased 15 per cent.

## School Principals' Assessment

The performance and management of principals is assessed annually through The Principal Assessment and Review Schedule. The aim of the review is to better support principals in meeting high levels of educational leadership and management expertise required in NSW Public Schools.

A Performance Improvement Program (PIP) was introduced to address issues where principals do not meet the required performance standards. Failure to meet efficiency targets could see the principal dismissed or demoted.

In 2006 five PIP programs were implemented, with four principals successfully completing the program and one being subsequently demoted after failing to satisfy the requirements. In 2007 five PIP programs have been implemented.

Since 2005, a number of principals chose to leave the Department following their performance assessment and the introduction of a PIP.

## Assessing Teacher Performance

A teacher's performance is assessed annually and reported by way of the Teacher Assessment Review Schedule. A teacher's progression or maintenance on the common incremental scale is dependent on the teacher demonstrating continued efficiency in teaching practice, satisfactory performance and professional growth.

In addition the Department has a Teacher Improvement Program (TIP) in place to support teachers identified as experiencing difficulty with their teaching performance. The selected teacher is placed on a ten week program (with a possibility of extension for up to a further six weeks), with the Principal determining any improvement in the teacher's performance. If there is insufficient improvement, procedures to terminate the teacher are commenced. In the 2006 school year, of 112 teachers on the TIP program, 57 successfully completed it while the remainder who did not successfully complete the program left the Department.

The Department's records indicate that at 1 August 2007:

- thirty teachers were placed on alternative non-teaching duties pending an investigation into allegations of a child protection nature
- four casual teachers were removed from employment pending an investigation into allegations of a child protection nature
- eleven teachers were placed on alternative non-teaching duties following criminal charges being laid
- six teachers were suspended without pay following criminal charges being laid
- twelve teachers were placed on alternative non-teaching duties as they were deemed inefficient and pending disciplinary action.

### Annual School Reports

The new format Annual School Reports (ASRs) were trialled in the 2005 ASR cycle, evaluated, and then implemented for all schools for the 2006 cycle. The new format provides principals and school self-evaluation committees with a more rigorous reporting framework with greater flexibility as to what, when and how the content should be presented to parents and the school community.

Schools are required to report on progress towards targets during the previous year and identify targets and indicators of success against those targets in the ASR. These targets are specifically tied to the School Plan which is a key document for the accountability of the school principal to the School Education Director.

The Department and the New South Wales Teachers Federation (the Federation) reached a negotiated position on reporting elements prior to release of templates and support materials for the 2006 ASRs without recourse to the Industrial Relations Commission.

The main point of contention for the Federation remains the potential for reporting of comparative information. The latter could enable or encourage ranking of schools. The Department has developed Like School Groups to provide a comparative backdrop of schools with similar socio-economic status composition and remoteness from community facilities.

Reporting of comparative information will remain optional while further development or refinement of comparative groups continues. The Federation has provided strong advice to schools that they should not use the comparative data in reporting to the community through the ASR.

## Student Suspensions and Expulsions

The following is a list of long suspensions with reasons provided:

Reasons for long suspensions	2005		2006	
	Total	% of Total Long suspensions	Total	% of Total Long suspensions
Physical violence	5,388	48	5,852	47
Persistent misbehaviour	4,194	37	4,857	39
Serious criminal behaviour related to school	668	6	684	6
Possession or use of a suspected illegal substance	467	4	374	3
Use or possession of a prohibited weapon, firearm or knife	339	3	361	3
Use of an implement as a weapon or threatening to use a weapon	160	1	198	2
<b>Total</b>	<b>11,216</b>		<b>12,326</b>	

Source: DET Statistics.

In 2006 the number of long suspensions increased by 9.9 per cent compared to 2005. Physical violence and persistent misbehaviour accounted for 86.8 per cent of total long suspensions.

The Year 7 to 10 students accounted for 71 per cent (72 per cent in 2005) of the long suspensions.

There were 295 student expulsions in 2006 compared to 356 in 2005.

### Sick Leave

During the 2006-07 financial year, the Department lost over 511,000 working days (492,000 in 2005-06) due to staff on sick leave at a total cost of \$119 million (\$113 million). This excludes temporary teachers' sick leave and related costs as the relevant sick leave data is not available. Based on full time equivalent staff numbers, each employee took on average 7.6 (7.4) days of sick leave, better than the public sector average of 8 days per annum. The Department advised that it has not determined sick leave targets given the favourable comparison of its absentee rates with the rest of the public sector.

## OTHER INFORMATION

### Department

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

### Schools

For the school financial year ended 30 November 2006, we audited financial transactions at 57 primary schools, seven high schools and eight special purpose schools.

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

### **Public Private Partnership Projects for New Schools**

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

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

The first two schools under this project, Ashtonfield Public School and Halinda Special School were completed and opened in January and April 2007. Actual enrolments were 200 and 85 against potential maximum enrolments of about 450 and 96 respectively. As at June 2007 the Department has recognised \$15.4 million as assets with a corresponding liability. A further five schools are to be completed in 2008 and the remaining three by early 2009. This will result in a further recognition of about \$90.8 million of assets.

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

The Department has advised us that savings in the order of 23 per cent over traditional Department delivery methods of individual tenders and contracts were achieved.

### **Email in Schools**

As of the last week of June 2007 in Term 2, approximately 2,203 schools were using the Department's email service. This increased to 2,234 schools in Term 3 (July to September 2007). During Term 2 (April to June 2007), 67,578 individual school staff (57 per cent of total staff) used the Department's email service. This is an increase of over 7,000 individual staff users from Term 1 (February to April 2007).

The email system has been operational for four years since August 2003. With the lifting of the NSW Teachers Federation ban the Department began rolling out email to all schools in April 2006. 99 per cent of NSW Public Schools have now implemented the Department's email services.

The contractual monthly service fee for email since August 2003 is estimated at \$5.7 million.

The system has the capacity to provide 1.3 million email accounts, accommodating all students and staff in NSW Public Schools and Technical and Further Education (TAFE) colleges. During the 2007 School Term 2, in excess of 219,000 emails were sent from school students to members of staff. Approximately the same volume of email was sent from staff to students. The pattern suggests that there is a rich environment of email communication between students and their teachers. Parents do not have access to the Department's email system. They can send email to and receive emails from school staff.

Within the email system operating in the schools environment, all email transactions on the Department's network are authenticated and logged to an individual. This helps to enable the Department to monitor sites visited by individual users and to investigate potential cases of cyber-harassment. All email transactions in this system are filtered and archived. The archiving of emails allows the Department to investigate allegations of misuse.

### **School Facilities and Building Maintenance**

Last year we reported that the Department's maintenance plans for school buildings had been hampered by significant maintenance backlogs. As a result of the additional funding of \$30.0 million in 2006-07, the Department has completed a program of works which reduced the estimated current maintenance backlog to \$82.6 million (\$114 million in 2005-06). Total school maintenance expenditure significantly increased from \$164 million in 2005-06 to \$241 million in 2006-07 mainly because of the additional funding by Treasury on current maintenance backlog, increased expenditure on periodic maintenance and urgent repairs to schools.

The Department provides advice to Treasury, as part of the State Budget process, on its Total Asset Management Plan and funding requirements for education facilities. The Department uses proceeds from the sale of surplus land to improve school facilities. In 2006-07 the Department received \$6.6 million (\$1.7 million in 2005-06) from such sales, meeting both its target and Treasury's requirement of \$5.0 million.

### Selective High Schools

An additional 600 places have been made available at 15 comprehensive high schools, bringing the Year 7 places to 4,100 for the 2009 year of entry. In comparison entry data relating to 2005, 2006 and 2007 is as follows:

Year of entry	Number of places available	Number of students who sat the test	Students who gained admission	Number of schools involved	Places available with no admissions
2007	3,527	12,239	3,442	30	85
2006	3,525	12,923	3,447	30	78
2005	3,571	13,487	3,400	30	171

Source: DET Statistics.

The number of students who sat the test, declined from 13,487 in 2005 to 12,239 in 2007 i.e. a decrease of 9.3 per cent while student admissions increased by 1.2 per cent. In 2007, 85 places were available with no admissions. The Department advised that vacant positions were due mainly to unavoidable circumstances such as places offered but not accepted or positions allocated to Aboriginal and Torres Strait Island students but not filled or students who have not demonstrated that they are highly gifted and talented.

### Asbestos in Schools

To identify schools that may have asbestos in its premises, a contract to survey asbestos has been recently tendered and is due to be completed by April 2008. During the survey a risk assessment of all identifiable asbestos contained materials will be completed in accordance with WorkCover requirements and Australian Safety and Compensation Council Guidelines and Codes of Practice for Asbestos Management.

The asbestos component of the Hazardous Material Register is planned to be available electronically and incorporated into each school site. This data will also be accessible on the Department's Asset Management System which is due for completion in mid 2008.

### Planned Computer Systems Replacement

Last year we reported that the Department's Learning Management and Business Reform (LMBR) program will replace its finance, payroll and human resources systems and the school management system over the next four years. The project incorporates all state government schools, the Department's regional and state office locations and NSW TAFE institutes.

The Department is currently engaged in the procurement for Phase One, and it will soon enter into contract negotiations. Until a contract is negotiated and finalised, timeliness and costings cannot be disclosed. The Project is to be financed internally.

A governance body is in place to provide direction and oversight to the LMBR program. We will continue to review its implementation and monitor its progress.



### Back To School Allowance (BTSA)

BTSA cheques are provided to parents in February of each year at \$50 a child who starts school in each calendar year. At 30 June 2007 there were approximately 153,000 unrepresented BTSA cheques of \$9.1 million relating to the previous four years payments. This amounts to 4.2 per cent of the total amounts paid as BTSA. Of the \$9.1 million \$3.4 million relates to the current year. The Department has transferred \$4.5 million to NSW Treasury as unclaimed monies.

Due to cost and time constraints, the Department does not attempt to ensure that all cheques have been received and cashed by parents until four weeks prior to closure of the BTSA account.

### Leave Recording - eLAPS

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

As at 30 June 2007, 19.6 per cent of all leave applications received from teachers and 18.6 per cent from school administrative and support staff have been submitted electronically through eLAPS. However a large number of leave applications are still recorded on the manual system. This is because the Teachers Federation supports both the manual as well as electronic methods of leave recording. Our testing of teacher leave records found 13 instances of leave not recorded in the Leave Management System.

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

## FINANCIAL INFORMATION

### Abridged Consolidated Operating Statement

Year ended 30 June	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Employee related	7,213,992	6,934,375	6,343,274	5,842,856
Operating expenses	1,601,354	1,559,980	1,304,652	1,268,978
Depreciation and amortisation	344,972	324,763	250,320	231,068
Grants and subsidies	189,587	177,516	218,762	202,569
Other expenses	<u>7,914</u>	<u>9,569</u>	<u>7,914</u>	<u>9,569</u>
<b>TOTAL EXPENSES</b>	<b>9,357,819</b>	<b>9,006,203</b>	<b>8,124,922</b>	<b>7,555,040</b>
 <b>TOTAL REVENUE</b>	 <b>754,361</b>	 <b>744,060</b>	 <b>759,820</b>	 <b>516,051</b>
Gain on sale of non-current assets	<u>19,055</u>	<u>4,730</u>	<u>22,695</u>	<u>2,385</u>
<b>NET COST OF SERVICES</b>	<b>8,584,403</b>	<b>8,257,413</b>	<b>7,342,407</b>	<b>7,036,604</b>
Government contributions	<u>8,753,457</u>	<u>8,498,095</u>	<u>7,514,922</u>	<u>7,257,944</u>
 <b>SURPLUS FOR THE YEAR</b>	 <b><u>169,054</u></b>	 <b><u>240,682</u></b>	 <b><u>172,515</u></b>	 <b><u>221,340</u></b>

Employee related expenses represent 78.1 per cent (77.3) of total expenditure of the Department. The \$501 million increase is primarily due to a four per cent salary increase to teachers in January 2007 and four per cent salary increase to administrative staff effective July 2006.

#### Abridged Consolidated Balance Sheet

At 30 June	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Current assets	<i>701,063</i>	734,138	<i>572,857</i>	593,652
Non-current assets	<u><i>16,579,540</i></u>	<u>16,925,458</u>	<u><i>13,616,822</i></u>	<u>14,279,315</u>
<b>TOTAL ASSETS</b>	<u><i>17,280,603</i></u>	<u>17,659,596</u>	<u><i>14,189,679</i></u>	<u>14,872,967</u>
Current liabilities	<i>597,637</i>	606,078	<i>475,403</i>	478,934
Non-Current Liabilities	<u><i>107,725</i></u>	<u>93,758</u>	<u><i>107,038</i></u>	<u>93,071</u>
<b>TOTAL LIABILITIES</b>	<u><i>705,362</i></u>	<u>699,836</u>	<u><i>582,441</i></u>	<u>572,005</u>
<b>NET ASSETS</b>	<u><i>16,575,241</i></u>	<u>16,959,760</u>	<u><i>13,607,238</i></u>	<u>14,300,962</u>

The reduction in non-current assets was mainly due to a revaluation decrement of land and buildings of \$866 million.

#### Surplus Properties

At 30 June 2007 the value of surplus properties was \$81.7 million. Under the NSW Government's Total Asset Management policy, the Department as part of its 2007-08 Asset Strategy, developed a three year site disposal plan for surplus vacant sites.

For the financial year 2006-07, eighteen school properties that were surplus to the Department's needs and held for sale were sold for \$109 million (\$13.8 million).

## Abridged Program Information

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

Program Description	2007			2006
	Revenues	Expenses	Net Cost of Services	Net Cost of Services
	\$'000	\$'000	\$'000	\$'000
Pre-school education services in government schools	2,291	26,967	24,676	23,609
Primary education services in government schools	209,979	3,914,192	3,720,581	3,540,557
Secondary education services in government schools	220,251	3,605,629	3,346,313	3,270,002
Non-government schools assistance	--	9,276	9,276	7,550
TAFE education services	268,983	1,598,234	1,332,855	1,294,854
Grants for education and training services	11,761	172,097	160,336	141,017
AMES	36,375	28,053	(8,322)	(17,859)
ACN 093 230 374 Pty Ltd (Formerly TAFE Global Pty Ltd)	4,721	3,371	(1,312)	(2,317)
<b>Total (all programs)</b>	<b>754,361</b>	<b>9,357,819</b>	<b>8,584,403</b>	<b>8,257,413</b>

## 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	2006	2007
<b>Actual enrolments (a):</b>			
Primary students	436,551	434,366	433,398
Secondary students	305,027	306,049	307,021
<b>Total</b>	<b>741,578</b>	<b>740,415</b>	<b>740,419</b>
<b>Program costs (b):</b>			
Primary \$m	3,434	3,541	3,722
Secondary \$m	3,125	3,270	3,348
<b>Total \$m</b>	<b>6,559</b>	<b>6,811</b>	<b>7,070</b>
<b>Cost per student:</b>			
Primary \$	7,866	8,151	8,587
Secondary \$	10,245	10,685	10,904
<b>Average \$</b>	<b>8,845</b>	<b>9,198</b>	<b>9,548</b>

(a) Estimated for 2007. Actual enrolment figures were not available at the time of the preparation of this Report.

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

Since 2005 total student enrolments in government schools has decreased by 0.2 per cent however the average cost per student has increased by 7.9 per cent during the same period.

### Cost of Funding Non-Government School Education by the Department

In 2006-07, the NSW Government provided funding to 929 non-government schools (925 in 2005-06). Funding is mainly in the form of a per capita allowance which is 25 per cent of the equivalent cost to the State of educating a student in a government school, and an interest subsidy scheme. Under the *Education Act 1990*, schools must register to be eligible for State funding assistance. Using departmental statistics of non-government school enrolments and relevant program costs, some broad trends of funding per student were:

Year ended 30 June	2005	2006	2007
Average enrolments (a):			
Primary Students	184,598	185,642	<i>186,005</i>
Secondary Students	<u>179,063</u>	<u>181,232</u>	<u>182,676</u>
Total	<u>363,661</u>	<u>366,874</u>	<u>368,681</u>
Program costs (b):			
Primary \$m	268.7	286.5	<i>303.0</i>
Secondary \$m	<u>363.0</u>	<u>372.2</u>	<u>390.4</u>
Total \$m	<u>631.7</u>	<u>658.7</u>	<u>693.4</u>
Funding per student:			
Primary \$	1,455	1,543	<i>1,629</i>
Secondary \$	2,027	2,054	<i>2,137</i>
Average \$	1,737	1,795	<i>1,881</i>

- (a) Average enrolments represent those non-government enrolments that qualified and received State recurrent funding. This does not include full fee paying overseas students.
- (b) Program costs used in calculating cost per student included per capita grants, interest rate subsidies and assistance to families in meeting costs of students attending non-government schools.

Despite average enrolments increasing by 1.4 per cent over the last two years the costs of funding non-government schools has increased by 8.3 per cent during the same period.

### 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.

For further information regarding the activities of the Department, refer to [www.det.nsw.edu.au](http://www.det.nsw.edu.au).

**CONTROLLED ENTITIES****Technical and Further Education Commission (TAFE)**

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

**NSW Adult Migrant English Service (AMES)****FINANCIAL INFORMATION**

Year ended 30 June	2007 \$'000	2006 \$'000
Revenue	40,290	47,926
Employee related expenses	14,849	13,692
Other expenses	18,991	17,150
Surplus	6,450	17,084
Net assets (at 30 June)	16,871	10,421

The decrease in the surplus is largely due to a \$14.0 million superannuation revenue adjustment in the 2005-06 financial year. Fees for services rendered increased by \$6.3 million as a result of increased demand for AMES Services.

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

For further information on the Service refer to [www.ames.edu.au](http://www.ames.edu.au).

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# Technical and Further Education Commission

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## AUDIT OPINION

The audits of the financial reports of Technical and Further Education (TAFE) Commission (the Commission) and its controlled entities for the year ended 30 June 2007 resulted in unqualified Independent Auditor's Reports.

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

## PERFORMANCE INFORMATION

### Size and Scope of the Commission in NSW

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

Year ended 30 June	2004	2005	2006	Change % 2004-2006
Total enrolments	506,626	513,070	<i>500,410</i>	(1.2)
Annual student hours (ASH) ('000)	102,441	107,932	<i>108,785</i>	6.2
Net cost of services * (\$'000)	1,111,277	1,158,463	<i>1,212,107</i>	9.1
ASH per enrolment	202	210	<i>217</i>	7.4
Net cost of services per enrolment (\$)	2,193	2,258	<i>2,422</i>	10.4
Net cost of services per ASH (\$)	10.84	10.73	<i>11.14</i>	2.8

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

Enrolments for 2006 of 500,410 were at their lowest level for three years while annual student hours of 109 million and net cost of services per enrolment were at their highest level in three years. The Commission has advised us that this trend largely reflects an increase in higher level qualifications, which increased by 38.6 per cent in 2005 and 40 per cent in 2006 and an increase in full time enrolments which rose by 40,205 or 40 per cent from 2004 to 2006.

Enrolments and student hours for 2007 are not available until mid 2008.

## NSW VET Cost per Student Hour

Government expenditure per student hour has decreased by eight per cent since 2002.

Year ended 30 June	2002	2003	2004	2005	2006
Government recurrent expenditure* (\$m)	1,501	1,590	1,445	1,522	<b>1,456</b>
Student hours (m)	99.9	101.0	97.9	106.7	<b>105.8</b>
Expenditure per student hour (\$/hour)	15.0	15.7	14.8	14.2	<b>13.8</b>
Change in expenditure per student hour since 2002 (%)	--	(4.7)	(1.3)	(8.5)	<b>(8.0)</b>

Source: National Centre for Vocational Education Research, 2002-06 Australian vocational education and training statistics - financial information. Unpublished data from NCEVR. The costs noted in the table above have been adjusted to 2006 dollars to exclude the effect of inflation.

\* Government Recurrent Expenditure is made up of:

NSW TAFE (about 97 per cent of total), VET programs within NSW DET, agricultural colleges and NSW Adult Migrant English Service.

## Student Outcomes

### Student Survey Results

Student satisfaction and employment outcomes are indicators of the quality of VET services provided.

The 2006 Students Outcomes Survey, commissioned by the National Centre for Vocational Education and Research, presents information collected from a national survey of students who undertook studies during 2005 at a TAFE Institute in Australia. The survey collected information about two groups of students: graduates and module completers. Graduates are students who completed their course during 2005 and graduated with a qualification. Module completers are students who successfully completed some training and had left the TAFE system at the time of completing the survey.

### Student Satisfaction

The table below indicates the main reasons students undertook studies and the proportion of those surveyed who stated that the VET course helped them achieve their main reason for doing the course.

Student Outcomes Survey	Graduates		Module Completers	
	NSW %	Australia %	NSW %	Australia %
<b>Reasons for Study</b>				
Employment-related outcomes	73.5	75.9	67.3	66.6
Further study outcomes	5.6	4.9	1.7	2.3
Personal development outcomes	20.8	19.2	31.0	31.2
<b>Fully or partly achieved their main reason for doing the training</b>				
Yes	84.8	86.5	81.5	81.6

Source: 'Australian Vocational Education and Training, Statistics: Student Outcomes 2006, National Report', published by National Centre for Vocational Education Research Ltd. for the Department of Education, Science and Training.

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

### *Employment Outcomes*

The pattern of work and study is slightly different for graduates and module completers.

The table below shows that graduates improve their employment outcomes through their training to a greater extent than do module completers.

Employment Outcomes Survey	NSW		Australia	
	2005 %	2006 %	2005 %	2006 %
<b>For graduates</b>				
Employed	75	77.2	79	79.6
Not employed	25	22.8	21	20.4
<b>For module completers</b>				
Employed	73	71.1	76	74.6
Not employed	27	28.9	24	25.4

The purpose of vocational training is to train people for the workforce, therefore a measure of its success is the employment rate of graduates. In the 2006 survey 77.2 per cent of NSW graduates were employed, compared to the national average of 79.6 per cent. While this appears to be low considering the historically low unemployment rate, there is partial explanation in the previous table which shows that 20.8 per cent of graduates in NSW study for personal development reasons rather than for employment reasons.

### **OTHER INFORMATION**

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

### **Maintenance Backlog**

TAFE Institutes are given an overall budget by the Commission. The Institutes determine a maintenance budget based on service priorities. In accordance with the government's policy of total asset management the Commission is developing a new Building and Grounds Maintenance Plan to cover a ten year period and replace the previous 2003-06 Plan. At 30 June 2007 the backlog maintenance totalled \$25.6 million (\$29.7 million in 2005-06). This backlog should be considered in the context of the estimated replacement value of TAFE buildings of \$3.9 billion.

### **Federal Government Funding for the Commission**

The NSW share of the Skilling Australia's Workforce Agreement 2005-08 with the Commonwealth Government is approximately \$1.6 billion.

The annual VET Plan is used by the Commonwealth to monitor compliance with the legislation and funding conditions. To be fully compliant, New South Wales is required to change its policy towards workplace agreements. There is also a requirement that NSW increase the amount of training subject to open tender through User Choice to five per cent per annum. The Commonwealth Government can withhold funding if these requirements are not met which could have a significant impact on the NSW VET sector.



### Unused Facilities: Seaforth TAFE

As previously reported, the Commission closed Seaforth TAFE in 1999 and the site has been declared surplus to the Commission's requirements. Landcom was engaged as the development manager. Following a considerable amount of consultation and negotiation with Manly Council and local residents a draft Masterplan has been developed. The draft Masterplan provides for community benefits which will be financed by increased development yield for the site. It is anticipated that resolution of consultation and rezoning issues will allow disposal action during 2007-08.

### Grafton Music Facility

In previous years we commented on the construction of a music facility at Grafton that was completed in December 2004 by the Department of Commerce at a cost of \$2.1 million. However due to a number of design faults the facility remained unused for an extended period. Following a substantial amount of rectification work the facility became fully operational during 2007. The Commission, with the help of the Department of Commerce, continues to seek recovery of costs totalling \$450,000.

### Stress and Workers' Compensation Claims

Year Ended 30 June	2005*	2006*	2007
Number of claims incurring cost	611	635	647
Number of claims - all injuries**	688	825	1,008
Number of stress claims incurring cost	107	72	80
Estimated cost for all workers compensation claims (\$m)	10.7	7.9	8.0
Estimated cost for stress claims (\$m)	3.0	2.7	2.6
Days lost - all Injuries	23,718	12,602	6,480
Days lost - stress claims	4,141	4,928	1,952

\* 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.

\*\* Claims include claims with nil cost, and incident notification reports in 2006 and 2007.

In 2006-07, the commission has 16,037 full time equivalent employees and there were 80 stress claims made, 11.1 per cent more than in 2005-06. The average cost per stress claim in 2006-07 was \$33,000 (\$38,000) compared to \$12,000 (\$17,000) for all types of injuries.

While the number of claims incurring costs has increased by 5.9 per cent since 2004-05 the Commission has projected a seven per cent reduction in the average cost of the claims mainly because of an expected 25 per cent decrease in the duration of average lost time, from 28 to 21 days. The Commission attributes these reductions to the implementation of its safe working and learning strategy.

### Workers' Compensation Premiums

Workers' compensation premium costs have increased from \$15.0 million in 2004 to \$18.2 million in 2007, during a time when staff numbers and costs have been relatively stable. There is a direct relationship between the cost of workers' compensation premiums and the number and cost of claims made.

**Workers' Compensation Premiums Benchmark**

Year ended 30 June	2005	2006	2007	2008
Equivalent full time employees (EFT)***	14,757	16,271	<b>16,037</b>	na
Premium cost (\$m)	16.4	18.0	<b>18.2</b>	16.8
Benchmark* (\$m)	12.6	14.0	<b>14.8</b>	14.5
Excess** (\$m)	3.8	4.0	<b>3.4</b>	2.3

\* Benchmark paid by Treasury.

\*\* Excess paid by TAFE.

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

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.

The Commission is progressing through the final year of its 'Safe Working and Learning' strategy aimed at improving systems to provide greater safety, and control the escalating costs of workers compensation premiums. A 43 per cent reduction has been returned in the short fall payable by the Commission as a result of improved claims management. This has also led to an eight per cent reduction in the deposit premium for the 2007-08 period.

**Overtime**

Overtime costs increased by 7.3 per cent in 2006-07.

Year ended 30 June	2005	2006	2007
Overtime (\$m)	25.2	27.3	<b>29.3</b>
Salaries (\$m)	860.6	951.3	<b>987.1</b>
Overtime as % of salary	2.9	2.9	<b>3.0</b>

As shown in the table below, 152 (181) non-teaching TAFE employees earn 20 per cent or more of their gross salary in overtime.

Overtime to Base Salary %	Number of Non-Teaching Employees	
	2006	2007
70 - 100	5	--
60 - 70	2	2
50 - 60	10	5
40 - 50	18	18
30 - 40	41	47
20 - 30	105	80
10 - 20	178	178
0 > - 10	2,011	1,865
Nil	<u>2,203</u>	<u>3,405</u>
Total	<u>4,573</u>	<u>5,600</u>

For seven employees overtime was more than 50 per cent of their base salary compared to 17 in the prior year. Overtime worked by non-teaching staff is paid at penalty rates, which is a relatively expensive way of obtaining more resources.

Employee	Annual Overtime \$	Base Salary \$	Annual Gross \$	Overtime to Base Salary %
Employee 1	24,230	36,676	60,906	66.1
Employee 2	23,648	36,676	60,324	64.5
Employee 3	20,499	34,260	54,759	55.9
Employee 4	20,325	37,412	57,737	54.3
Employee 5	19,546	36,306	55,852	53.8
Employee 6	19,557	36,676	56,233	53.3
Employee 7	23,573	45,007	68,580	52.4

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

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

In our 2006 Report we identified high overtime levels. During the year the Commission investigated the validity of overtime in two locations where large overtime figures were recorded and/or internal allegations were received.

In one centre the investigation identified incorrect amounts of overtime and overtime claimed when the employee was on leave. There was also a lack of appropriate checking of input data related to overtime claim forms, leave forms and employee rosters; and inconsistent recording of standard hours and overtime hours. At this centre it was concluded that the issues did not relate to fraud or corrupt conduct.

At another centre investigations concluded that the management of worktime was ineffective and unsatisfactory. The use of overtime was excessive, often unnecessary and contrary to Commission policy. In one case an officer received an additional 90 per cent of his salary as overtime for a period in excess of six years.

Action has been taken by the Commission to improve the quality of internal controls and strengthen accountability. In relation to possible breaches of Commission and government policy, the Commission has advised that remedial action included: counseling of officers; placements on performance management schemes; and in one case, re-location of an officer.

## FINANCIAL INFORMATION

### Abridged Consolidated Operating Statement

Year ended 30 June	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Employee related	872,456	1,094,406	--	840,401
Other operating expenses	617,736	358,481	1,443,662	580,978
Depreciation and amortisation	94,626	93,673	94,611	93,620
<b>TOTAL EXPENSES</b>	<b>1,584,818</b>	<b>1,546,560</b>	<b>1,538,273</b>	<b>1,514,999</b>
 <b>TOTAL REVENUE</b>	 <b>341,304</b>	 <b>306,300</b>	 <b>337,646</b>	 <b>300,524</b>
Other (losses)/gains	(3,642)	2,368	(3,604)	2,368
<b>NET COST OF SERVICES</b>	<b>1,247,156</b>	<b>1,237,892</b>	<b>1,204,231</b>	<b>1,212,107</b>
Government contributions	1,238,535	1,240,152	1,195,599	1,213,912
<b>(DEFICIT)/SURPLUS FOR THE YEAR</b>	<b>(8,621)</b>	<b>2,260</b>	<b>(8,632)</b>	<b>1,805</b>

The fall in employee related costs and the increase in other operating expenses was mainly due to the changes to the employment arrangements on 17 March 2006 which removed the Commission's role as an employer of staff. From that date the Commission's administrative staff became employees of the Department of Education and Training refunded by the Commission from other operating expenses, while other staff became employees of the New South Wales Technical and Further Education Commission Division within the consolidated entity.

## Abridged Consolidated Balance Sheet

At 30 June	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Current assets	151,223	154,142	150,563	150,415
Non-current assets	<u>2,962,650</u>	<u>2,646,061</u>	<u>2,962,984</u>	<u>2,647,964</u>
<b>TOTAL ASSETS</b>	<b><u>3,113,873</u></b>	<b><u>2,800,203</u></b>	<b><u>3,113,547</u></b>	<b><u>2,798,379</u></b>
Current liabilities	160,761	151,139	161,336	150,253
Non-current liabilities	<u>687</u>	<u>687</u>	<u>--</u>	<u>--</u>
<b>TOTAL LIABILITIES</b>	<b><u>161,448</u></b>	<b><u>151,826</u></b>	<b><u>161,336</u></b>	<b><u>150,253</u></b>
<b>NET ASSETS</b>	<b><u>2,952,425</u></b>	<b><u>2,648,377</u></b>	<b><u>2,952,211</u></b>	<b><u>2,648,126</u></b>

Non-current assets increased largely due to a revaluation of land and buildings by \$313 million.

## COMMISSION ACTIVITIES

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

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

The Commission provides vocational and pre-vocational education and training services through its 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](http://www.tafensw.edu.au).

## CONTROLLED ENTITIES

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

## New South Wales Technical and Further Education Commission Division

The audit resulted in an unqualified Independent Auditor's Report and did not identify any significant issues or risks. The Division provides personnel services to the Commission.

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

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



# Minister for Energy

## Overview of the Electricity Industry

### Electricity Generators:

Delta Electricity

Eraring Energy

Macquarie Generation

### Electricity Distributors:

Country Energy

EnergyAustralia

Integral Energy Australia

TransGrid





# Overview of the Electricity Industry

## KEY ISSUES

### High Electricity Prices

Electricity wholesale prices in the National Electricity Market (NEM) increased significantly during 2006-07 particularly between April and June 2007. The average spot price for 2006-07 in New South Wales was \$58.72 per megawatt hour (MWh), a rise of 58 per cent over the 2005-06 average of \$37.24 per MWh.

Average wholesale prices of electricity:

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

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

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

The highest prices were recorded in June 2007 resulting from a combination of constraints on generating capacity and increased demand across the NEM. The drought restricted supply by limiting the availability of water for cooling in some coal-fired generators and constrained hydro-generating capacity. Supply further deteriorated in June 2007 due to plant and network outages including certain capacity limitations due to flooding in the Hunter Valley. The tight supply in June came at a time of record electricity demand as cold winter days increased heating requirements.

The June average price per MWh was:

At 30 June	NSW \$/MWh	Qld \$/MWh	SA \$/MWh	Snowy \$/MWh	Tas \$/MWh	Vic \$/MWh
<i>2007</i>	<i>230.66</i>	<i>192.45</i>	<i>102.63</i>	<i>198.23</i>	<i>77.81</i>	<i>143.28</i>
2006	31.47	25.25	39.22	32.35	41.39	34.61

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

Other information on electricity prices include:

- the lowest average daily price in New South Wales was \$13.87 per MWh on 26 December 2006 (\$15.32 per MWh on 18 December 2005)
- the highest average daily price in New South Wales was \$1,319.58 per MWh on 13 June 2007 (\$1,929.41 per MWh on 2 February 2006)
- the highest New South Wales half-hour price was \$9,936.37 per MWh on 13 June 2007 (\$9,738.95 per MWh on 2 February 2006).

### Impact of High Electricity Prices

The impact of the high prices was most dramatically reflected in the net asset positions for generators and distributors. Generators' total net assets decreased by 80 per cent from \$2.6 billion at 30 June 2006 to \$538 million at 30 June 2007, while distributors net assets increased by 48 per cent from \$3.4 billion to \$5.0 billion because of accounting adjustments for electricity hedged contracts. Further details are in the Financial Information section later in this report.

Rising spot prices create opportunities for generators to increase profits by selling generating capacity at higher prices. Macquarie Generation and Eraring Energy were the two generators that were able to take advantage of the higher prices because they had available capacity to supply more electricity into the market. Eraring Energy was unaffected by the drought because it uses salt water cooling and recycled water. Delta Electricity was unable to supply extra volume due to plant outages.

As at August 2007, drought conditions have eased and supply into the market improved. The spot price dropped but the market still factored higher spot prices reflecting possible shortages of supply. The decrease in prices, as at August 2007, resulted in improved net asset positions for generators and a reduction in net assets of distributors. Details are included in the comments for each generator and distributor appearing later in this report.

### Generation Capacity

In October 2006 and in July 2007, the National Electricity Market Management Company (NEMMCO) forecast the following peak and average demand growth rates for electricity in New South Wales:

Demand growth rate per year	2006	2007
Peak (%)	2.7	2.5
Average (%)	1.7	1.6

Source: NEMMCO Statement of Opportunities 2006 and 2007 NEMMCO 2007 energy and demand projections 2007.

While the peak and average growth rates forecast for 2007 are below the 2006 levels, they do indicate a continuing need to effectively manage total and peak demand and highlight the need for sufficient infrastructure to meet future growth.

The NEM winter record demand of 32,579 MW was set on 19 June 2007, the first time winter demand across the NEM has risen above 32,000 MW. New record demands were reached in New South Wales and across the NEM as a whole.

NEMMCO forecasts in its 2007 'Statement of Opportunities', that available electricity capacity in New South Wales will fall below a minimum reliability reserve level in 2013-14 (the previous forecast was 2010-11). NEMMCO defines the minimum reserve level as the necessary spare capacity available within a region or via transfers on interconnectors that is required to ensure that over the long term, 99.9 per cent of customers' energy demand is met.

Average annual demand in New South Wales is currently around 8,951 MW in 2007 compared to 8,750 MW in 2006.

The average demand in New South Wales for the month of June 2007 was 9,826 MW compared to 9,902 MW in June 2006.

Average demand for June 2007 was higher than average annual demand in 2006 and 2007. Record demand occurs infrequently and reached a new all time high of 13,306 MW on 27 June 2007 compared to the high of 13,188 MW on 1 February 2006.

This demand is currently met from State owned generators, other generators and imported from other NEM regions.

Average demand is most efficiently met from base load (normally coal fired) power stations. The Government is also considering options for providing a new baseload plant. It commissioned a report to identify options and make recommendations. The report, *Inquiry into Electricity Supply in NSW*, concluded that a new baseload plant was required by 2013-14.

The NEM allows electricity to be imported and exported between regions to effectively utilise national generation capacity. New South Wales is a net importer of electricity with ten per cent of its annual energy needs coming from other regions. New South Wales has limited generation peaking plant capacity to meet periods of high demand. This results in increasing spot prices from New South Wales generators in high demand periods making it cheaper to import electricity from other regions, mainly the Snowy and Queensland.

## Managing Supply and Demand

### *Supply Initiatives*

Proposed and committed projects to increase supply in New South Wales (excluding wind) shown in the following table highlights the need for significant additional capacity in New South Wales.

Developer	Station Name	Fuel	Capacity in MW	Commissioning
<b>Committed projects</b>				
TRUenergy	Tallawarra	Gas	400	2008
Delta Electricity	Colongra	Gas	667	2009
Wambo Power Ventures	NewGen Uranquinty	Gas	640	2008-09
<b>Proposed projects</b>				
<i>State owned generators</i>				
Macquarie Generation	Tomago	Gas	500	--
Delta Electricity	Munmorah Rehabilitation	Coal	100	2010-11
Delta Electricity	Bamarang (Nowra)	Gas	450	2011-12
Delta Electricity	Marulan	Gas	420	2013-14
Delta Electricity	Mt Piper extension	Coal	1500-2000	2013-15
Eraring Energy	Eraring Black Start Gas Turbine	Gas	40	2008
Eraring Energy	Eraring Upgrade	Coal	240	2009
<i>Other generators</i>				
Wambo Power Ventures	NewGen Bega	Gas	120	2008-09
Wambo Power Ventures	NewGen Cobar	Gas	114	2008-09
International Power	Near Parkes	Gas	120	--
International Power	Near Buronga	Distillate turbines	120	--
International Power	Hérons Creek	Distillate turbines	120	--

Source: Australian Energy Regulator, *State of the Energy Market 2007* updated for NEMMCO's 2006 Statement of Opportunities Update, 30 January 2007 and State owned generators.

## Demand Initiatives

A number of initiatives are underway to manage the increasing demand for electricity:

- electricity retailers have started to introduce the use of 'smart' electricity meters that enable customers to respond to the charging of different prices to be charged for electricity in peak and non-peak periods
- the New South Wales Government's Energy Savings Fund was established to provide \$200 million over five years to fund projects that encourage energy savings, address peak demand, and increase public awareness and acceptance of the importance of energy saving measures. From September to October 2005 the Fund provided \$15.0 million to 20 projects, saving an estimated 75,000 MWhs of electricity. The second round of applications was held from September to November 2006 and a total of \$13.0 million was allocated to 29 energy generation, efficiency and education projects, estimated to save 64,401 MWhs of electricity a year
- the largest energy users in the State are required to prepare Energy Savings Action plans to identify areas in their operations where cost-effective energy efficiency actions can be implemented. Users can apply to the Energy Savings Fund to assist with funding
- the Commonwealth Government has established the Low Emissions Technology Demonstration Fund to provide funding of \$500 million over 15 years from 2005-06 to 2019-20 for technological development to reduce greenhouse emissions in the energy sector. The Fund is designed to leverage \$1.0 billion in additional private sector investment. The first competitive funding round was completed in 2006-07
- the regulation of distribution revenue and prices, includes a provision to allow Network Service Providers (NSPs) to earn a return on demand management projects
- the Greenhouse Gas Reduction Scheme (GGAS) includes the ability to create NSW Greenhouse Gas Abatement Certificates (NGACs) for energy efficient projects.

## Reliability of Distribution Networks

Over the last three years average outage times have been decreasing as shown in the following tables:

System average interruption duration index (minutes) - Outage duration	2002	2003	2004	2005	2006
NSW and ACT	324	193	279	218	<b>191</b>
NEM weighted average	246	211	268	202	<b>211</b>

System average interruption frequency index - Outage Frequency Index	2002	2003	2004	2005	2006
NSW and ACT	2.6	1.4	1.6	1.6	<b>1.8</b>
NEM weighted average	2.4	2.1	2.2	1.9	<b>2.0</b>

Source: Australian Energy Regulator, State of the Energy Market 2007.

Plant failure or inadequate generation capacity can lead to interruptions to electricity supply. The reliability standard adopted in the NEM requires that over the long term 99.9 per cent of customers energy demand is met.

Two measures to assess the reliability of distribution networks are:

- system average interruption duration index (SAIDI) - Average total number of minutes that a distribution network customer is without electricity in a year excluding interruptions of one minute or less
- system average interruption frequency index (SAIFI) - Average number of times a customer's supply is interrupted per year.

## Electricity Reform

### *Inquiry into Electricity Supply in NSW*

The Government commissioned a report to assess the future base load electricity generation requirements of New South Wales, and the most efficient means for ensuring that the required investment funds would be forthcoming at the appropriate time. The report, released in September 2007, concluded that additional base load power supply would be required from 2013-14. Several recommendations were made including that the New South Wales Government should:

- divest the State of the retail arms of EnergyAustralia, Integral Energy and Country Energy
- divest the State of the generation businesses of Macquarie Generation, Delta Electricity and Eraring Energy
- in the event that the Government does not wish to sell generation, then it should implement an appropriately structured long-term leasing of current generation assets. The State would retain ownership of the assets, with operational and commercial control by the private sector.

The Government is considering the report's recommendations. The report is available at [www.premiers.nsw.gov.au](http://www.premiers.nsw.gov.au).

### *Energy Reform - The way forward for Australia*

In January 2007 the Electricity Reform Implementation Group (ERIG) issued a report on energy reform. The ERIG was established by the Council of Australian Governments (COAG) to review certain elements of the operation of Australia's energy sector and to suggest reforms to support more efficient energy markets. ERIG's findings included:

- Australia's energy markets are world-leading but further reforms would deliver more economic benefits
- government ownership (especially in electricity) in some jurisdictions is a barrier to entry and is impeding competition. Budget pressures are limiting further government energy investment. Concerns about government businesses having an advantaged position are limiting private sector energy investment. Disaggregation, privatisation and improved competitive neutrality arrangements are needed. Retail price caps are barriers to entry and should be relaxed
- transmission markets also require reforms to ensure a fully national market focus is achieved.

The report is available at: [www.erig.gov.au](http://www.erig.gov.au).

### **Market Arrangements**

The rapid changes in the energy sector pose challenges for both the market and regulators. In response, COAG agreed to a number of high level policy initiatives aimed at further strengthening market arrangements. In particular:

- establishing a National Energy Market Operator (NEMO) by June 2009. NEMO (now known as the Australian Energy Market Operator) will become the operator of wholesale electricity and gas markets and will be responsible for national electricity transmission planning
- a national implementation strategy for the progressive rollout of 'smart' electricity meters where a cost-benefit analysis shows it is efficient. This reform is aimed at providing better price signals to consumers to help them self-manage demand for electricity during peak periods.

### **Streamlining regulatory roles**

The Australian Energy Market Agreement, signed in June 2004, created the Australian Energy Market Commission with responsibility for rule making and market development. It also created the Australian Energy Regulator (AER) with responsibility for regulatory compliance.

The regulation of electricity transmission (long distance) networks was transferred from the ACCC to the AER in July 2005 and responsibility for distribution is scheduled to be transferred from State and Territory regulators to the AER from 2008.

These changes are designed to allow competitive energy markets, with a more national focus, to develop and enhance the operation of the existing NEM, so power can flow across state borders efficiently.

### **Emissions Trading Scheme (ETS)**

Electricity agencies will need to have adequate systems and processes in place for capturing, measuring and reporting their emissions from 1 July 2008.

The introduction of an ETS is an emerging challenge to the electricity industry and will present both risks and opportunities to a range of businesses. Uncertainties surrounding introduction of an ETS may however discourage desired long-term investments in electricity infrastructure if investors find it difficult to anticipate the risks and returns of such an investment. There is also a risk of divergent financial-reporting practises developing including an accounting mismatch of assets and liabilities without any authoritative Accounting Standards guidance.

On 28 September 2007 the Commonwealth *National Greenhouse and Energy Reporting Act 2007* came into force to establish a national reporting framework for carbon and energy consumption. A staged introduction of reporting obligations, subject to threshold limits, will commence from 1 July 2008. To meet these obligations organisations will need to be able to accurately determine their greenhouse gas emissions, energy consumption and energy production from this date. Organisations exceeding the specified threshold limits will be required to register for and commence online reporting for 2008-09. Guidelines for reporting, verification and offsets have not been released and are likely to be contained within relevant regulations.

Shaping the emissions trading arrangement is the Prime Minister's Task Group on Emissions Trading which recommended that the key design features of an Australian emissions trading model should be based on a 'cap and trade' model.

The preliminary timetable to begin full-scale emissions trading is:

Milestone	Date
Announce long term goal and establish emissions reporting and verification system	2008
Finalise key design features and establish legislative basis of the scheme	2009
Establish the first set of short-term caps and allocate permits	2011-12

## PERFORMANCE INFORMATION

### 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 2005	NSW 2006	National Industry 2006*	NSW 2007
Return on average equity (%) (a)	8.7	15.2	10.1	15.6
Return on average assets (%) (b)	7.6	10.2	7.8	8.7
Interest cover (times) (c)	2.5	3.6	3.3	3.5
Debt to equity ratio (d)	1.2	1.2	1.0	1.5

\*Productivity Commission whole of sector performance indicator's.

Calculated as:

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

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

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

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

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

New South Wales continued to out perform the national average. The reduction in the return on assets ratio was due to higher asset values following revaluations and additions to infrastructure assets.

### Generators and Distributors

Pre-tax profits of the distributors in 2006-07 were \$849 million compared to \$765 million in 2005-06. Profits before tax from generators were \$693 million (\$695 million).

Total revenue for the New South Wales electricity industry increased by \$699 million to \$10.1 billion. Expenses also increased, resulting in a \$28.0 million increase in profit after tax.

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

	Generators			Distributors		
	2005	2006	2007	2005	2006	2007
Return on average equity (%) (a)	10.7	18.0	<i>29.7</i>	9.4	16.3	<i>13.6</i>
Return on average assets (%) (b)	8.7	12.7	<i>9.8</i>	7.7	9.8	<i>8.5</i>
Interest cover times (c)	3.7	6.1	<i>6.5</i>	2.3	3.0	<i>2.8</i>
Debt to equity ratio (d)	0.7	0.6	<i>3.5</i>	1.8	1.8	<i>1.5</i>
Net assets \$m	2,624	2,725	<i>538</i>	3,233	3,399	<i>5,022</i>
Net profit \$m	281	485	<i>484</i>	340	535	<i>571</i>

Calculated as:

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

The reduction in generators' net assets was mainly due to an increase in liabilities for electricity hedging contracts. To ensure sufficient revenue is received to cover production costs, generators enter into hedge contracts. This strategy protects generators' revenue streams in times of falling spot prices, but also limits opportunities to benefit from rising spot prices. The increased derivative liabilities at reporting date for generators will unwind when the physical delivery of electricity is made on hedged contracts in the normal operations of each generator's business. Electricity distributors are the main counterparties for these hedge contracts as they need certainty in electricity purchase costs. The increase in distributors' net assets was due to the increase in the value of hedging contracts.

By August 2007, the electricity forward price curve had fallen significantly as the tight supply and record demand for electricity eased. As a result, the fair value of electricity derivatives liabilities for generators decreased and the fair value of electricity derivative asset for distributors decreased. This improved the net asset positions of generators and reduced the net asset positions for distributors.

Return on average equity increased by 12.1 per cent from the prior year due to the reduction in net assets discussed above.

## Transmission

TransGrid made a consistent profit before tax of \$172 million in 2006-07 (\$175 million in 2005-06). This resulted in the return on average assets remaining stable at 7.1 per cent (7.4 per cent) and a marginal reduction of 0.9 per cent on its return on average equity.

## FINANCIAL INFORMATION

### Distribution to Government

Electricity entities accrued distributions to the Government were \$1.4 billion (\$1.2 billion in 2005-06), comprising \$541 million (\$490 million) of tax and \$818 million (\$758 million) of dividends.



## Budget Estimates

The 2007-08 Budget Papers show the Government is expecting annual revenue of around \$1.1 billion over the next few years from electricity entities.

Revenue Source	Actual	Budget	Forward Estimates			
	2007 \$m	2007 \$m	2008 \$m	2009 \$m	2010 \$m	2011 \$m
Dividends	818	744	741	738	817	867
Income tax	<u>540</u>	<u>364</u>	<u>408</u>	<u>392</u>	<u>379</u>	<u>397</u>
<b>TOTAL</b>	<b>1,359</b>	<b>1,108</b>	<b>1,149</b>	<b>1,130</b>	<b>1,196</b>	<b>1,264</b>

## Industry Debt

Borrowing costs for the year were \$696 million compared to \$640 million in 2005-06. The industry's debt at 30 June 2007 was \$10.7 billion (\$9.4 billion at 30 June 2006). The table below highlights the trend of debt levels increasing in line with the significant capital works projects being undertaken.

	2005 \$m	2006 \$m	2007 \$m
<b>Generators</b>			
Borrowing costs	150	134	125
External debt	1,741	1,699	1,864
<b>Distributors</b>			
Borrowing costs	373	406	470
External debt	5,681	6,247	7,377
<b>TransGrid</b>			
Borrowing costs	104	100	101
External debt	1,520	1,455	1,454
<b>TOTAL BORROWING COSTS</b>	<u>627</u>	<u>640</u>	<u>696</u>
<b>TOTAL EXTERNAL DEBT</b>	<u>8,942</u>	<u>9,402</u>	<u>10,695</u>

## OTHER INFORMATION

### Asset Acquisition

In the 2007-08 State Budget the asset acquisition program was \$2.9 billion (\$2.3 billion 2006-07) with the main focus on meeting demand growth. Over 68 per cent of the 2007-08 capital program will be undertaken by the electricity distribution businesses, with a focus on meeting demand growth and ensuring network reliability and security.

### Electricity Tariff Equalisation Fund (ETEF)

Residential and small business customers below 160 MWh per annum have the option of remaining on regulated retail tariffs with their local retailer or choosing to enter into a negotiated supply contract with any NSW licensed retailer. The Fund manages the standard retailers' exposure to the variability of wholesale electricity prices only for the load that supplies regulated customers.

High spot prices can adversely impact operating results for standard retailers/distributors as they pay higher prices for electricity purchases that cannot be passed onto their customers. For regulated customers, standard retailers/distributors receive payment from the Government's Electricity Tariff Equalisation Fund. As retailers/distributors do not receive ETEF payments for customers on negotiated fixed price contracts, they are exposed to these customers at times of rising spot prices. Hedging activities are undertaken to reduce this exposure.

New South Wales Government-owned retailers/distributors 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.

At 30 June 2007, the Fund was \$822,000 in deficit, a significant decrease from the surplus of \$271 million at 30 June 2006. This resulted from the Fund having to make significant payments to retailers/distributors due to the increase in electricity wholesale prices in June 2007. The Fund's transactions were:

Payments	Generators		Distributors/Retailers	
	2006 \$m	2007 \$m	2006 \$m	2007 \$m
Into ETEF	--	121	374	169
From ETEF	--	--	311	582

The NSW Government has announced that the Fund will be phased out between September 2008 and June 2010.

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 distributors to manage demand instead of increasing the capacity of the network. IPART plans for the distribution prices across the State to increase in real terms by an average 14 per cent over the five years of the determination, or 2.7 per cent per annum.

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

The Australian Competition and Consumer Commission (ACCC) sets current transmission prices. A determination for TransGrid's and EnergyAustralia's transmission services was issued on 27 April 2005, allowing both a nominal return of 8.9 per cent on their weighted average cost of capital. This determination covers a five year period from 1 July 2004.

## **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 (except for TransGrid).

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

## **INDUSTRY FINANCIAL TABLES**

Following are abridged income statement and balance sheet tables for generators and distributors for 2006-07 and the previous year. Comment on each entity and TransGrid follows this section.

## GENERATORS

	Delta Electricity		Macquarie Generation		Eraring Energy		Total	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m	2007 \$m	2006 \$m	2007 \$m	2006 \$m
<b>Abridged Income Statements (year ended 30 June)</b>								
Total revenue	919.5	888.2	1,100.5	958.4	876.8	728.5	2,896.8	2,575.1
Profit before income tax	201.0	234.7	283.7	267.1	207.9	192.8	692.6	694.6
Income tax equivalent	61.1	70.3	84.8	81.3	62.2	57.9	208.1	209.5
Dividends paid and provided	113.6	131.6	180.0	130.0	132.1	41.3	425.7	302.9
<b>Abridged Balance Sheets (at 30 June)</b>								
Total assets	3,221.6	2,148.4	3,876.3	2,972.0	2,921.6	1,571.4	10,019.5	6,691.8
Total liabilities	3,005.9	1,418.4	3,933.7	1,968.6	2,541.6	579.6	9,481.2	3,966.7
Net assets/net liabilities	215.7	730.0	(57.4)	1,003.4	380.0	991.8	538.3	2,725.1
Retained earnings (at 30 June)	85.2	58.7	91.7	71.8	53.8	40.3	230.7	170.8
<b>Financial Performance Indicators* (year ended 30 June)</b>								
Return on average equity (%)	29.6	24.7	**	18.7	21.2	13.0	29.7	18.0
Return on average assets (%)	9.1	14.0	10.2	11.5	9.9	13.3	9.8	12.7
Debt/equity	3.1	0.8	**	0.9	0.8	0.2	3.5	0.6
Interest cover (times)	5.6	5.9	5.2	4.8	15.2	13.3	6.5	6.2

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

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

## DISTRIBUTORS

	Energy Australia		Integral Energy		Country Energy		Total
	2007 \$m	2006 \$m	2007 \$m	2006 \$m	2007 \$m	2006 \$m	2006 \$m
<b>Abridged Income Statements (year ended 30 June)</b>							
Total revenue	2,968.8	2,853.8	1,537.5	1,434.3	2,198.0	2,038.0	6,278.7
Profit before income tax	374.1	346.1	239.3	203.8	849.1	765.0	765.0
Income tax equivalent	115.4	98.8	86.0	65.2	277.8	229.9	229.9
Dividends paid and provided	162.3	205.3	107.0	103.9	320.6	385.9	385.9
<b>Abridged Balance Sheets (at 30 June)</b>							
Total assets	8,947.9	6,589.3	4,147.1	3,179.4	4,616.0	3,727.4	13,496.1
Total liabilities	6,490.6	4,864.3	2,823.1	2,296.0	3,375.6	2,936.4	10,096.7
Net assets	2,457.3	1,725.0	1,324.0	883.4	1,240.4	791.0	3,399.4
Retained earnings (at 30 June)	416.5	316.8	141.5	95.2	472.5	362.3	774.3
<b>Financial Performance Indicators* (year ended 30 June)</b>							
Return on average equity (%)	12.4	14.4	13.9	15.6	15.7	26.7	16.3
Return on average assets (%)	7.6	8.4	9.5	9.8	9.1	11.5	9.4
Debt/equity	1.4	1.6	1.2	1.6	1.8	2.5	1.8
Interest cover (times)	2.7	2.9	3.2	3.1	2.7	3.1	2.9

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

# Delta Electricity

## AUDIT OPINION

The audits of the financial reports of Delta Electricity and its controlled entity for the year ended 30 June 2007 resulted in unqualified Independent Auditor's Reports.

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

## PERFORMANCE INFORMATION

Delta Electricity provided the following information regarding its performance:

Year ended 30 June	Actual				Target*
	2004	2005	2006	2007	2007
Generation of electricity					
- gigawatt hours sent out	21,308	21,740	21,948	<i>21,952</i>	<i>23,265</i>
Plant availability					
- total all stations (%)	92.9	87.0	86.5	<i>75.5</i>	<i>86.4</i>
Thermal efficiency					
- total all stations (%)	35.5	35.4	35.0	<i>35.2</i>	<i>35.5</i>
Earnings before interest and tax (\$m)	177.3	208.5	282.6	<i>244.9</i>	<i>197.9</i>
Return on equity (%) (a)	9.3	17.7	22.5	<i>64.9</i>	<i>13.9</i>
Return on assets (%) (b)	9.4	11.0	13.2	<i>7.6</i>	<i>8.5</i>
Interest cover (times)	2.7	3.8	5.9	<i>5.6</i>	<i>4.6</i>
Debt to equity (%)	80.3	95.9	79.9	<i>306.2</i>	<i>80.6</i>
Total distributions to government (\$m)	111.0	169.6	201.9	<i>174.7</i>	<i>154.9</i>
Capital expenditure (\$m)	24.8	47.6	97.4	<i>150.4</i>	<i>144.4</i>

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

(a) profit after tax divided by equity.

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

Plant availability measures the total time generating units were either in service or able to be placed in service over a given period. Delta Electricity's plant availability for 2006-07 was under target due to a number of unrelated plant issues including a transformer failure at Vales Point and turbine issues at Mt Piper and Wallerawang.

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

Return on equity, and debt to equity both increased due to a reduction in equity. The decrease in equity was largely due to unfavourable market value movements in electricity hedging contracts. Delta, like other generators, enters into hedge contracts with retailers for a portion of expected power generation to give certainty to revenue. This strategy protects revenue streams from power generation in times of falling spot prices, but limits revenue opportunities in times of increasing spot prices. The spot price of electricity increased from \$37.24 MWh for the year ended 30 June 2006 to \$58.72 MWh for the year ended 30 June 2007. The higher prices reflected supply constraints and demand requirements; refer to the 'Overview of the Electricity Industry' for further details. The high prices for electricity at year end resulted in a significant increase in the value of electricity hedge contract liabilities and a corresponding reduction in equity.

Since year end, drought conditions have eased and supply into the market has improved. The resulting decrease in wholesale electricity prices has resulted in an improved equity balance.

Distributions to government comprised a dividend of \$114 million and a taxation equivalent of \$61.1 million.

## OTHER INFORMATION

### Major Projects

#### *Colongra Gas Turbine Facility*

Delta Electricity is constructing a 667 MW gas turbine power station adjacent to its existing Munmorah power station. The new station will operate as a peaking plant supplying electricity at short notice during times of high demand. The plant is scheduled for completion in the second half of 2009.

#### *Joint Venture Co-generation Plants*

In 2002 Delta Electricity, through its subsidiary company, entered into a joint development to design, construct and operate two electricity co-generation plants. These plants will burn sugar cane waste to produce electricity. This joint venture is in the construction phase and the plants are expected to be commissioned by mid 2008.

## FINANCIAL INFORMATION

## Abridged Consolidated Income Statement

Year ended 30 June	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
TOTAL REVENUE	<u>919,526</u>	<u>888,224</u>	<u>919,271</u>	<u>887,465</u>
PROFIT BEFORE FINANCE COSTS, DEPRECIATION AND TAX	<u>325,122</u>	<u>350,296</u>	<u>325,160</u>	<u>349,445</u>
Finance costs	<u>(43,916)</u>	<u>(47,820)</u>	<u>(43,916)</u>	<u>(47,820)</u>
Depreciation	<u>(80,218)</u>	<u>(67,728)</u>	<u>(80,218)</u>	<u>(67,728)</u>
PROFIT BEFORE TAX	<u>200,988</u>	<u>234,748</u>	<u>201,026</u>	<u>233,897</u>
Income tax equivalent expense	<u>(61,095)</u>	<u>(70,257)</u>	<u>(61,107)</u>	<u>(70,002)</u>
PROFIT AFTER TAX	<u>139,893</u>	<u>164,491</u>	<u>139,919</u>	<u>163,895</u>
Dividend provided	<u>113,619</u>	<u>131,638</u>	<u>113,619</u>	<u>131,638</u>

Total revenue included \$874 million in electricity sales compared to \$839 million in the previous year. Sales revenue is net of a \$42.4 million payment to the Electricity Tariff Equalisation Fund. Despite an increase in revenue, profit decreased due to higher operating costs, some of which were due to the impact of the drought and increased depreciation.

## Abridged Consolidated Balance Sheet

At 30 June	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Current assets	<u>612,580</u>	<u>212,431</u>	<u>612,110</u>	<u>211,490</u>
Non-current assets	<u>2,608,997</u>	<u>1,935,982</u>	<u>2,537,186</u>	<u>1,895,717</u>
TOTAL ASSETS	<u>3,221,577</u>	<u>2,148,413</u>	<u>3,149,296</u>	<u>2,107,207</u>
Current liabilities	<u>1,460,717</u>	<u>433,878</u>	<u>1,456,912</u>	<u>429,957</u>
Non-current liabilities	<u>1,545,224</u>	<u>984,571</u>	<u>1,475,544</u>	<u>944,577</u>
TOTAL LIABILITIES	<u>3,005,941</u>	<u>1,418,449</u>	<u>2,932,456</u>	<u>1,374,534</u>
NET ASSETS	<u>215,636</u>	<u>729,964</u>	<u>216,840</u>	<u>732,673</u>

Current assets increased mainly due to a \$385 million increase in receivables. This largely represented unsettled electricity sales made to the National Electricity Market Management Company during June 2007.

Non-current assets increased mainly due to a \$275 million revaluation and additions of \$148 million to property, plant and equipment.

Total liabilities increased mainly as a result of a \$1.0 billion increase in the market value of electricity hedge contract derivatives. This increase was also the main reason for the decrease in net assets.



## ENTITY 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 Treasurer and the Minister for Finance.

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

For more information on Delta Electricity, refer to [www.de.com.au](http://www.de.com.au).

## CONTROLLED ENTITY

Year ended 30 June	Delta Electricity Australia Pty Ltd	
	2007 \$'000	2006 \$'000
Revenue	255	946
Expenses	(293)	(95)
Income tax revenue/(expense)	12	(255)
(Loss)/profit after tax	(26)	596
Total assets	89,898	48,602
Total liabilities	91,102	51,310
Net liabilities (at 30 June)	(1,204)	(2,708)

Total assets increased mainly due to additions associated with the construction of the co-generation joint venture plant. Total liabilities increased largely due to \$10.2 million in advances from Delta Electricity and \$29.0 million in bank loans required to fund construction activities.

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

# Eraring Energy

## AUDIT OPINION

The audits of the financial reports for Eraring Energy and its controlled entity, Pacific Western Pty Limited, for the year ended 30 June 2007 resulted in unqualified Independent Auditor's Reports.

## PERFORMANCE INFORMATION

### Operational Performance

Eraring Energy operates a diverse portfolio of generating assets comprising thermal coal, hydro and wind. Some of the indicators Eraring Energy uses to assess its electricity generation performance are shown below.

Year ended 30 June	Actual					Target
	2003	2004	2005	2006	2007	2007
Generation of electricity (gigawatt hours)						
Thermal coal	14,744	14,567	12,703	14,216	17,530	15,600
Hydro	173	171	202	309	114	300
Wind	31	27	28	26	24	28
Total	14,948	14,765	12,933	14,551	17,668	15,928
Plant availability (%)	92.5	89.6	85.9	86.9	93.0	95.5
Thermal efficiency (%)	38.3	38.2	37.9	37.9	37.9	38.1

Source: Eraring Energy.

Electricity generation at Eraring Power Station increased to a record level of 17,530 gigawatt hours, an increase of 23 per cent over the previous year.

Renewable energy sources of hydro and wind accounted for 0.78 per cent of total production (2.3 per cent in 2005-06). The lower hydro production was due to the continued effect of the drought.

### 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.

### Thermal Efficiency (Eraring Power Station)

Thermal efficiency indicates the percentage of energy contained in the coal used to produce the electricity. Key drivers are the quality of energy fuel used and plant performance.

## Financial Performance (Consolidated)

	Actual					Target*
	2003	2004	2005	2006	2007	2007
Earnings before interest and tax (\$m)	65.3	110.5	113.2	208.5	222.5	91.0
Return on equity (%) (a)	3.8	6.2	6.9	9.8	49.4	7.7
Return on assets (%) (b)	4.7	7.5	7.4	7.2	6.9	5.8
Interest cover (times)	9.1	8.9	10.0	7.2	13.8	3.5
Total distributions to government (\$m)+	58.2	98.1	115.7	97.0	193.8	56.5
Capital expenditure (\$m)	20.0	33.0	43.4	36.3	38.0	59.6

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

+ Total distribution before adjustment for Community Service Obligation.

(a) Profit before income tax, interest expense and movements in superannuation, financial instruments and insurance provision divided by equity.

(b) Profit before income tax and movements in superannuation, financial instruments and insurance provision divided by total assets.

Financial ratios achieved during the year were well above agreed targets. The large variances were due to higher average spot prices and record generation levels mainly driven by the prolonged effects of the drought. Lower than budgeted financing costs and expenditure on external services were also contributing factors.

## OTHER INFORMATION

## 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 upgrade of existing units at Burrinjuck Hydro Power Station. The claim is currently for \$14.0 million. Eraring Energy is contesting the quantum of the claim and has made a without prejudice offer of settlement of \$3.0 million. Arbitration concluded in June 2007 with a decision pending.

## Claim for Damages

A property developer sought unspecified damages and remediation of land at a property neighbouring Eraring Power Station. The claim related to the alleged contamination of the site by the Electricity Commission. Eraring, as successor to the Electricity Commission, lodged a defence to the claim. The matter was settled during the year.

## Collie Power Station Operation and Maintenance Agreement

Eraring Energy's controlled entity, Pacific Western Pty Limited (Pacific Western), terminated its agreement with Verve (formerly Western Power), the Western Australian Government energy organisation, for the operation and maintenance of the power station at Collie, in Western Australia, on 24 March 2005. Verve submitted a claim of \$5.0 million for damages incurred as a direct consequence of the early termination of the contract. In January 2007, Pacific Western resolved the claim with payment of \$3.4 million.

## Major Project Expenditure - Eraring Power Station

Eraring Energy commenced the purchase, installation and commissioning of a Black Start Gas Turbine at the Eraring Power Station in December 2005. The purchase was completed in June 2007, however, the installation and commissioning phase of the project is not expected to be finalised until 31 January 2008. The project has a budget of \$24.4 million and expenditure to date has been \$18.5 million.

## FINANCIAL INFORMATION

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

### Abridged Income Statement

Year ended 30 June	2007 \$'000	2006 \$'000
REVENUE	<u>876,847</u>	<u>728,542</u>
PROFIT BEFORE BORROWING COSTS, DEPRECIATION AND TAX	292,514	277,571
Borrowing costs	14,663	15,718
Depreciation	<u>69,979</u>	<u>69,046</u>
PROFIT BEFORE TAX	207,872	192,807
Income tax equivalent	<u>62,197</u>	<u>57,881</u>
PROFIT AFTER TAX	<u>145,675</u>	<u>134,926</u>
Dividend provided	132,131	41,320

Revenue included \$849 million in electricity sales compared to \$630 million in the previous year. The increase was mainly due to record spot prices and generation levels primarily brought about by the drought. The higher electricity sales revenue was partly offset by a contribution to the Electricity Tariff Equalisation Fund of \$32.6 million.

### Abridged Balance Sheet

At 30 June	2007 \$'000	2006 \$'000
Current assets	552,610	123,358
Non-current assets	<u>2,368,997</u>	<u>1,448,022</u>
TOTAL ASSETS	<u>2,921,607</u>	<u>1,571,380</u>
Current liabilities	1,638,980	225,474
Non-current liabilities	<u>902,623</u>	<u>354,078</u>
TOTAL LIABILITIES	<u>2,541,603</u>	<u>579,552</u>
NET ASSETS	<u>380,004</u>	<u>991,828</u>

The record spot price of electricity at 30 June, resulted in significant increases in trade receivables, payables, non-current assets and derivative liabilities as at 30 June 2007.

Property, plant and equipment increased by \$554 million. The increase was caused by the expected higher forward prices of electricity used in determining the discounted cash flow valuation, effective 30 June 2007.

The increase in liabilities was due to an increase in the fair value of electricity derivative liabilities for hedge contracts. The fair value of these liabilities at 30 June 2007 was \$1.4 billion (\$120 million 2005-06). The increase was caused by the high electricity spot price at 30 June which flowed through to forward prices. Negative fair value movements arise when the forward prices are higher than the actual contract prices.

The increase in derivatives liabilities does not impact the Corporation's cash flow or its ability to pay its debts when they become due and payable.

By 31 August 2007, forward prices had substantially reduced resulting in the fair value of derivative liabilities falling to \$338 million.

Eraring repaid capital of \$184 million to NSW Treasury (\$49.0 million in 2005-06) effectively funded by increased borrowings with NSW Treasury Corporation for the same amount. The Board provided for a dividend of \$132 million to be paid to NSW Treasury (\$41.3 million in 2005-06).

## 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

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

For further financial and other information on this entity we have listed the entity's website.

Entity Name	
Pacific Western Pty Limited	<a href="http://www.eraring-energy.com.au">www.eraring-energy.com.au</a>

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# Macquarie Generation

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## AUDIT OPINION

The audit of the Corporation's financial report for the year ended 30 June 2007 resulted in an unqualified Independent Auditor's Report.

## KEY ISSUES

### Net Assets Deficiency

At 30 June 2007, the Corporation's liabilities exceeded its assets by \$57.4 million compared with surplus assets of \$1.0 billion at 30 June 2006.

The significant increase in liabilities was primarily due to movements in the fair value of derivative liabilities for electricity hedged contracts, which increased by \$1.7 billion as a result of record high electricity forward prices at 30 June 2007.

The increase in the derivative liabilities as at its reporting date has no impact on the Corporation's cash flows or its ability to pay its debts. The liabilities unwind when the physical delivery of electricity is made on hedged contracts in the normal course of the Corporation's operations.

By 15 August 2007, the fair value of the electricity derivative liabilities had decreased by \$1.0 billion as a result of falling electricity forward prices. This returned the Corporation's financial position to one where assets exceeded liabilities by \$600 million.

### Dividends Paid to NSW Government

We recommend consideration be given to improved documentation of negotiations between the Corporation's Board and NSW Treasury when additional dividends are requested in excess of the amounts agreed in the Statement of Corporate Intent. This process should give assurance that such payments will not impinge on the strategic operational plans of the Corporation.

The 'target dividend' agreed with the NSW Treasury at the beginning of the financial year was \$130 million. However, with the substantial increase in the Corporation's net profit during 2006-07, NSW Treasury requested the Corporation to pay an additional dividend of \$50.0 million.

## PERFORMANCE INFORMATION

## Operational Performance

Year ended 30 June	Actual		
	2005	2006	2007
Generation of electricity (gigawatt hours sent out)			
Bayswater	16,867	16,540	<i>14,310</i>
Liddell	<u>9,737</u>	<u>10,057</u>	<u><i>10,825</i></u>
<b>Total</b>	<b>26,604</b>	<b>26,597</b>	<b><i>25,135</i></b>
Plant availability			
Bayswater (%)	87.0	90.1	<i>89.8</i>
Liddell (%)	81.9	76.9	<i>85.5</i>
Thermal efficiency			
Bayswater (%)	36.0	35.8	<i>34.9</i>
Liddell (%)	32.5	32.6	<i>33.2</i>
Equivalent forced outages (%)	2.3	5.1	<i>4.9</i>

The Corporation has a policy of not disclosing operational performance targets. Accordingly these have not been included in the above table.

Macquarie Generation's market share of the National Electricity Market is 12.9 per cent (13.9 per cent in 2005-06). Its market share fell slightly due to water conservation measures taken, resulting in lower production compared with the previous year.

Total electricity generated from Bayswater decreased by 13 per cent principally due to the Corporation's overall strategy to conserve water in response to the drought. Production was shifted from Bayswater to Liddell, which uses less cooling water per unit of energy.

The Corporation spent \$10.5 million upgrading Liddell's high-pressure and intermediate-pressure turbines during the year. This expenditure complements \$74.0 million invested in new low-pressure turbines and production control systems, commenced in 2002, aimed at lifting generating efficiency by 2.3 per cent, reducing fuel and water consumption and cutting greenhouse gas emissions.

## Financial Performance

Year ended 30 June	Actual		Target*
	2006	2007	2007
Earnings before interest and tax (\$m)	328.7	342.6	249.4
Return on equity (%)	26.6	--**	19.8
Return on assets (%)	11.1	8.8	8.6
Interest cover (times)	5.3	5.8	4.3
Debt to equity (%)	88.3	--**	92.3
Total distributions to government (\$m)	211.2	264.8	187.2
Capital expenditure (\$m)	68.8	166.4	157.0

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

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

Financial ratios exceeded targets and prior year actuals due to earnings before interest and tax exceeding target by \$93.2 million (37 per cent). The main contributor was a \$186 million increase in sales revenue from higher electricity market prices. This was partially offset by unrealised losses of \$95.9 million associated with movements in the fair value of electricity derivatives.

Capital expenditure increased by \$97.6 million over the prior year primarily due to \$86.0 million expenditure on the construction of the Antiene rail coal unloader on the north western side of Lake Liddell.

## OTHER INFORMATION

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

## Major Projects

*Tomago Gas-Fired Power Station*

Development approval was granted in December 2003 for the construction of a gas-fired power station at Tomago. The project qualifies as a project of State significance for the NSW Government, and therefore requires approval by the Budget Committee prior to Shareholder approval for development to commerce. To date, no approval has been granted. The development approval expires in November 2008.

The development is designed to contribute to meeting peak period demand. The Corporation may invite private sector participation in the development.



## FINANCIAL INFORMATION

## Abridged Income Statement

Year ended 30 June	2007 \$'000	2006 \$'000
TOTAL REVENUE	<u>1,100,501</u>	958,433
PROFIT BEFORE BORROWING COSTS, DEPRECIATION AND TAX	457,408	442,897
Finance costs	66,832	70,944
Depreciation	<u>106,852</u>	104,855
PROFIT BEFORE TAX	283,724	267,098
Income tax equivalent expense	<u>84,808</u>	81,247
PROFIT AFTER TAX	<u>198,916</u>	185,851
Dividend provided	180,000	130,000

The Corporation's total revenue increased by \$142 million due to rising spot prices from March 2007 to June 2007. In June 2007, total sales were \$185 million compared to the monthly budget of \$59.9 million. The Corporation earned an average spot selling price of \$61.79 per megawatt hour (MWh) compared to the budget of \$36.53 per MWh. The average NSW pool price was \$58.72 per MWh for 2006-07.

Net profit after tax of \$199 million was up \$13.0 million on the previous year and \$65.4 million on budget.

## Abridged Balance Sheet

At 30 June	2007 \$'000	2006 \$'000
Current assets	784,910	422,995
Non-current assets	<u>3,091,361</u>	2,549,073
TOTAL ASSETS	<u>3,876,271</u>	2,972,068
Current liabilities	2,052,851	582,850
Non-current liabilities	<u>1,880,833</u>	1,385,688
TOTAL LIABILITIES	<u>3,933,684</u>	1,968,538
NET (LIABILITIES)/ASSETS	<u>(57,413)</u>	1,003,530

Current assets increased significantly due to trade receivables rising by \$427 million as a result of electricity sales at high spot prices in June 2007.

Current liabilities increased mainly due to movements in the fair value of derivative liabilities of (\$1.1 billion) resulting from high spot prices in June 2007 and an increasing forward price curve.

## 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 Treasurer and the Minister for Finance.

For further information on Macquarie Generation, refer to [www.macgen.com.au](http://www.macgen.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 2007 resulted in unqualified Independent Auditor's Reports.

## PERFORMANCE INFORMATION

### 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:

	Actual		Target*
	2006	2007	2007
Customer minutes without supply (unplanned supply interruptions - minutes)	301	242	323
Customer satisfaction index (%)	86	88	85
Lost time (injuries per one million hours worked)	6.7	5.8	4.0

\* Targets provided by Country Energy.

The decrease in customer minutes without supply reflects lower levels of storm activity and supply interruptions in 2006-07 compared those to the previous year. The target for 2007 was derived from the targets mandated by New South Wales Government licence conditions imposed on distribution network service providers.

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

### Financial Performance

	Actual		Target
	2006	2007	2007
Earnings before interest and tax* (\$m)	389.9	376.5	311.4
Return on equity* (%) (a)	26.7	15.7	15.2
Return on assets* (%) (b)	11.3	9.0	8.2
Interest cover** (times)	3.2	2.7	2.0
Debt to equity* (%)	71.3	64.0	75.6
Capital expenditure* (\$m)	456.5	500.8	519.0
Total distributions to government** (\$m)	158.5	127.8	98.9

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

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

(a) profit after tax divided by average equity.

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

The Corporation's financial performance was impacted by two significant items.

The net fair value gains in financial instruments provided revenue of \$48.7 million (\$8.8 million in 2005-06). The increase was primarily due to the forward electricity market price volatility particularly near year end. Country Energy reported that if its energy derivative instruments were valued at 31 July 2007 the \$48.7 million would be amended to \$17.7 million. This highlights the impact of the volatile nature of the electricity spot price market. Refer to the 'Overview of the Electricity Industry', earlier in this report, for further details on the volatility in electricity spot prices.

An additional \$35.9 million contribution to revenue resulted from the sale of a subsidiary company, EMLINK Pty Limited.

Distributions to government include a dividend of \$51.3 million provided for at 30 June 2007.

The decreases in the return on assets and return on equity are attributable to the significant increase in total assets commented on later in this report.

## FINANCIAL INFORMATION

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

### Abridged Income Statement

Year ended 30 June	2007 \$'000	2006 \$'000
<b>TOTAL REVENUE</b>	<b><u>2,198,007</u></b>	<b><u>2,038,029</u></b>
<b>PROFIT BEFORE BORROWING COSTS, DEPRECIATION AND TAX</b>	<b>537,663</b>	541,658
Borrowing costs	142,829	128,053
Depreciation	<u>159,171</u>	<u>145,847</u>
<b>PROFIT BEFORE TAX</b>	<b>235,663</b>	267,758
Income tax equivalent	<u>76,452</u>	<u>81,723</u>
<b>PROFIT AFTER TAX</b>	<b><u>159,211</u></b>	<b><u>186,035</u></b>
Dividend provided	51,302	76,756

Revenue includes \$2.0 billion from the sale and delivery of electricity and gas (\$1.9 billion in 2005-06). Associated costs were \$1.8 billion (\$1.6 billion).

## Abridged Balance Sheet

At 30 June	2007 \$'000	2006 \$'000
Current assets	<i>1,183,084</i>	604,096
Non-current assets	<u>3,432,877</u>	<u>3,123,297</u>
<b>TOTAL ASSETS</b>	<b><u>4,615,961</u></b>	<b><u>3,727,393</u></b>
Current liabilities	<i>1,105,787</i>	1,102,733
Non-current liabilities	<u>2,269,777</u>	<u>1,833,712</u>
<b>TOTAL LIABILITIES</b>	<b><u>3,375,564</u></b>	<b><u>2,936,445</u></b>
<b>NET ASSETS</b>	<b><u>1,240,397</u></b>	<b><u>790,948</u></b>

The significant increase in current assets was mainly due to the increase in derivative financial instruments of \$551 million.

The increase in non-current assets included \$501 million from the acquisition of property, plant and equipment during the year.

Liabilities rose primarily due to an additional \$232 million in debt, increasing the balance of loans outstanding to \$2.2 billion, and an increase of \$160 million in deferred tax liabilities.

## 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](http://www.countryenergy.com.au).

## CONTROLLED ENTITIES

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

Entity Name
Country Energy Gas Pty Limited
Northpower Energy Services Pty Limited

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# EnergyAustralia

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## AUDIT OPINION

The audits of the financial reports of EnergyAustralia (the Corporation) and its controlled entities for the year ended 30 June 2007 resulted in unqualified Independent Auditor's Reports.

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

## KEY ISSUES

### Wholesale Electricity Costs

During the last quarter of 2006-07, the Corporation recognised significant losses on electricity sales due to a three-fold increase in the wholesale electricity price. A tightening of the supply in the wholesale market and record demand contributed to the price increase.

The Corporation manages market volatility by entering into swaps and options as cash flow hedges against movements in spot prices. Due to the recent volatility in the wholesale market, the Corporation has adopted strategies to manage and reduce the risk inherent in volatile markets.

### Sale of Energy Australia Pty Ltd

On 18 May 2007, International Power exercised its option rights under the Partnership Agreement to buy the corporation's remaining 50 per cent share of the partnership business for \$142 million. This sale was completed by selling the shares in the Corporation's partnership subsidiary company, Energy Australia Pty Ltd (EAPL) to International Power. The consolidated entity realised \$49.3 million profit on loss of control of EAPL in 2006-07.

With this transaction, the Corporation ceased operations in the Victorian and South Australian electricity retail markets.

### Electricity Network System

The Corporation will spend \$650 million of capital investment up to 2009 to meet its reliability of service licence conditions. The Independent Pricing and Regulatory Tribunal approved price increases from 1 July 2006, which will enable the Corporation to recover some of these additional costs.

The Corporation plans to spend almost \$4.2 billion on capital works over the next four years to 2010-11. During 2006-07, the Corporation spent \$697 million (\$525 million in 2005-06) on electricity network system capital works program.

The Minister for Energy and Utilities approved new reliability of service conditions to be effective from 1 August 2005. The reliability of service conditions should improve reliability of the network in NSW.

A significant portion of the network is over 30 years old and the estimated cost to replace these assets is between \$5.0 billion and \$6.0 billion.

## New Gas Peaking Generation Plant

The Corporation has received in principle approval for the development of a 350 megawatt open cycle gas turbine power station. The plant will provide peaking capacity and will be built in Marulan. The target commissioning date is June 2010. Final approval is subject to meeting certain conditions.

## Critical Information Technology Systems

The Corporation reported on the adequacy of backup and recovery of its 21 most critical information technology systems at 30 July 2007. The report considered:

- the robustness of the current data and applications backup arrangements and processes. It assessed the risk profile for the majority of the systems as low, metering systems as medium and the technical drawing management system as significant
- a combined assessment of the likelihood of a disaster and the consequence of a disaster occurring. In the event of a datacentre site disaster, the recovery risk is likely to be significantly higher due to unclear priority for application restoration and the need to establish a comprehensive restoration plan including end to end process testing.

The Corporation's Critical IT Exposures Remediation Program is currently addressing these issues. The program will be completed by the end of October 2007. There are ten major remediation projects within the current program which are scheduled for completion by the end of December 2007. In addition, there are 13 Review and Assessment projects being completed which will define further remediation projects for implementation.

## PERFORMANCE INFORMATION

The Corporation provided the following information regarding its performance.

### 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, employee safety and customer gains and losses.

Year ended 30 June	Actual			Target (i)
	2005	2006	2007	2007
Customer satisfaction index (%)	96	95	94	>60
Minutes customers were without supply (ii)	90	90	102	98-112
Lost time injury frequency - (hours per million hours worked)	3.8	3.8	2.9	<5.0
Customers at year end (000's)	1,539	1,557	1,568	1,228

Source: EnergyAustralia Annual Report 2006-07.

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

(ii) 2007 results follow the "Design, Reliability and Performance Licence Conditions" method in accordance with the Institute of Electrical and Electronic Engineers guidelines. Prior year results have been reinstated on this basis.

The Corporation achieved most of its performance targets for the year. The volatility of wholesale electricity market, suspension of sales of electricity contracts in April 2007 and increasing competition within the industry affected the Corporation's performance in retaining and gaining customers.

### Environmental Performance

The Corporation met Commonwealth Renewable Energy targets under the *Renewable Energy (Electricity) Act 2000* and achieved its NSW Greenhouse Gas abatement target under the *Electricity Supply Amendment (Greenhouse Gas Emission Reduction) Act 2002* for the calendar year ended 31 December 2006.

During the year the Corporation supplied 30,335 (30,259) gigawatt hours of electricity. The Corporation purchased green power rights guaranteeing the generation of 634 (538) gigawatt hours of renewable electricity from accredited Green Power generators.

### Financial Performance

Year ended 30 June	Actual				Target(i)
	2004	2005	2006	2007	2007
Earnings before interest and tax (\$m)	426.2	378.9	527.2	594.1	483.5
Return on average equity (%)	8.2	8.6	14.4	12.4	10.8
Return on average assets (%)	7.8	6.5	8.4	7.6	7.1
Debt to equity (%)	110.7	159.6	162.8	144.6	191.1
Total distributions to government (\$m) (ii)	184.2	144.2	304.0	277.7	215.0
Capital expenditure (\$m) (excluding capital contribution)	344.4	483.7	603.9	783.5	719.4

Source: EnergyAustralia SCL.

(i) Target agreed with shareholder Ministers in the SCL adjusted to include capital contributions.

(ii) Reflects Income tax equivalent, and dividend expenses.

The Corporation's results for 2006-07 exceeded all financial performance targets outlined in its Statement of Corporate Intent and showed significant movements since 2004.

### OTHER INFORMATION

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



## FINANCIAL INFORMATION

The following information relates to the Corporation's consolidated finances.

## Abridged Consolidated Income Statement

Year ended 30 June	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
TOTAL REVENUE	<u>2,968,800</u>	<u>2,853,800</u>	<u>2,886,100</u>	<u>2,903,800</u>
PROFIT BEFORE FINANCE COSTS, DEPRECIATION, AND TAX	<u>861,800</u>	<u>785,100</u>	<u>779,100</u>	<u>825,400</u>
Finance costs	<u>220,000</u>	<u>181,100</u>	<u>220,000</u>	<u>181,100</u>
Depreciation and amortisation	<u>267,700</u>	<u>257,900</u>	<u>267,700</u>	<u>257,900</u>
PROFIT BEFORE TAX	<u>374,100</u>	<u>346,100</u>	<u>291,400</u>	<u>386,400</u>
Income tax equivalent	<u>115,400</u>	<u>98,800</u>	<u>102,900</u>	<u>102,500</u>
PROFIT AFTER TAX	<u>258,700</u>	<u>247,300</u>	<u>188,500</u>	<u>283,900</u>
Dividend provided	<u>162,300</u>	<u>205,200</u>	<u>162,300</u>	<u>205,200</u>

Total revenue included \$2.7 billion (\$2.6 billion) for the sale and delivery of energy (electricity and gas) to retail customers, public lighting system charges and community service obligation refunds. Costs associated with the distribution of energy totalled \$2.4 billion (\$2.3 billion).

Profit before tax increased due to share of profit of partnership of \$33.4 million and gain on sale of EAPL \$49.3 million which were offset by the large increase in wholesale electricity costs in the last quarter of the year.

## Abridged Consolidated Balance Sheet

At 30 June	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Current assets	<u>1,976,000</u>	<u>800,400</u>	<u>1,976,000</u>	<u>860,500</u>
Non-current assets	<u>6,971,900</u>	<u>5,788,900</u>	<u>6,984,500</u>	<u>5,773,700</u>
TOTAL ASSETS	<u>8,947,900</u>	<u>6,589,300</u>	<u>8,960,500</u>	<u>6,634,200</u>
Current liabilities	<u>2,605,100</u>	<u>1,839,500</u>	<u>2,605,100</u>	<u>1,843,200</u>
Non-current liabilities	<u>3,885,500</u>	<u>3,024,800</u>	<u>3,885,500</u>	<u>3,024,800</u>
TOTAL LIABILITIES	<u>6,490,600</u>	<u>4,864,300</u>	<u>6,490,600</u>	<u>4,868,000</u>
NET ASSETS	<u>2,457,300</u>	<u>1,725,000</u>	<u>2,469,900</u>	<u>1,766,200</u>

Assets increased due to a significant movement in energy debtors and derivative assets of \$1.7 billion the anticipated proceeds of \$142 million from the sale of EAPL and an increase in property, plant and equipment of \$561 million approximately.

Liabilities increased mainly due to additional borrowings of \$700 million, to fund capital expenditure, and significant increase in energy creditors and derivative liabilities of \$789 million.

## ENTITY 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](http://www.energy.com.au).

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## CONTROLLED ENTITIES

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

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Entity Name
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Energy Management International Pty Ltd
Downtown Utilities Pty Ltd

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# Integral Energy Australia

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## AUDIT OPINION

The audit of the financial report of Integral Energy Australia (Integral) for the year ended 30 June 2007 resulted in an unqualified Independent Auditor's Report.

## PERFORMANCE INFORMATION

### Operational Performance

Statistics provided by Integral show:

Year ended 30 June	Actual				Target*
	2004	2005	2006	2007	2007
Supply of electricity - gigawatt hours	15,570	16,903	17,204	<i>17,483</i>	<i>17,388</i>
Total customer connections	819,496	822,446	832,538	<i>842,315</i>	<i>842,410</i>
Network reliability - average minutes customers were without supply	116.7	86.3	95.9	<i>94.1</i>	<i>101.0</i>
Customer satisfaction index (%)	56.0	78.0	81.0	<i>83.4</i>	<i>82.0</i>
Serious environmental incidents	2	3	2	--	--
Lost time - accidents per one million hours worked	7.2	6.3	5.2	<i>4.8</i>	--

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

Network reliability improved on the previous year and was better than target the method for calculating network reliability changed from the National Regulatory Reporting Requirements method to the 2.5 Beta method. This is an internationally accepted standard for calculating electricity network reliability which excludes extreme events through the use of a statistically based method. Although the improvement over the prior year is partly due to relatively benign weather in the traditional summer storm period, Integral advises that the improvement in underlying reliability has been achieved by focusing on poorly performing feeders, asset serviceability, improved tree trimming, reinforcing network security and improving the weighted average remaining life of network assets.

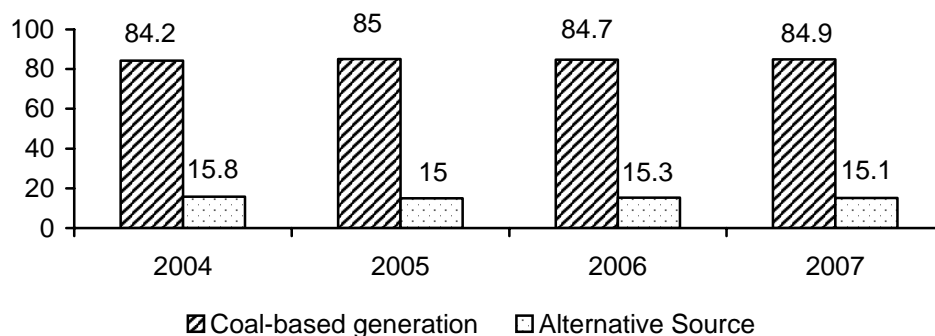
The customer satisfaction index in 2006-07 improved to 83.4 per cent. This is the percentage of customers who rated Integral Energy as 'excellent' or 'very good' for certain parameters in customer surveys.

Integral's performance with respect to lost time-accidents has continued to improve for the last four financial years.

### 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.

### Energy Purchased From Coal vs Alternative Sources (%)



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

The 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	Actual		Target
	2006	2007	2007
Earnings before interest and tax (\$m)	300.2	346.4	274.0
Return on equity (%) (a)	15.6	13.9	11.8
Return on assets (%) (b)	9.8	9.5	8.4
Interest cover (times)	3.1	3.3	2.5
Total distributions to Government (\$m)	169.1	193.0	132.7
Capital expenditure (\$m)	336.5	381.7	416.7

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

(a) profit after tax divided by equity.

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

Earnings before interest and tax were \$72.4 million above budget. Higher earnings before interest and tax was primarily due to higher than budget other income from capital contributions and settlement of litigation claims.

The decline in return on equity and return on assets is primarily due to an increase in equity and assets respectively. The increase was largely due to favourable market value movements in electricity hedging contracts.

Integral, like other retailers, enters into hedged contracts with generators for a portion of its expected power purchases. This gives certainty to cost of electricity purchased. This strategy protects expense streams in times of rising spot prices, but limits opportunities in times of decreasing spot prices. The average annual NSW spot price of electricity increased from \$37.24 MWh for the year ended 30 June 2006 to \$58.72 MWh for the year ended 30 June 2007. The higher prices reflected supply constraints and demand requirements; refer to the 'Overview of the Electricity Industry' for further details. The high prices for electricity at year end resulted in a significant increase in the value of electricity hedged contract assets and a corresponding increase in equity.

The Annual Report of Integral Energy Australia can be found on its website. This explains how these indicators are measured, in addition to providing other statistics.

## OTHER INFORMATION

### Entry into Queensland Market

On 14 May 2007 Integral Energy entered the small retail energy market in Queensland. By the end of June 2007 Integral had acquired approximately 7,000 Queensland customers.

## FINANCIAL INFORMATION

### Abridged Income Statement

Year ended 30 June	2007 \$'000	2006 \$'000
<b>TOTAL REVENUE</b>	<b><u>1,537,491</u></b>	<b><u>1,434,259</u></b>
<b>OPERATING PROFIT BEFORE BORROWING COSTS, DEPRECIATION AND TAX</b>	<b><u>466,739</u></b>	<b><u>416,851</u></b>
Borrowing costs	<u>107,182</u>	<u>96,417</u>
Depreciation	<u>120,362</u>	<u>116,633</u>
<b>OPERATING PROFIT BEFORE TAX</b>	<b><u>239,195</u></b>	<b><u>203,801</u></b>
Income tax equivalent	<u>85,986</u>	<u>65,213</u>
<b>OPERATING PROFIT AFTER TAX</b>	<b><u>153,209</u></b>	<b><u>138,588</u></b>
Dividend provided	<u>107,033</u>	<u>103,866</u>

Total revenue included \$1.1 billion in electricity sales (\$1.0 billion in 2005-06).

## Abridged Balance Sheet

At 30 June	2007 \$'000	2006 \$'000
Current assets	758,569	318,198
Non-current assets	<u>3,388,455</u>	<u>2,861,211</u>
<b>TOTAL ASSETS</b>	<b><u>4,147,024</u></b>	<b><u>3,179,409</u></b>
Current liabilities	973,698	857,580
Non-current liabilities	<u>1,849,366</u>	<u>1,438,425</u>
<b>TOTAL LIABILITIES</b>	<b><u>2,823,064</u></b>	<b><u>2,296,005</u></b>
<b>NET ASSETS</b>	<b><u>1,323,960</u></b>	<b><u>883,404</u></b>

Net assets rose due to a \$414 million increase in the value of hedged contracts. This is largely due to high electricity spot prices particularly near year end. Integral reported that as at 31 July 2007 its hedged contracts reserve had decreased by \$365 million (\$383 million as at 30 June 2007). See the 'Overview of the Electricity Industry' section earlier in this report for more information.

The Corporation's 2006-07 capital program was partly funded by a net increase of \$140 million in borrowings. All borrowings are with NSW Treasury Corporation.

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 2007 were \$1.8 billion.

## 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 Treasurer and the Minister for Finance.

For more information on Integral, refer to [www.integral.com.au](http://www.integral.com.au).

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# TransGrid

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## AUDIT OPINION

The audit of TransGrid's financial report for the year ended 30 June 2007 resulted in an unqualified Independent Auditor's Report.

## PERFORMANCE INFORMATION

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

### Operational Performance

#### *Energy Maximum Demands*

Energy growth in New South Wales has continued at an average of 1,580 gigawatt hours (GWh) per annum over the past ten years. Total annual energy consumption and the system peaks for the last three years are shown below:

Year ended 30 June	2005	2006	2007
Annual energy consumption (GWh)	74,584	76,979	78,226
Peak demand (MWh)	13,126	13,292	13,458

Source: TransGrid Annual Report 2007 - Statutory Information.

TransGrid has a \$1.2 billion capital works program to help it meet the increasing demand. The program is to be implemented over its current five year regulatory period. During the first three years of the regulatory period, TransGrid has spent \$565 million leaving \$635 million to be spent in the remaining two years. TransGrid expects to achieve its program by the end of the regulatory period.

#### *Reliability of Transmission Network*

The Australian Energy Regulator (AER) monitors the performance of transmission networks against AER targets. TransGrid's performance has been:

Year ended 31 December	Target	2004	2005	2006
Transmission circuit availability (%)	99.50	99.59	99.57	99.57
Transformer availability (%)	99.00	99.31	98.90	98.84
Reactive plant availability (%)	98.60	99.26	99.64	98.92
Frequency of lost supply events greater than 0.05 mins	5	--	1	2
Frequency of lost supply events greater than 0.40 mins	1	1	--	--
Average outage duration (minutes)	1,500	726	717	824

Source: Australian Energy Regulator and TransGrid.

TransGrid has generally performed well against its targets.

## Financial Performance

Year ended 30 June	Actual		Target*
	2006	2007	2007
Earnings before interest and tax (\$m)	216.3	231.0	231.5
Return on equity (%) (a)	5.4	5.4	5.4
Return on assets (%) (b)	5.8	6.0	6.0
Dividends to government (\$m)	69.5	71.5	70.7
Capital expenditure	158.6	218.2	262.4

\* Source: TransGrid 30 June 2007 Statement of Corporate Intent (SCI). To reflect the SCI targets, the actual performance information excludes superannuation.

(a) earnings before interest and tax (excluding superannuation income) divided by average equity.

(b) net profit after tax (excluding superannuation income) divided by average assets.

Contributions to Government for 2006-07 were \$126 million, comprising a dividend of \$71.5 million and a taxation equivalent expense of \$54.5 million.

The capital expenditure variance is primarily due to the Wollar-Wellington transmission line project being placed on hold pending further investigation into an alternative option, production delays on transformer delivery, and revision in work scope and program schedule arising from planning and regulatory approval processes.

## FINANCIAL INFORMATION

## Abridged Income Statement

Year ended 30 June	2007 \$'000	2006 \$'000
REVENUE (excluding superannuation movement)	504,838	478,478
Superannuation income	39,701	57,148
PROFIT BEFORE BORROWING COSTS, DEPRECIATION AND TAX	407,666	401,832
Borrowing costs	(100,539)	(99,492)
Depreciation	<u>(135,486)</u>	<u>(127,081)</u>
PROFIT BEFORE TAX	171,641	175,259
Income tax equivalent	<u>(54,498)</u>	<u>(50,571)</u>
PROFIT AFTER TAX	<u>117,143</u>	<u>124,688</u>
Dividend provided	71,482	69,500

Revenue included \$487 million from the transmission of electricity (\$459 million in 2005-06). Increases in revenue are limited to the revenue cap set by the regulator and performance incentive amounts. The revenue cap is adjusted each year by indexing for inflation.



## Abridged Balance Sheet

At 30 June	2007 \$'000	2006 \$'000
Current assets	136,057	100,705
Non-current assets	<u>3,792,919</u>	<u>3,649,211</u>
<b>TOTAL ASSETS</b>	<b><u>3,928,976</u></b>	<b><u>3,749,916</u></b>
Current liabilities	298,203	258,040
Non-current liabilities	<u>1,921,707</u>	<u>1,871,391</u>
<b>TOTAL LIABILITIES</b>	<b><u>2,219,910</u></b>	<b><u>2,129,431</u></b>
<b>NET ASSETS</b>	<b><u>1,709,066</u></b>	<b><u>1,620,485</u></b>

Current liabilities include \$61.5 million (\$33.4 million) for monies received for electricity transmission services in excess of TransGrid's revenue cap. This amount is to be returned to customers through lower transmission prices.

## CORPORATION ACTIVITIES

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

For more information on TransGrid, refer to [www.transgrid.com.au](http://www.transgrid.com.au).



# Minister for Gaming and Racing

Refer to Appendix 1 for:

Liquor Administration Board

New South Wales Casino Control Authority



# Minister for Health

## Refer to Appendix 1 for:

Chiropractors Registration Board  
Dental Technicians Registration Board  
Health Care Complaints Commission  
Institute of Psychiatry  
New South Wales Medical Board  
Nurses and Midwives Board  
Optical Dispensers Licensing Board  
Optometrists Registration Board  
Osteopaths Registration Board  
Physiotherapists Registration Board  
Podiatrists Registration Board  
Psychologists Registration Board



# Minister for Industrial Relations

Refer to Appendix 1 for:

Sporting Injuries Committee





# Minister for Lands

**Refer to Appendix 1 for:**

Board of Surveying and Spatial Information  
Wentworth Park Sporting Complex Trust



# Minister for Planning

**Refer to Appendix 1 for:**

Building Professionals Board

Festival Development Corporation

Growth Centres Commission

Honeysuckle Development Corporation



# Minister for Police

Refer to Appendix 1 for:

Ministry for Police

New South Wales Crime Commission

Police Integrity Commission



# Minister for Primary Industries

Banana Industry Committee

Refer to Appendix 1 for:

Veterinary Practitioners Board





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# Banana Industry Committee

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## AUDIT OPINION

The audit of the Committee's financial report for the year ended 30 June 2007 resulted in an unqualified Independent Auditor's Report.

## KEY ISSUES

There is currently a proposal by the Australian Banana Growers Council (ABGC), a national body, to require all growers to pay a compulsory levy at the first point of sale. This resulted from a nationwide poll of growers that was declared in June 2007 and supported the proposition. The ABGC has forwarded a submission to the Federal Government via Horticulture Australia Limited for its adoption and if successful the levy is expected to be introduced in mid 2008. Should that occur New South Wales growers may choose not to continue with the Committee. This would significantly affect the extent of the Committee's operations.

## FINANCIAL INFORMATION

Year ended 30 June	2007 \$'000	2006 \$'000
Revenue	295	312
Expenses	300	297
(Deficit)/surplus	(5)	15
Net assets (at 30 June 2007)	267	272

Revenue again decreased due to fewer growers remaining in the industry and fewer hectares being planted. Over the past six years the number of hectares under cultivation has fallen each year from 3,614 in 2000-01 to 2,160 in 2006-07, a decrease of 40.2 per cent over the period.

## COMMITTEE ACTIVITIES

Established under the *Banana Industry Act 1987*, the principal functions of the Banana Industry Committee are to support the banana industry in New South Wales in relation to the control of pests and diseases, research and development and to provide information and education to growers.

For further information on the Committee, refer to [www.bananasnsw.org.au](http://www.bananasnsw.org.au).



# Minister for Small Business

Refer to Appendix 1 for:

Small Business Development Corporation of New South Wales



# Minister for Sport and Recreation

Sydney Cricket and Sports Ground Trust

Refer to Appendix 1 for:

New South Wales Institute of Sport

Parramatta Park Trust

State Sports Centre Trust

Sydney 2009 World Masters Games Organising Committee



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# Sydney Cricket and Sports Ground Trust

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## AUDIT OPINION

The audit of the financial reports of the Trust and its controlled entity for the year ended 28 February 2007 resulted in unqualified Independent Auditor's Reports.

## OTHER INFORMATION

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

### New Hill Grandstand and Administration Office

Cabinet approval for the \$76.5 million Hill Grandstand project was received in February 2007. Construction of the grandstand is expected to take place over a two year period with a budget of \$43.1 million in 2008 and \$33.4 million in 2009. The grandstand will increase seating capacity by 2,800, occupying the sites previously known as the Doug Walters Stand and the Hill.

Construction has also commenced on a new three storey administration office complex in place of the previous Office. The project has an estimated cost of \$10.0 million.

In order to fund these capital projects the Trust received approval to increase its borrowings 'global' limit with NSW Treasury Corporation from \$27.8 million to \$100 million.

## FINANCIAL INFORMATION

### Abridged Consolidated Income Statement

Year ended 28 February	2007 \$'000	2006 \$'000
Membership fees	15,337	13,431
Event hire fees	9,247	7,248
General	<u>40,522</u>	<u>32,522</u>
<b>TOTAL INCOME</b>	<b><u>65,106</u></b>	<b><u>53,201</u></b>
Event operating costs	10,275	8,094
Staff related expenses	12,296	11,034
General	<u>37,036</u>	<u>29,415</u>
<b>TOTAL EXPENDITURE</b>	<b><u>59,607</u></b>	<b><u>48,543</u></b>
<b>SURPLUS</b>	<b><u>5,499</u></b>	<b><u>4,658</u></b>

The increase in income was largely due to: increases in membership revenue from higher charges and a rise in member numbers; a number of significant events including the Ashes cricket test; and higher revenue from product rights contracts.

Expenditure increased mainly because of higher operating costs due to the number of significant events, and accelerated depreciation on grandstands and other assets subject to demolition as part of the Hill grandstand development.

#### Abridged Consolidated Balance Sheet

At 28 February	2007 \$'000	2006 \$'000
Current assets	15,733	11,443
Non-current assets	<u>465,823</u>	<u>206,916</u>
<b>TOTAL ASSETS</b>	<b><u>481,556</u></b>	<b><u>218,359</u></b>
Current liabilities	32,056	20,086
Non-current liabilities	<u>10,221</u>	<u>8,205</u>
<b>TOTAL LIABILITIES</b>	<b><u>42,277</u></b>	<b><u>28,291</u></b>
<b>NET ASSETS</b>	<b><u>439,279</u></b>	<b><u>190,068</u></b>

The Trust is currently assessed as a 'not for profit entity', and as a result the current year's revaluation of land and buildings was conducted on a depreciated replacement cost basis. This was the major reason for the \$244 million increment in the value of non-current assets.

Current liabilities were higher largely due to additional payables relating to the Hill Grandstand development and deferred income associated with a number of renewed contracts.

#### TRUST ACTIVITIES

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

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

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

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

#### CONTROLLED ENTITY

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

Entity Name
Sydney Cricket and Sports Ground Trust Division



## Minister for Tourism

Refer to Appendix 1 for:

Luna Park Reserve Trust



# Minister for Transport

Overview of Rail Services

Rail Corporation New South Wales

Rail Infrastructure Corporation

State Rail Authority

Transport Infrastructure Development Corporation

Refer to Appendix 1 for:

Independent Transport Safety and Reliability Regulator

Chief Investigator of the Office of Transport Safety Investigations



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## Overview of Rail Services

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### RAIL SERVICES

The following 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 2007 resulted in unqualified Independent Auditor's Reports.

### KEY ISSUES

#### Restructure of Rail Services

In 2003 the Minister for Transport Services began restructuring rail services. With the closure of the SRA at 30 June 2007, the restructure is complete although the State Rail Authority Residual Holding Corporation will hold cross border rolling stock leases and RIC will continue to operate the Career Transition Centre (CTC) to manage displaced employees resulting from the arrangements with the Australian Rail Track Corporation (ARTC). During the four years of the rail restructure, \$11.4 billion of net assets and 11,446 employees were transferred from RIC and SRA to RailCorp.

In the first three years from 2003-04 to 2005-06 this involved:

- the creation of RailCorp from 1 January 2004
- transferring \$11.7 billion of assets from RIC and SRA to RailCorp, mainly comprising the metropolitan rail network, rolling stock and inventories, and \$308 million in liabilities, including employee benefit liabilities for the 11,290 transferred employees
- leasing \$3.0 billion of interstate and Hunter Valley rail lines to the ARTC
- transferring responsibility for the Epping to Chatswood Rail Line from the Parramatta Rail Link Company, RIC and SRA to TIDC
- transferring net liabilities of \$219 million from RIC to TIDC, comprising \$342 million of borrowings for the Epping to Chatswood Rail Line project offset by assets of \$123 million.

Final aspects of the restructure carried out in 2006-07 were transferring:

- \$115 million of assets from RIC and SRA to RailCorp, mainly comprising cash, land and buildings, and \$39.5 million in liabilities including employee benefit liabilities for 153 transferred employees
- \$104 million of assets from SRA to RIC, mainly comprising land outside the metropolitan rail network, and \$2.3 million in liabilities including employee benefit liabilities for 6 transferred employees, as well as 11 bank guarantees
- \$780,000 of cash and 12 parcels of land from SRA to the Minister for Lands representing the Crown
- \$148 million of assets from SRA to the Crown, mainly comprising workers compensation receivables, and \$714 million in liabilities, mainly comprising borrowings, superannuation liabilities and workers compensation liabilities.

For further information on the remaining resources and functions of RIC and SRA refer to the separate commentary on these entities later in this report.

### **Corporate Governance Weakened**

Corporate governance has been weakened following the portfolio Minister becoming a shareholder of RailCorp, TIDC and RIC.

On 6 June 2007, the *Transport Administration Amendment (Portfolio Minister) Act 2007* was enacted to remove the provisions in the *Transport Administration Act 1988* that prohibit the portfolio Minister (the Minister for Transport) from being a voting shareholder of RailCorp, RIC or TIDC. On 8 June 2007, the portfolio Minister acting in the capacity of the Minister for Finance became the shareholder of RailCorp, TIDC and RIC.

In our view, the previous New South Wales arrangement-where the portfolio minister can exercise the regulatory role free from concerns about conflict with their role as a shareholder - is a more robust model and better satisfies the 'public interest' test. Our view is elaborated on at page 25 of our October 2005 Performance Audit titled 'Oversight of State Owned Electricity Corporations: NSW Treasury', accessible on our website. The voting shareholders are concerned with a State owned corporation's commercial direction and financial performance while the portfolio minister focuses on industry policy and regulatory matters. Conflict may arise when a portfolio minister is also a shareholder.

### **Shortage of Signal Engineers for Testing and Commissioning**

The rail industry has a shortage of signal engineers who are qualified to test and commission new infrastructure assets such as the Epping Chatswood Rail Line and Clearways projects. RailCorp and TIDC are jointly managing this issue.

Insufficient qualified signal engineers for testing and commissioning may lead to delays in completing projects and increased project costs.

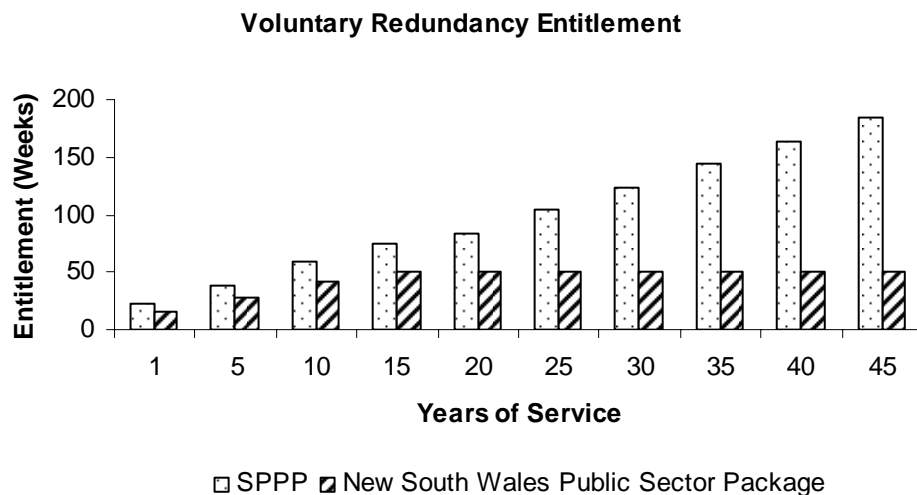
Further commentary on ECRL and Clearways projects is in the TIDC comment later in this Report.

### **Voluntary Redundancy**

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

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

The following graph illustrates how much more generous the SPPP is as compared to existing public sector voluntary redundancy entitlements:



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

As at 30 June 2007, the cost to date of employees of RIC or SRA who have taken voluntary redundancy is \$225 million.

#### Career Transition Centre

During 2006-07, RIC continued to maintain responsibility for the management of displaced staff resulting from transition of functions to RailCorp and ARTC.

As at 30 June 2007, 109 employees remain registered with the Career Transition Centre (CTC). The average length of period in which an employee remains registered in the CTC is 156 days (133 days in 2006). The increase in average days is primarily due to the difficulty in identifying an acceptable position for redeployment.

As at 30 June 2007, 358 staff members have been permanently redeployed and 1,558 had accepted voluntary redundancy since inception of the CTC in September 2004.

The most recent CTC intakes for metropolitan and country employees were in January 2007 and July 2007 respectively. The final intake is expected at the cessation of the Labour Services Agreement in June 2008. Employees that either decline or are not offered a position with ARTC will be returned to RIC and be registered with the CTC. Full closure of the CTC is expected between July and December 2008.

## OTHER INFORMATION

### 2007-08 Funding Announcements

Rail services continue to depend significantly on government funding to meet both operating expenses and capital investment. Operational and capital funding since 2002-03 for the CityRail and CountryLink passenger rail services has increased from \$1.4 billion to nearly \$2.0 billion for 2007-08, an increase of over 40 per cent. Over the same period fare revenues only grew modestly by just over ten per cent since. Fares now only recover about 23 per cent (2007-08 projection) of CityRail expenses, compared with 27 per cent in 2002-03 and 30 per cent in 2001-02. This means taxpayers in general, rather than users, are contributing more to the operating costs and capital investment for rail services.

In 2007-08 government funding for rail services, including the country regional network, is \$2.2 billion.

RailCorp's capital expenditure program is \$948 million for 2007-08, an increase of \$118 million on 2006-07. The program will be funded by \$390 million in Government grants and \$558 million from borrowings and internal funds. It includes the following major works:

- \$232 million for rolling stock acquisitions and upgrades including the acquisition of new outer suburban carriages for intercity services and progress works associated with the purchase of 626 new carriages to replace 498 non air-conditioned suburban carriages
- nearly \$120 million for rail infrastructure to improve customer services, amenities and accessibility including funds to investigate redevelopment of Town Hall and Redfern stations; major upgrades of North Sydney and Hurstville stations; and easy access station upgrades across the CityRail network
- \$201 million on power supply augmentation, improved stabling facilities and safety and security measures, including track safety, access, egress and fire safety improvements in tunnels and underground stations
- \$284 million for the Rail Clearways Program including \$4.9 million to extend the duplication of the Richmond Line beyond Schofields to Vineyard which adds \$316 million to the total cost of the Rail Clearways Program.

The 2007-08 government funding also includes:

- \$19 million for TIDC for the Epping to Chatswood Rail Line. Project expenditure including the Chatswood transport interchange in 2007-08 will total \$304 million with \$285 million being sourced from borrowings and miscellaneous revenue
- \$56.0 million for TIDC for the proposed expansion of the CityRail network to growth areas of Sydney (in addition to \$289 million for land purchases)
- \$201 million for RIC including \$130 million for the maintenance of the country regional network and \$50.0 million for the interstate and Hunter Valley rail networks.



## NSW State Plan

On 14 November 2006, the Government released the State Plan: A New Direction for New South Wales. It defines future strategies and priorities RailCorp will need to address. These include:

- maintain public reliability and safety standards
- public transport increases its share of peak hour commuters
- ensure infrastructure projects are delivered on time and on budget
- implement a rigorous performance management program to ensure CityRail achieves and sustains 92 per cent on-time running
- improve passenger information across all public transport services
- significantly increase the train fleet
- develop a community transport strategy to improve equitable access to Government services
- increased proportion of freight on rail
- investigate new signalling technology to increase track capacity on the CityRail network.

Following the release of the State Plan, the Government released an 'Urban Transport Statement for Sydney' which contains a number of new commitments relating to rail, including the accelerated delivery of the North West Rail Link (from 2017 to 2015), investment in new commuter car parks and extension of the Rail Clearways Richmond Line duplication to Vineyard (previously only to Schofields).

To meet its share of the growth of public transport commuters travelling to the CBD, RailCorp has planned the following in three phases over the next ten years.

Phase	Period	Projects
1	2007 and 2008	<ul style="list-style-type: none"> <li>▪ 122 new Outer Suburban Cars</li> <li>▪ Epping to Chatswood Rail Link</li> <li>▪ Clearways Stage 1</li> </ul>
2	2010 and 2011	<ul style="list-style-type: none"> <li>▪ Clearways Stage 2</li> <li>▪ 78 new eight-car trains commence delivery</li> </ul>
3	2012 and beyond	<ul style="list-style-type: none"> <li>▪ South West Rail Link</li> <li>▪ North West Rail Link</li> <li>▪ CBD Rail Link</li> </ul>

The investment in new trains and infrastructure is designed to provide increased capacity, improved reliability and better service for CityRail customers. To help achieve State Plan targets, RailCorp estimates it will need to increase the number of CityRail passenger journeys by 2.7 per cent per annum. In 2006-07, RailCorp exceeded its target of 2.7 per cent growth and achieved 92.2 per cent (pre force majeure) on-time running by CityRail.

## Expansion of Rail Network

On 9 June 2005, the Premier of NSW announced that the Government would invest \$8.0 billion over the next 15 years in the Metropolitan Rail Expansion Program (MREP). This consists of three projects:

- a new 13 kilometre South West Rail Link from Glenfield to Leppington via Edmondson Park by 2012, with long term plans to extend from Leppington to Bringelly. The recent key milestone is the approval of Concept Plans in September 2007
- a new passenger CBD Rail Link from Redfern to Chatswood, which will travel underground through the CBD and under the harbour to the North Shore Line at St Leonards, where it will continue to Chatswood. This project is expected to be operational by 2017
- a new 22 kilometre North West Rail Link from Epping to Rouse Hill via Castle Hill by 2017, with long term plans to extend from Rouse Hill to Vineyard and the Richmond Line. In November 2006, the Government released the 'Urban Transport Statement' to accelerate this project to the Hills Centre by 2015, instead of 2017 and to Rouse Hill by 2017.

These projects are still in the planning and evaluation stage. The 2007-08 Budget provides \$56.0 million to TIDC for investigation and planning. A further \$289 million is available to the Minister for Planning for land acquisitions in the North West and South West Rail Link corridors in 2007-08. For more information on these projects refer to [www.tidc.nsw.gov.au](http://www.tidc.nsw.gov.au).

TIDC has been building a new rail line from Epping to Chatswood (ECRL) with three new underground stations at Macquarie Park, Macquarie University and North Ryde. The final commissioning of track work connections at Epping and Chatswood is expected in mid 2008 with passenger services on the new line scheduled to commence in late 2008. During the year TIDC, on behalf of RailCorp, has progressed the Rail Clearways Program, which comprises 15 key projects with a range of expected commissioning dates. For more information on these projects refer to comments on TIDC later in this report.

## Waterfall Accident

The Independent Transport Safety and Reliability Regulator (ITSRR) is required to provide a quarterly report on the implementation of the Government's response to the 177 recommendations (127 recommendations and 50 sub-elements) contained within the final report of the Special Commission of Inquiry into the 2003 Waterfall Accident. The June 2007 quarterly report noted further progress has been made against the implementation plan:

- one hundred and sixty-seven recommendations are now closed
- three recommendations have slipped (see below)
- two recommendations previously claimed for closure by agencies have been given a revised status - open-acceptable response
- one recommendation, for the introduction of national communications technical standards, will be implemented by 2010
- four recommendations referred to the National Transport Commission (NTC) have revised implementation timeframes based on advice from the NTC.

As mentioned above, three recommendations were not satisfactorily addressed and could not be verified by ITSRR. As a result, ITSRR will request that RailCorp provides revised target dates for these slipped recommendations which are as follows:

- staff working in the Rail Management Centre to be trained to quickly and accurately assess an emergency has occurred and obtain accurate and reliable information which can be conveyed to emergency response personnel to facilitate a timely and effective response
- all RailCorp's operational rail staff to be trained in the emergency action checklist relevant to their positions
- train inspections to be carried out at the time of stabling RailCorp trains, as well as a part of train presentation prior to entering service.

For more information on the report, the Government responses to the report and its progress with implementing recommendations, refer to [www.transportregulator.nsw.gov.au](http://www.transportregulator.nsw.gov.au).

### Connecting with Public Transport

The Audit Office looked at the effectiveness of public transport interchanges in promoting increased use of public transport in Sydney. The report was released on 6 June 2007. The key findings for the Ministry of Transport (MoT) were:

- no one has responsibility for the interchanges as a whole. This lack of ownership contributes to poor features and poorly maintained facilities
- there is little to indicate how or why specific projects were chosen, and what may have been needed in the longer term. There were no multi-modal transport plans that integrated Sydney's inter-modal transport network as a whole
- there was no information about who is using newly constructed interchange facilities and whether there has been any improvement in travel time
- there was nothing to indicate which facilities could be considered 'successes' and which were 'failures'
- the State Government has in recent years developed a State Plan, a 'Metropolitan Strategy' and an 'Urban Transport Statement' to encourage development in accessible locations and improve transport between Sydney's centres. The MoT needs to focus more on interchange performance. It needs to assign responsibility for their co-ordination and oversight to an entity resourced for the purpose.

For more information on the report including MoT's response refer to [www.audit.nsw.gov.au](http://www.audit.nsw.gov.au).

### Integrated Ticketing System

Management of the integrated ticketing system is now the responsibility of the newly established Public Transport Ticketing Corporation (PTTC). The 2007-08 Budget provides \$70.3 million to fund this project.

RailCorp has supported the project for the PTTC field trial, which began in February 2007 with little progress. Up to 30 June 2007, RailCorp has spent \$8.6 million on this project, with \$6.6 million in 2006-07. These costs have been recovered from PTTC subsequently.

The Government intends to introduce 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 integrated ticketing system refer to [www.tcard.com.au](http://www.tcard.com.au) and comments on the PTTC in our subsequent Volume Five of the Auditor-General's Report to Parliament.

# Rail Corporation New South Wales

## AUDIT OPINION

The audit of the financial report of Rail Corporation New South Wales (RailCorp) for the year ended 30 June 2007 resulted in an unqualified Independent Auditor's Report.

## KEY ISSUES

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

### Rolling Stock Acquisitions and Replacement

Fleet failures monitored on a 24 hour basis are significantly worse than target. In 2007, all trains (except 'C' and 'T' sets) experienced more failures than in the previous year. Above average incidents and failures in June 2007 offset improved failure rates throughout the year.

Fleet failures impacting peak period services decreased from an average of 88.5 incidents per month in 2005-06 to an average of 66.1 incidents per month in 2006-07.

About 90 per cent of RailCorp's CityRail electric fleet (excluding the recently introduced Outer Suburban rail cars) is more than ten years old. 58 per cent of the fleet is more than 20 years old. 33 per cent of the fleet is 30 years old. Generally the older the trains, the more failures are experienced. However, the average age of the train is not the major failure factor for the CityRail fleet. Although 'V' trains are younger than 'R, S, L' and 'K' trains, they are the most prone to failure. Millennium Trains are relatively new yet their failure rate is not significantly less than the rest of the fleet. Below is the aged fleet analysis of failures for 2007.

Train Type*	Average Age (Years)	Average Monthly Carriage Failure rate (%) 2007	Average Monthly Failures (Actual) 2007	Average Monthly Failures (Target) 2007	Average Monthly Failures (Actual) 2006	Number of Carriages at 30 June 2007 and 2006
'R, S, L' Sets	30.0	23	116	54	93	498
'K' Sets	24.0	22	35	20	24	160
'V' Sets	22.4	29	65	22	62	225
'C' Sets	20.5	23	13	9	18	56
Tangara - 'T' Sets	15.7	22	81	74	91	368
Tangara - 'G' Sets	12.5	20	15	7	13	76
Millennium - 'M' Sets	3.5	17	24	n/d	10	141
Total CityRail fleet			349	186	311	1,524

\* See [www.cityrail.info](http://www.cityrail.info) for more information.  
n/d not determined

Following a major incident in July 2007, RailCorp has implemented additional initiatives mentioned later in this report to reduce its fleet failure rate. It is also continuing its fleet reliability program, such as replacement of door motors and its rolling stock replacement program (see following comments).

RailCorp's future fleet requirement is dependent on:

- new trains to address current overcrowding issues and forecast patronage growth
- fleet availability to increase the size of existing trains from either four or six cars to eight cars
- opening of the Epping to Chatswood Rail Line and the realignment of the timetable.

RailCorp has commenced the following projects to improve and expand its rail fleet. Most projects are running late.

	Original Target Date	Forecast Completion Date	Months late	Project Approval \$m	Actual Cost at 30 June 2007 \$m	Forecast Final Cost \$m
14 new Hunter Valley rail cars	31/12/2005	29/06/2008	30	102	96.3	102
41 new Outer Suburban rail cars - Stage 1	31/12/2006	31/05/2008	17	172	155	172
81 new Outer Suburban rail cars - Stage 2	30/06/2008	31/12/2008	6	268	198	268
626 new carriages via Public Private Partnership	30/06/2013	30/06/2013	--	--*	95.8	--*

\* See comments below.

During 2006-07 six new Hunter Valley diesel rail car sets (12 cars) achieved interim practical completion and were placed in service with the final two cars being accepted on 31 August 2007. The project completion date is behind the original schedule by 30 months mainly due to the contractor experiencing delays in key areas of design, supply and production as well as incorporating changes requested by RailCorp to improve crash worthiness and reliability of control systems. Practical completion will not be achieved until re-work to replace sidewall panels and other modifications is performed. Re-work is forecast to commence in October 2007 and end in June 2008.

Twenty new Outer Suburban rail cars in stage one achieved interim practical completion in 2006-07. The remaining 21 are now expected to be delivered by November 2007. The first four-car set is being used for development and testing. It will be returned to the contractor in late 2007 for updating before final delivery to RailCorp in May 2008. The forecast completion date of stage one is behind the original schedule by 17 months mainly due to manufacturing and testing delays experienced by the contractor.

Deliveries of the 81 new Outer Suburban rail cars in stage two will commence in November 2007, with the final four-car set expected to be in service by 31 December 2008, a delay of six months. RailCorp considers the delivery schedule for the new Outer Suburban railcars will be sufficient to meet new timetable requirements following the opening of the Epping to Chatswood Rail Line.

### **Acquisition of 626 new carriages via Public Private Partnership**

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

- manufacture 626 new double deck carriages and maintain for 35 years. The delivery schedule is for practical completion of the first eight-carriage train in April 2010 and the last train in September 2013
- build train simulators to train rail staff
- construct a new maintenance facility on RailCorp land at Auburn
- ensure 72 eight-carriage trains are available for service every day over the period defined in the contract.

Reliance Rail will finance, design, manufacture and maintain the trains over the period of the contract. It will continue to own the trains unless RailCorp chooses to acquire them at the end of the contract. RailCorp is buying the 'availability' of 72 trains for service on the network every day. For the purposes of the contract, each week is divided into 'availability periods'.

RailCorp pays an agreed amount per availability period (a CPI indexed Standard Availability Unit) for each train over the life of the contract. Overall, the total payments to be made by RailCorp to Reliance Rail, including finance costs, over the period of the contract are estimated to be \$9.5 billion in nominal dollars.

The total cost estimate over the term of the project including contract costs, risks not transferred to the private sector, and ancillary RailCorp costs required for the delivery of the project, was \$3.6 billion in net present value as at 30 June 2006.

RailCorp's ancillary works have commenced and the design of the trains and the maintenance facility are in progress. In 2006-07, ancillary works expenditure for this project was \$67.3 million (\$95.8 million in total to 30 June 2007). A planned milestone progress payment to Reliance Rail was not made as project planning documentation was outstanding. RailCorp advises completion of these plans is not anticipated to impact the date of practical completion for the first eight-carriage train.

In June 2007, RailCorp approved locating train guards in the rear crew cab of the new eight-carriage suburban trains. This supports RailCorp's new emergency egress policy for passengers, developed in response to a recommendation of Justice McInerney's Report into the Waterfall rail accident.

### **Commuter Charter and Rail Transformation Program**

On 26 March 2007, the NSW Premier announced the establishment of a Commuter Charter to drive improvement in public transport services and set a three month timetable with RailCorp for the development of the Commuter Charter. As at 31 October 2007, the Government's draft Commuter Charter had not been released for public consultation.

On 17 October 2007, the NSW Premier announced a comprehensive review of the CityRail network to improve services for commuters. The Rail Transformation Program will look at all operations across the network, taking suggestions from frontline workers and passengers. The first phase of the program, which will take three months, will focus on three key areas:

- on-time running on the Western Line particularly during the afternoon peak
- station and carriage cleanliness
- ticketing.

### **Shortage of Station Staff**

RailCorp has advised us that although staffing levels were below staff establishment, it covered all safety related positions.

The table below shows actual staff numbers are below RailCorp's staff establishment at 30 June 2007:

Job Type	Actual Staff Number 2006	Staff Establishment 2007	Actual Staff Number 2007	Staff Shortage 2007
Station Manager	177	207	182	25
Duty Manager	344	381	311	70
Customer Service:				
Attendant	1,119	1,460	1,105	355
Team Leader	168	193	167	26
Group Relief	217	--	382	(382)
Station Sales	353	377	342	35
Station Support Staff	27	33	21	12
CCTV Operators	87	92	83	9
<b>Total</b>	<b>2,492</b>	<b>2,743</b>	<b>2,593</b>	<b>150</b>

The largest staff shortage is in Customer Service Attendants at CityRail train stations. Their duties include providing accurate and timely advice to staff and customers, cleaning and staffing ticket barriers. RailCorp advises that a minimum of 95 per cent of all shifts are covered with the backing of the Group Relief Pool. The utilisation of relief staff also allowed more experienced Customer Service staff to act in Duty Manager positions. Duty Manager staffing in 2007 decreased 9.6 per cent compared to 2006 despite recruitment efforts in the first half of the year which are only incomplete due to unresolved appeals. RailCorp has a target to recruit 128 Customer Service Attendants by the end of 2007.

Of the 303 CityRail train stations, 57 (or 19 per cent) were permanently unattended at 30 June 2007.

### Fleet Maintenance

At 30 June 2007, 86 cars required their scheduled component changeout. The cost of this backlog passenger rolling stock maintenance was estimated at \$22.0 million. RailCorp advises that the backlog of component changeout does not affect the safety and reliability of the fleet.

As mentioned earlier in this report, RailCorp has implemented additional initiatives to the existing rollingstock reliability program following a major incident in July 2007. On 18 July 2007 the NSW Premier announced a series of immediate changes to maintenance practices and a process for further consultation. The changes include:

- Technical Maintenance Plans for suburban and intercity electric train sets have been revised and their compliance will be through appropriate maintenance procedures
- the 'double-check' procedure is performed by qualified trade and non-trade staff rather than temporary quality auditors
- improve the productivity of the Flemington Maintenance Centre Wheel Mill
- work cooperatively to reduce data logger servicing time
- introduce an 'exchanging of parts' procedure
- provision of access for Maintrain staff to undertake the installation of Festo door motors on the 'V' sets at Flemington Maintenance Centre
- the Government's appointment of the former Qantas General Manager Heavy Maintenance to review the existing maintenance procedures and quality-control systems to identify a timetable to deliver further improvements to maintenance systems
- further negotiation on a program to implement multi-skilling of maintenance staff, improved efficiency, staff training and improved management practices.

## Infrastructure Asset Maintenance

RailCorp advises that the safety and reliability performance of infrastructure has significantly improved over recent years. This is reflected by a downward trend in the average number of monthly peak incidents attributable to infrastructure from 42.3 in 2004-05 to 26.3 in 2005-06 and 24.6 in 2006-07.

The 'steady state' level for major periodic maintenance on infrastructure assets will be maintained in 2007-08 by funding of \$445 million. The total asset condition is in a 'steady state' if the assets are replaced when they reach the end of their economic life cycle.

The level of 'maintenance backlog' is the financial gap between the actual expenditure on the assets and the 'steady state' level of expenditure. RailCorp advises that the financial gap for infrastructure assets at 30 June 2007 was \$32.0 million (\$36.0 million as at 30 June 2006). The financial gap is expected to be removed in 2011-12, provided that the planned funding eventuates.

An Asset Management Plan (AMP) has been devised by RailCorp, which outline strategies and programs for RailCorp's infrastructure assets covering the period 2007-08 to 2011-12.

## PERFORMANCE INFORMATION

### Performance Reporting

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

RailCorp also publicly reports certain performance indicators, such as on-time running, peak services availability and safety indicators on its internet site.

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

Performance reporting is primarily against internal benchmarks. We have previously recommended that RailCorp develop a practice of comparing and reporting its performance against external national and international benchmarks to help drive efficiency and performance improvements. In 2006-07 RailCorp compared its performance with other domestic and overseas organisations. In September 2007, the Nova Benchmarking Group accepted RailCorp's application for membership to join the CoMET/Nova Benchmarking community. The CoMET benchmarking group consists of 13 Metros with more than 500 million passenger journeys per annum. Nova which has 15 members to which RailCorp has been admitted, is more diverse, including commuter type members that have less than 500 million passenger journeys per annum. The main objectives of the CoMET/Nova benchmarking community are to building measures to establish metro best practice, introduce a system of measures for management, and to prioritise areas for improvement. RailCorp advises that it has signed a confidentiality agreement confirming RailCorp will adhere to the requirement which enables full data and information exchange between groups but not externally. This constraint is designed to overcome political and commercial sensitivity and means that RailCorp will not be able to report against these measures publicly.



## Reliability Indicators

Until 30 June 2005, peak on-time running for CityRail 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. From 1 July 2005 the tolerance for measuring suburban services was increased to five minutes bringing CityRail in line with national and international practice.

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

Year Ended 30 June	Actual*			Target
	2005	2006	2007	2007
Percentage On-time Running				
CityRail - suburban	61.1	88.5	92.3	92.0
CityRail - intercity	72.2	89.4	91.2	92.0
CityRail - total	62.7	88.6	92.2	92.0
CountryLink	71.2	75.9	73.7	78.0

\* Before adjustment for force majeure.

Overall CityRail services compared favourably with target in 2007 and continued to improve from 2005 and 2006 following the introduction of the September 2005 timetable.

Passengers travelling on Northern and Western lines experienced more delays than others, with peak on-time running performance measures of 86.2 and 85.5 per cent respectively. Factors affecting on-time running performance include bad weather, fire, vandalism, mechanical and electrical failures (such as door, track, signal and power failures), staff failures, and passenger and freight incidents. With the steady improvements in reliability as well as increasing fuel prices and CBD employment, more passengers chose to travel by CityRail trains. Passengers experienced some over-crowding in peak hours. RailCorp has a well practised approach to managing congestion on major station platforms, such as Town Hall, during peak times. Over the next few months RailCorp also plans to:

- provide new western morning peak services from Quakers Hill to Sydney
- build-up three Western and Northern line trains from six cars to eight cars
- build-up two South and East Hills line trains from six to eight cars
- add new peak services from Campbelltown, Cronulla, Bankstown, and the Western line.

Causes for cancellations of peak services are similar to those for on-time running above. Trains may skip stops at scheduled stations to support on-time running. Performance indicators in 2007 for both cancellation of peak services and skipped stops were 0.6 per cent, which compared favourably to the target of one per cent.

CountryLink's performance was affected by speed restrictions imposed by the Australian Rail Track Corporation, tracks under improvement or maintenance, mechanical failures, staff failures, passenger and freight incidents, and bad weather.

### Safety Indicator

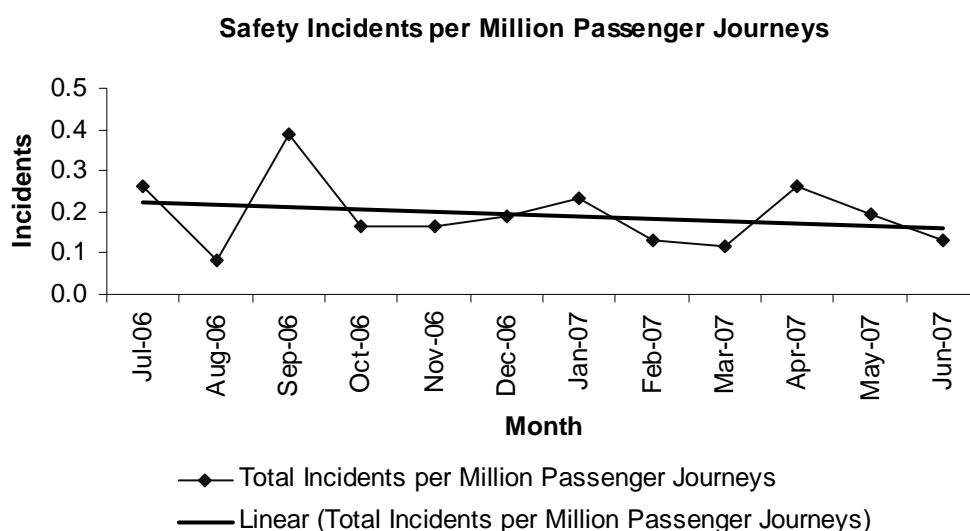
Year ended 30 June 2007	Actual	Target*
Safety Incident Index (total number of defined safety incidents per million passenger journeys)	0.191	0.175

\* This is the target set for 2010-11.

In 2005-06 RailCorp introduced a newly accredited Safety Management System (SMS) and further developed its safety performance indicators. The latest update of the Safety Strategic Plan 2005-2010 has established the Safety Incident Index as a prime indicator of safety. RailCorp advises that defined safety incidents collectively provide an accurate and meaningful measure of its safety performance and reflect both the direct and indirect safety risks it manages on its network. They include:

- category A and B signals passed at danger (SPADs) for all trains on the RailCorp network (A SPAD occurs when a train passes a red signal or stop-board without authority. Category A and B SPADs represent a higher level of risk of collision or derailment.)
- incidents of train exceeding speed limit by 20 kilometres per hour or more
- rail problems (misalignments, broken rails, track geometry)
- collision with road motor vehicle at level crossing
- explosions
- accidental passenger fatalities (excluding incidents associated with trespass, suicide, or passenger health).

The Safety Incident Index is not comparable to the measures reported in previous years (such as reportable safety incidents per million passenger journeys and SPADs). For the 12 months in 2006-07, the Safety Incident Index indicates a favourable downward trend due to the implementation of the Safety Management System.



## Increasing Overcrowding on Trains

Overcrowding on trains is increasing and is expected to continue.

	March 2006	September 2006	March 2007
Percentage of peak CityRail suburban trains at a load factor > 135 per cent of seating capacity	11.0	9.0	<b>16.0</b>

As service reliability has improved, CityRail passenger journeys have increased by approximately 2.8 per cent, from 274 million passenger journeys in 2005-06 to 281 million in 2006-07.

This contributed to increased overcrowding in peak hours and exceeded the target set by the Minister of five per cent by 2008 in the Rail Performance Agreement. A new target of not more than 17 per cent is targeted by 2010-11.

## Capital Expenditure Program

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

Year ended 30 June	2007		
	Actual \$m	Budget \$m	Below/(Over) \$m
PPP Rolling Stock replacement	67.3	115.0	47.7
Clearways project	175.9	207.8	31.9
North Sydney Station Upgrade	22.8	32.9	10.1
Security Projects	10.3	20.6	10.3
14 new Hunter Valley rail cars	8.3	11.5	3.2
41 new Outer Suburban cars - Stage 1	10.7	11.6	0.9
81 new Outer Suburban cars - Stage 2	140.0	140.0	--
Traction Supply Upgrade	36.2	37.0	0.8
All other capital projects	<u>292.8</u>	<u>336.1</u>	<u>43.3</u>
<b>Total Capital Expenditure</b>	<b><u>764.3</u></b>	<b><u>912.5</u></b>	<b><u>148.2</u></b>

The PPP Rolling Stock replacement program was \$47.7 million below budget primarily due to delays in the engagement of contractors and staff, in milestone payments and in enabling works.

The \$31.9 million variance in the TIDC delivered Clearways project was primarily due to limited design resources within the rail industry, which had subsequent flow on effects impacting construction.

The TIDC delivered North Sydney Station Upgrade project was \$10.1 million below budget as the additional work scope could not be completed within the existing program in 2006-07. This work is scheduled to be completed in 2007-08.

The Security Portfolio was \$10.3 million behind budget due to delays in awarding a number of contracts.

The \$43.3 million underspend on 'All other capital projects' relates to a large range of projects. Major underspends include \$13.3 million across Communication and Technology projects; \$7.5 million on the Safety and Environment program; \$6.5 million on Train Communication; \$4.8 million on Future Station Development; \$3.7 million on Train Simulators and \$3.1 million on the Millennium Train financial finalisation.

## Customer Feedback

Complaints by KPI	2006	2007	Favourable/ (Unfavourable)	Favourable/ (Unfavourable) (%)
On-time running (OTR)	5,185	<b>4,131</b>	1,054	20.3
Service	3,542	<b>4,110</b>	(568)	(16.0)
Staff	3,567	<b>3,299</b>	268	7.5
Ticketing	2,797	<b>2,956</b>	(159)	(5.7)
Information	2,227	<b>2,377</b>	(150)	(6.7)
Safety	1,964	<b>1,971</b>	(7)	(0.4)
Cleanliness	1,503	<b>1,839</b>	(336)	(22.4)
Security	1,473	<b>1,514</b>	(41)	(2.8)
Facilities	1,270	<b>1,510</b>	(240)	(18.9)
Environment	1,333	<b>1,423</b>	(90)	(6.8)
Timetable	2,193	<b>643</b>	1,550	70.7
Claim	303	<b>365</b>	(62)	(20.5)
Internal matters	323	<b>309</b>	14	4.3
Not categorised	<u>21</u>	<u>--</u>	<u>21</u>	<u>100.0</u>
<b>Total Complaints</b>	<b><u>27,701</u></b>	<b><u>26,447</u></b>	<b><u>1,254</u></b>	<b><u>4.5</u></b>
<b>Total Compliments</b>	<b><u>1,691</u></b>	<b><u>1,992</u></b>	<b><u>301</u></b>	<b><u>17.8</u></b>

Overall the total number of complaints has decreased slightly by 1,254, representing a 4.5 per cent improvement on 2005-06. Excluding 'Not categorised', four out of 13 KPIs are more favourable than last year. Compliments received improved significantly by 17.8 per cent to 1,922, and include 1,502 compliments received about RailCorp staff.

Although OTR is the major complaint in both years, at 15.6 per cent of total complaints in 2006-07, showed continued improvement from 18.7 per cent in 2005-06. The second most significant complaint (15.5 per cent) related to service aspects, including crowding and lack of air-conditioning.

## OTHER INFORMATION

### Independent Commission Against Corruption (ICAC) Investigations

On 18 June 2007, the ICAC released a report on an investigation into corrupt conduct associated with RailCorp air-conditioning contracts. The ICAC reported that RailCorp has recurring problems in managing high risk areas. The Report made a total of 27 corruption prevention recommendations to assist the organisation manage these risk areas. These include:

- establishing a formal accountability framework for managing contracts
- establishing a risk management strategy that specifically relates to secondary employment
- developing a comprehensive audit and review program for supplier payments.

On 21 December 2006, the ICAC reported on an investigation into defrauding the RTA and RailCorp in relation to the provision of traffic management services. Although no allegations of corrupt conduct were made in relation to any RailCorp employees, the report found systemic weaknesses at RailCorp's Alternative Transport Unit in relation to the provision of support services for traffic management during rail shutdowns. The ICAC made 14 recommendations to minimise or prevent similar corrupt conduct and improper work practices from occurring.

For more information on the reports refer to [www.icac.nsw.gov.au](http://www.icac.nsw.gov.au).

## Independent Survey of CityRail Customers

On 16 October 2007, the Independent Transport Safety and Reliability Regulator (ITSRR) released its fourth annual survey of CityRail customers conducted between 21 June and 17 July 2007. The survey found CityRail customers gave positive marks to the CityRail website information, network and station signage, and the politeness, friendliness, knowledge and helpfulness of CityRail staff.

Compared with the 2006 survey, there are significant improvements in train users' perceptions of journey time, frequency of trains, punctuality and clarity of announcements on the train. Each of these aspects of service was more likely to meet customer expectations in 2007 than in 2006. Crowding in peak hour trains was the only aspect of service CityRail users perceived to have worsened in 2007.

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

For more information on the reports refer to [www.transportregulator.nsw.gov.au](http://www.transportregulator.nsw.gov.au).

## Rail Clearways Program

The Rail Clearways Program is now estimated to cost \$1.8 billion, mainly funded by borrowings. In November 2006, the Government released the *Urban Transport Statement*. It enhanced the Clearways program by extending the duplication of the Richmond Line beyond Schofields to Riverstone by 2010 and Vineyard by 2012 at an estimated cost of \$316 million. The program is now due for completion in 2012.

Stage 1 of the Rail Clearways Program, which is now scheduled for completion in 2008-09, involves nine key projects. RailCorp spent over \$300 million on this program to 30 June 2007, including about \$176 million on works performed by TIDC. The key milestone in 2006-07 was completion of an additional platform at Berowra station.

The Program will separate the existing fourteen metropolitan rail routes into five mainly independent clearways, to reduce the sharing of critical infrastructure and train paths. It involves 15 key projects to build additional track, platforms, turnbacks and train crossing loops.

## Epping to Chatswood Rail Line (ECRL)

Total project costs of the ECRL are estimated at \$2.3 billion. In 2006-07, TIDC completed and transferred to RailCorp the final part of the Parramatta Transport Interchange, the first stage of the Chatswood Transport Interchange, the Epping Aerial Concourse and the Beecroft Substation, costing \$99.1 million. RailCorp will receive the balance of the ECRL from TIDC on its completion, expected in the second half of 2008. The remaining associated assets and borrowings to be received are estimated at \$1.9 billion and \$443 million respectively. Projected borrowings are substantially lower as at 30 June 2007 due to the Government's repayment of \$960 million of TIDC borrowings in 2006-07.

In 2006-07, RailCorp commenced development of a new timetable to integrate the new ECRL into the existing rail network, enabling Hornsby to Central services to travel over the new railway between Epping and Chatswood. It is planned to initially operate a shuttle service between Epping and Chatswood before full integration into the timetable.

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

### Signal Failures on the Metropolitan Rail Network

We examined whether RailCorp is effectively managing the risk of signal failures. The review focused on whether RailCorp is keeping the number and duration of signal failures low enough to support its on-time running target. The report was released on 15 August 2007. The key findings were:

- between 2004 and 2006, the number of signalling failures, signalling downtime and trains delayed as a result of signalling failures all fell. RailCorp's on-time running performance improved over the same period
- RailCorp needs to determine with more confidence the number and duration of signalling failures the network can tolerate without impacting on service levels
- RailCorp needs to compare its signalling reliability and incident response practices and performance against other networks
- RailCorp's present signalling system uses a range of technologies, some dating back to the 1920's. A more advanced signalling system may be required to carry the substantial increase in passenger numbers targeted in the State Plan
- while RailCorp has been reducing the infrastructure maintenance backlog created by under spending in the 1990's, the planned work to upgrade and expand the rail network will place pressure on maintenance spending and its pool of skilled staff.

For more information on the report refer to [www.audit.nsw.gov.au](http://www.audit.nsw.gov.au).

## FINANCIAL INFORMATION

### Abridged Income Statement

Year ended 30 June	2007 \$'000	2006 \$'000
Passenger revenue	568,257	526,501
Government reimbursement for services and concessions	1,481,269	1,314,927
Capital and other Government contributions	555,584	474,170
Other revenue	<u>257,149</u>	<u>244,789</u>
<b>TOTAL REVENUE</b>	<b><u>2,862,259</u></b>	<b><u>2,560,387</u></b>
Employee related	1,001,253	829,470
Depreciation	445,606	458,491
Other expenses	<u>944,052</u>	<u>1,029,271</u>
<b>TOTAL EXPENSES</b>	<b><u>2,390,911</u></b>	<b><u>2,317,232</u></b>
<b>SURPLUS</b>	<b><u>471,348</u></b>	<b><u>243,155</u></b>

The results for 2006-07 reflect increased Government funding and a higher passenger revenue due to increases in fares and patronage.

RailCorp's passenger revenue currently covers approximately 25 per cent of the cost of services provided, with other revenue covering approximately ten per cent. Taxpayers contribute the remaining 65 per cent of the cost. On 25 October 2007, the Independent Pricing and Regulatory Tribunal approved fare increases for CityRail customers with effect from 11 November 2007. The fare increases recognised the growing gap between what passengers pay and what tax payers contribute towards RailCorp's operating costs.

Payroll costs increased mainly due to the increase in rates of pay and the transfer of staff from RIC and SRA as part of the rail industry restructure. The latter increase was offset by a similar reduction in the costs of charges by RIC and SRA for services provided to RailCorp.

#### Abridged Balance Sheet

At 30 June	2007 \$'000	2006 \$'000
Current assets	541,911	468,927
Non-current assets	<u>12,771,268</u>	<u>12,078,238</u>
<b>TOTAL ASSETS</b>	<b><u>13,313,179</u></b>	<b><u>12,547,165</u></b>
Current liabilities	816,489	704,977
Non-current liabilities	<u>135,431</u>	<u>124,507</u>
<b>TOTAL LIABILITIES</b>	<b><u>951,920</u></b>	<b><u>829,484</u></b>
<b>NET ASSETS</b>	<b><u>12,361,259</u></b>	<b><u>11,717,681</u></b>

In 2006-07, RIC and SRA vested or transferred assets of \$115 million (including cash of \$47.1 million), liabilities of \$39.5 million and 153 employees to RailCorp as the final part of the continuing restructure of the NSW rail industry. In addition, the TIDC transferred four completed projects (including the final part of the Parramatta Transport Interchange, stage one of the Chatswood Transport Interchange, and the Epping Aerial Concourse and surface platforms) to RailCorp at a total value of \$99.1 million.

RailCorp also incurred capital expenditure of \$946 million (including \$181 million in capitalised major periodic maintenance) on various projects as mentioned earlier under the Capital Expenditure Program.

#### CORPORATION ACTIVITIES

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

For further information on RailCorp, refer to [www.railcorp.info](http://www.railcorp.info).

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# Rail Infrastructure Corporation

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## AUDIT OPINION

The audit of the financial report of the Rail Infrastructure Corporation (RIC) for the year ended 30 June 2007 resulted in an unqualified Independent Auditor's Report.

## KEY ISSUES

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

### Ongoing functions of RIC

During 2006-07 RIC's primary function continued to be management of the following five core agreements:

- Country Regional Network Management Agreement with the Australian Rail Track Corporation (ARTC)
- Lease Agreement with ARTC for the Interstate and Hunter Valley Networks
- Labour Services Agreement with ARTC
- The Country Regional Network Funding Agreement with Ministry of Transport
- Enterprise Agreement with RIC staff seconded to ARTC.

Other functions performed by RIC include:

- Career Transition Services - Management of displaced staff resulting from the restructure of RIC and SRA and displacements arising from ARTC arrangements
- Workers' compensation and injury management.

This has been RIC's first full year of operations since moving its head office to Newcastle from Sydney.

During the year, RIC completed the process of migrating a majority of its financial management and reporting systems from RailCorp in Sydney to its own systems in Newcastle.

## Vestings

Net assets totalling \$101 million were vested from SRA to RIC, net assets of \$16.3 million were vested from RailCorp to RIC and \$3.2 million of land was vested from RIC to the Department of Lands. During 2006-07, 170 staff were transferred from RIC to RailCorp and a further 77 employees were redeployed to RailCorp. Only six staff were transferred from SRA to RIC during the year.

## OTHER INFORMATION

### Australian Rail Track Corporation Lease

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

Maintenance and management of the residual Country Regional Network (CRN) continues to be performed by ARTC under a CRN Management Agreement. During 2006-07 RIC paid \$152 million to ARTC for this service as a Community Service Obligation.



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

At 30 June 2007, RIC seconded 714 employees to ARTC. Under the ARTC Labour Services Agreement, secondees remain employees of RIC. They are subject to the direction and control of ARTC on a day-to-day basis including management, and performance. RIC's labour service agreement with ARTC terminates on 30 June 2008. ARTC has commenced negotiation of an enterprise agreement under which it plans to offer employment to RIC's seconded infrastructure workers.

During this financial year, 290 staff returned from secondment from ARTC to RIC. Of these 176 accepted voluntary redundancy, 57 resigned and transferred to ARTC, the remainder were mainly redeployed or transferred to other metropolitan government agencies. There currently remains 693 infrastructure workers seconded to ARTC. All have been offered the option to transfer to ARTC if successful in an expression of interest process for 602 positions available with ARTC.

### Career Transition Centre

Refer to 'Overview of Rail Services' section earlier in this Report for a detailed update on the Career Transition Centre.

## FINANCIAL INFORMATION

### Abridged Income Statement

Year ended 30 June	2007 \$'000	2006 \$'000
<b>TOTAL REVENUE</b>	<b><u>236,423</u></b>	<b><u>465,164</u></b>
Employee benefits	110,677	167,666
Superannuation	49,136	(5,624)
Depreciation	130,783	122,847
Maintenance & Materials	98,761	142,265
Other expenses	(2,750)	10,525
Finance costs	--	5,580
<b>TOTAL EXPENSES</b>	<b><u>386,607</u></b>	<b><u>443,259</u></b>
<b>(DEFICIT)/SURPLUS</b>	<b><u>(150,184)</u></b>	<b><u>21,905</u></b>

Revenue includes transition funding from the Ministry of Transport \$59.5 million (\$181 million in 2005-06), Community Service Obligations revenue \$130 million (\$122 million), government contributions for debt reduction and working capital nil (\$90.0 million), recoveries from RailCorp \$14.1 million (\$40.1 million) and access fees \$13.5 million (\$13.0 million).

During 2006-07, a further 427 employees accepted offers of voluntary redundancy (368 employees). Redundancy payments during the year totalled \$90.3 million (\$64.1 million).

## Abridged Balance Sheet

At 30 June	2007 \$'000	2006 \$'000
Current assets	88,756	157,208
Non-current assets	<u>2,214,571</u>	<u>2,184,541</u>
<b>TOTAL ASSETS</b>	<b><u>2,303,327</u></b>	<b><u>2,341,749</u></b>
Current liabilities	153,466	183,314
Non-current liabilities	<u>137,726</u>	<u>111,453</u>
<b>TOTAL LIABILITIES</b>	<b><u>291,192</u></b>	<b><u>294,767</u></b>
<b>NET ASSETS</b>	<b><u>2,012,135</u></b>	<b><u>2,046,982</u></b>

Current assets reduced from the prior year primarily due to the timing of redundancy funding received from the Ministry of Transport.

Non-current assets include \$2.0 billion of trackwork and infrastructure (mainly the residual country rail network) and \$161 million of property, plant and equipment. The increase in non current assets is primarily due to the vesting of land assets from SRA.

RIC performed a revaluation of property, plant and equipment as at 30 June 2007. The net impact of independent revaluations was offset by management's assessment of non operational lines resulting in minimal change in the carrying value of RIC's assets.

## AGENCY ACTIVITIES

RIC was incorporated as a statutory State owned corporation on 1 January 2001 under the *State Owned Corporations Act 1989* and the *Transport Administration Amendment (Rail Management) Act 2000*. Until 1 January 2004 it owned and maintained much of the 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 Premier and the Minister for Finance.

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

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# State Rail Authority

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## AUDIT OPINION

The audit of the financial report of State Rail Authority (SRA) for the year ended 30 June 2007 resulted in an unqualified Independent Auditor's Report.

## KEY ISSUES

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

### Closure of SRA

SRA achieved its statutory objective of winding up all its residual business activities. SRA ceased all operations on 30 June 2007. The wind up process began in 2003 as part of the rail industry restructure (refer to the 'Overview of Rail Services' section earlier in this Report). In 2006-07, SRA transferred:

- cash of \$47.1 million, fixed assets of \$69.6 million (including core rail heritage assets to RailCorp's Office of Rail Heritage), other assets of \$4.7 million, workers compensation and employee benefit liabilities of \$16.1 million, other liabilities of \$13.3 million and 46 employees (including two senior executives) to RailCorp
- cash of \$5.3 million, fixed assets of \$98.3 million, workers compensation, employee benefits and other liabilities of \$2.3 million, six employees, and 11 bank guarantees to Rail Infrastructure Corporation (RIC)
- twelve parcels of land and cash of \$780,000 to the Minister for Lands representing the Crown
- cash of \$3.9 million, workers compensation receivables of \$144 million, borrowings of \$172 million, superannuation liabilities of \$387 million and workers compensation liabilities of \$155 million to the Crown.

At 30 June 2007, SRA held ongoing cross border rolling stock leases and remaining cash of \$336,000.

SRA was subject to the enactment of an *Amendment of Transport Administration Act 1988*, presented as Schedule 4 of the *State Revenue and Other Legislation Amendment (Budget) Act 2007*. The commencement date for the Act was 1 July 2007. The effect of the amendment in Schedule 4 was to change the name of SRA to State Rail Authority Residual Holding Corporation (Corporation), remove it from the definition of New South Wales rail authorities and place it under the control of the Treasurer. The sole remaining purpose of the Corporation is to hold the cross border leases and the subleases of rolling stock to RailCorp until the end of the leases in 2033.

From 1 July 2007, the workers compensation liabilities of \$155 million became the responsibility of the Crown Finance Entity and an insurance company has been appointed to manage the claims.

## FINANCIAL INFORMATION

## Abridged Income Statement

Year ended 30 June	2007 \$'000	2006 \$'000
Services to other NSW rail entities	1,374	92,094
Government contributions	19,423	36,799
Other revenue	<u>12,935</u>	<u>9,974</u>
<b>TOTAL REVENUE</b>	<b><u>33,732</u></b>	<b><u>138,867</u></b>
Payroll costs	1,687	76,826
Severance payments	310	12,796
Other employee benefits	43,134	66,512
Grants	--	63,600
Finance costs	13,589	14,548
Other expenses	<u>3,906</u>	<u>11,190</u>
<b>TOTAL EXPENSES</b>	<b><u>62,626</u></b>	<b><u>245,472</u></b>
<b>DEFICIT</b>	<b><u>(28,894)</u></b>	<b><u>(106,605)</u></b>

The 78 SRA employees remaining at 30 June 2006 continued to perform functions for RailCorp in 2006-07 until they were either transferred to other agencies (RailCorp or RIC) or accepted voluntary redundancy. RailCorp paid SRA \$1.4 million for the services of these employees.

Other revenue includes the write back of a provision for income tax payable to NSW Treasury of \$5.3 million which has been determined as not payable.

The main component of other employee benefits of \$43.1 million was the defined benefit superannuation expense of \$42.9 million incurred prior to the vesting of superannuation liabilities to the Crown.

## Abridged Balance Sheet

At 30 June	2007 \$'000	2006 \$'000
Current assets	336	110,105
Non-current assets	--	<u>252,508</u>
<b>TOTAL ASSETS</b>	<b><u>336</u></b>	<b><u>362,613</u></b>
Current liabilities	--	496,348
Non-current liabilities	--	<u>271,934</u>
<b>TOTAL LIABILITIES</b>	<b><u>--</u></b>	<b><u>768,282</u></b>
<b>NET ASSETS/(LIABILITIES)</b>	<b><u>336</u></b>	<b><u>(405,669)</u></b>

Movements in the Balance Sheet reflect the wind up of SRA's activities mainly through the vesting of assets and liabilities as detailed above.

The remaining cash balance of \$336,000 will be transferred to the Crown as a return of equity.

## AGENCY ACTIVITIES

SRA's principal activities were to manage the transfer of its assets, rights, and liabilities to RailCorp, Rail Infrastructure Corporation and other bodies to manage the disposal of the remainder, and to provide services to RailCorp in the interim. As mentioned earlier, SRA has been re-named State Rail Authority Residual Holding Corporation from 1 July 2007. The Corporation is under the control of the Treasurer and its purpose is to hold and manage the cross border leases and the subleases of rolling stock to RailCorp until the end of the leases in 2033.

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# Transport Infrastructure Development Corporation

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## AUDIT OPINION

The audit of the Transport Infrastructure Development Corporation's (TIDC) financial report for the year ended 30 June 2007 resulted in an unqualified Independent Auditor's Report.

## KEY ISSUES

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

The rail industry has a shortage of signal engineers who are qualified to test and commission new infrastructure assets such as the Epping Chatswood Rail Line and Clearways projects. RailCorp and TIDC are jointly managing this issue. Insufficient qualified signal engineers for testing and commissioning may lead to delays in completing projects and increased project costs.

### Epping to Chatswood Rail Line (ECRL) Project

The planned completion date of ECRL was scheduled for mid 2008. The final commissioning of track work connections at Epping and Chatswood is expected in mid 2008. RailCorp expects to undertake train testing and driver training on the new line from mid September 2008. Passenger Services on the Epping to Chatswood Rail Line is scheduled to commence in late 2008. The delay has mainly arisen from scheduling difficulties with certain works needing to be done in a particular order. The cost impact from the deferred commissioning date is being reviewed by TIDC.

As reported in the prior year, the estimated project costs of \$1.6 billion (in 2000 prices) per 2003-04 budget papers did not include post 2000 escalation costs for the project of \$447 million or interest cost on borrowings. The total final forecast cost of the project was revised upward by \$241 million to \$2.3 billion (excluding interest costs on borrowings) in July 2006. This increase comprised:

- rises in construction sector costs above budgeted increases (\$160 million)
- settlement of a claim for noise mitigation works above forecasted costs (\$28.0 million)
- increased scope of works, other modifications and commissioning costs (\$53.0 million).

As at 30 June 2007, 83 per cent of the projected cost has been expended totalling \$1.9 billion.

### Rail Clearways Program

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

TIDC's total forecast cost of the program is \$1.8 billion following the extension of the Quakers Hills to Schofields project to Vineyard. The Program aims to improve on time running by reducing the impact of disruptions across the network and increasing the network capacity. Expenditure by TIDC on the program to 30 June 2007 totalled \$290 million.

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

Key Projects	Due completion date
<b>1 Eastern Suburbs &amp; Illawarra</b> Bondi Junction Turnback Cronulla branch line duplication	Completed April 2006 2008
<b>2 Bankstown</b> Lidcombe turnback and platform Liverpool turnback and platform Sydenham to Erskinville extra tracks	2008 2010 *
<b>3 Campbelltown express</b> Kingsgrove to Revesby quadruplication Macarthur fourth platform	2010 2010
<b>4 Airport &amp; South</b> Macdonaldtown turnback Homebush turnback Revesby turnback Macdonaldtown stabling	Completed August 2005 2008 2008 2007
<b>5 North West</b> Berowra Platform Hornsby Platform Quakers Hill to Vineyard Duplication Carlingford line passing loop	Completed August 2006 2008 2012**(was 2010) 2010

\* A feasibility study of the Sydenham to Erskinville project was completed. Scheduled completion date has not been determined and funding is yet to be allocated to the construction phase of this project.

\*\* Date changed following extension of the Quakers Hills to Schofields project to Vineyards.

## OTHER INFORMATION

### Chatswood Transport Interchange

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

Stage One of the Chatswood Transport Interchange is now in use and project costs of \$25.6 million were transferred to RailCorp at 30 June 2007. The remaining transport elements supporting the start of services on the new ECRL will be completed by August 2008.

### **Parramatta Transport Interchange**

The Parramatta Transport Interchange is complete and now provides an improved transport gateway to Western Sydney, linking rail services with the Western Sydney Transitway Network, local bus and other transport services. It supports Parramatta as Sydney's second major employment and commercial centre and has been integrated with other major developments in Parramatta.

At 30 June 2007, TIDC transferred the remaining \$15.8 million in project costs for the Parramatta Transport Interchange to RailCorp.

### **North Sydney Station Project**

The estimated cost of the North Sydney station upgrade was \$69.9 million at 30 June 2007. The total forecast cost of the project was revised by \$9.7 million to \$79.6 million in August 2007. This estimated cost is being renewed due to increased scope of construction and remediation works and additional costs associated with supporting World Youth Week.

As at 30 June 2007, the project has incurred costs of \$28.5 million. The project is expected to be completed by September 2008.

### **Metropolitan Rail Expansion Program (MREP)**

The Metropolitan Rail Expansion Program was announced by the Premier of NSW on 9 June 2005. This program consists of three projects being the South West Rail Link, CBD Rail Link and North West Rail Link (NWRL). Refer to the 'Overview of Rail Services' section earlier in this Report.

The Government plans to invest \$8.0 billion in the MREP over the next 15 years. As at 30 June 2007, \$9.8 million has been incurred in undertaking the design and planning phase.

At present, concept plans for the South West Rail Link have been approved. A review of the configuration and staging arrangements around Glenfield Junction are yet to be finalised. Delivery of South West Rail Link is planned for 2012.

The North West and CBD Rail Links are currently in the planning and design phases. Stage One of the NWRL to Hills Centre is scheduled for completion in 2005. Stage Two to Rouse Hill is scheduled for completion by 2017. The CBD Rail Link is scheduled for completion in 2017.

### **Newcastle Rail Corridor**

TIDC and United Group Infrastructure (UGI) have formed an alliance to deliver the Newcastle Rail Corridor project. Works include platform extensions at Hamilton, Wickham and Civic Stations, new pedestrian access ramps at Wickham and Civic Stations and the relocation of signalling equipment at each station location. This project aims to reduce waiting times for road traffic and pedestrians at level crossings and improve connectivity between the CBD, the Honeysuckle Precinct and the waterfront.

This project commenced in November 2006 with a budget of \$11.1 million. To date, all works are complete with the exception of level crossing commissioning. Actual expenditure as at 30 June 2007 totalled \$7.8 million. This project is expected to be completed by November 2007.



## FINANCIAL INFORMATION

## Abridged Income Statement

Year ended 30 June	2007 \$'000	2006 \$'000
Government grants	1,107,419	201,137
Third party contribution	991	9,197
Other	<u>228,618</u>	<u>83,175</u>
REVENUE	<u>1,337,028</u>	<u>293,509</u>
EXPENSES *	<u>222,657</u>	<u>80,808</u>
SURPLUS	<u>1,114,371</u>	<u>212,701</u>

\* Both direct and indirect costs are capitalised as construction work in progress for the ECRL project. Expenditure on the Rail Clearways Program and non-ECRL projects is recouped from RailCorp, MOT and the RTA.

## Abridged Balance Sheet

At 30 June	2007 \$'000	2006 \$'000
Current assets	83,819	107,120
Non-current assets	<u>1,889,059</u>	<u>1,523,084</u>
TOTAL ASSETS	<u>1,972,878</u>	<u>1,630,204</u>
Current liabilities	178,861	326,791
Non-current liabilities	<u>162,157</u>	<u>720,947</u>
TOTAL LIABILITIES	<u>341,018</u>	<u>1,047,738</u>
NET ASSETS	<u>1,631,860</u>	<u>582,466</u>

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

The decrease in current and non current liabilities is primarily due to the repayment of borrowings held to fund the ECRL project. During the year, \$960 million was granted by Treasury to assist TIDC with the repayment of these borrowings.

## CORPORATION ACTIVITIES

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

The two shareholders of the Corporation as at 30 June 2007 were the Premier and the Minister for Finance.

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

# Minister for Water Utilities

Gosford Water Supply Authority

Hunter Water Corporation

State Water Corporation 2006

State Water Corporation 2007

Sydney Water Corporation

Wyong Water Supply Authority



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# Gosford Water Supply Authority

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## AUDIT OPINION

The audit of the financial report of Gosford Water Supply Authority (Gosford Water) for the year ended 30 June 2006 resulted in an unqualified Independent Auditor's Report.

## KEY ISSUES

### Charges and Contributions paid to Gosford City Council (Repeat Issue)

Gosford City Council has advised us that it will charge Gosford Water administration charges based on actual expenditure. We believe that this change will be beneficial for Gosford Water.

We have been reporting for a number of years that Gosford City Council charged Gosford Water an administration charged based on Budgeted expenditure.

### Desalination Plant

Wyong Shire and Gosford City Councils' Water Supply Authorities have obtained planning approval to build a desalination plant in the Wyong Shire Council area. The proposed plant would produce up to 20 million litres of drinking water per day from seawater. The desalination plant is one option under the Water Plan 2050 to help ensure long term water supply.

### Central Coast Water Corporation

In 2006, the NSW Parliament assented to the *Central Coast Water Corporation Act 2006*. The Act, once commenced, will establish the Central Coast Water Corporation (the Corporation) as a water supply authority. Assets, rights and liabilities of Wyong Shire and Gosford City Councils' may be transferred to the Corporation.

Wyong Shire and Gosford City Councils have formed a working party to review the legislation and the possible structure of the Corporation. The Minister administering the act cannot proclaim it until the Councils approve a constitution for the Corporation, enter into a shareholder's agreement and request the Minister to recommend the Act is proclaimed.

### Hunter Central Coast Water Pipeline

The Hunter Central Coast pipeline is now operational. The pipeline connects the Hunter Region to the Central Coast.

The project cost \$37.3 million. The Federal Government provided \$6.6 million towards the project, with the remaining funds contributed by Wyong and Gosford Councils and Hunter Water Corporation.

### Dividend

Gosford Water paid a dividend of \$351,000 (\$289,000 in 2004-05) to Gosford City Council. Local Government water and sewerage supply businesses are permitted to pay an annual dividend to their Council from their surplus.

The dividend payable is split into two components, comprising dividend for tax equivalents and dividend from surplus.

The dividend for tax equivalents is mandatory and is based upon the annual tax equivalent charges (excluding income tax) for water and sewer business activities.

## FINANCIAL INFORMATION

## Abridged Income Statement

Year ended 30 June	2006 \$'000	2005 \$'000
Service charges	30,141	28,173
Usage charges	13,101	12,527
Other	12,948	6,707
<b>TOTAL REVENUE</b>	<b>56,190</b>	<b>47,407</b>
<b>TOTAL EXPENSES</b>	<b>49,719</b>	<b>46,094</b>
<b>SURPLUS</b>	<b>6,471</b>	<b>1,313</b>

The increase in other revenue was due to a \$4.5 million increase in grants and contributions.

Gosford Water paid a dividend of \$1.3 million to the Council in 2005-06 (\$1.7 million in 2004-05). This dividend from surplus is not mandatory and is based upon substantial compliance with a range of criteria set out in the 'Water and Sewerage Best Practice Management Guidelines' issued by the Department of Water and Energy.

## Abridged Balance Sheet

At 30 June	2006 \$'000	2005 \$'000
Current assets	25,133	39,055
Non-current assets	549,979	523,330
<b>TOTAL ASSETS</b>	<b>575,112</b>	<b>562,385</b>
Current liabilities	7,627	4,553
Non-current liabilities	8,227	3,732
<b>TOTAL LIABILITIES</b>	<b>15,854</b>	<b>8,285</b>
<b>NET ASSETS</b>	<b>559,258</b>	<b>554,100</b>

The increase in non-current assets was mainly due to Gosford Water acquiring \$16.0 million of property, plant and equipment. Gosford Water also reclassified some of its investments from current to non-current.

At 30 June 2006, Gosford City Council owed Gosford Water \$6.3 million (\$6.8 million). These loans are non-current interest bearing.

The increase in liabilities was mainly due to Gosford Water taking out loans of \$7.6 million to pay for some of its capital works.

## GOSFORD WATER ACTIVITIES

Gosford Water is part of Gosford City Council and provides water, sewerage and related services.

For further information on Gosford City Council refer to [www.gosford.nsw.gov.au](http://www.gosford.nsw.gov.au).

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# Hunter Water Corporation

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## AUDIT OPINION

The audits of the financial reports of Hunter Water Corporation and its controlled entities for the year ended 30 June 2007 resulted in an unqualified Independent Auditor's Report.

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

## KEY ISSUES

### Tillegra Dam

Hunter Water may acquire 650 hectares more land than it initially estimated for the Tillegra Dam at an estimated cost of \$34.4 million. The increase in the land area is due to landholders electing to sell their entire holdings rather than just the affected areas, some landholders downstream of the dam wall wishing to sell and the need for new public roads around the dam.

Hunter Water may be able to re-sell some of the additional land once the dam is completed.

Hunter Water currently estimates the costs of acquiring land and constructing a dam at Tillegra is \$300 million. The cost of Tillegra dam will be recovered based on the principle of beneficiary pays. The beneficiaries of the dam are both the existing and future customers in the Hunter and potentially the Central Coast. The actual allocation of costs between the beneficiaries will be determined as part of the Independent Pricing and Regulatory Tribunal (IPART) price review process for the Hunter and Central Coast price path for the period 1 July 2009 to 30 June 2013.

### Customer Information System (CIS)

Hunter Water advised that the final cost of the Customer Information System project was \$12.9 million compared with a budgeted cost of \$7.2 million. The new system commenced on 1 November 2006, approximately 16 months late.

Hunter Water advises that the system provides the platform to manage their customer relationship and billing requirements in line with its strategic direction.

## PERFORMANCE INFORMATION

## Financial Performance Indicators

Year ended 30 June	2003	2004	2005	2006	2007
Profit before tax (\$m)	34.0	41.5	55.8	95.5	<b>89.2</b>
Dividend payable (\$m)	38.0	36.0	33.8	35.1	<b>34.6</b>
Income tax payable (\$m)	<u>22.2</u>	<u>19.5</u>	<u>19.6</u>	<u>20.2</u>	<u>23.5</u>
Total distributions to government	<u>60.2</u>	<u>55.5</u>	<u>53.4</u>	<u>55.3</u>	<u>58.1</u>
Dividend and tax/profit before tax (%)	177.1	133.7	95.7	57.9	<b>65.1</b>
Capital expenditure (\$m)	48.2	51.3	74.6	105.0	<b>117.1</b>
Total borrowings (\$m)	130.0	124.9	165.9	235.0	<b>331.9</b>
Current ratio	0.75	0.73	0.38	0.53	<b>0.32</b>

Source: Hunter Water financial reports.

The table above shows that distributions to Government (i.e. dividends plus income tax payable) for 2006-07 were 65.1 per cent of pre-tax operating profits (57.9 per cent for 2005-06). The Corporation's profit before tax was less than the prior year largely due to fluctuations in superannuation actuarial gains in revenue.

The current ratio measures whether an entity has sufficient liquid assets to meet current liabilities. A current ratio of one is, in theory, considered desirable. Hunter Water over recent years has been able to manage its cash with a lower current ratio. 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.

The table below shows that for 2006-07, Hunter Water's return on assets was below that of the Australian water industry and other Government Trading Enterprises (GTEs).

Year ended 30 June	Hunter Water		All States	
	2006	2007	Water 2006	All GTEs 2006
Return on assets (%)	4.6	<b>4.9</b>	5.5	4.9
Return on equity (%)	4.5	<b>4.2</b>	4.2	4.6
Debt to equity (%)	14.4	<b>24.8</b>	28.6	48.5
Cost recovery (%)	173.4	<b>161.6</b>	163.5	120.8

Source: Productivity Commission's Report *Financial Performance of Government Trading Enterprises 2005-06*. The 2006-07 figures are from Hunter Water.

Note: Inconsistencies in measurement bases for assets may exist between different agencies.



## Operational Performance Indicators

### *IPART Audit*

IPART annually measures Hunter Water's operational performance against Operating Licence standards. The latest report was for 2005-06.

IPART found that Hunter Water 'managed its resources to achieve predominantly high to full compliance with its Operating Licence'.

The audit identified a small number of areas where Hunter Water could further improve its performance, including its water demand management programmes. Whilst recognising that Hunter Water has initiated a number of positive water conservation programmes, the Minister noted the progress appears to have plateaued and has requested Hunter Water revitalise its water conservation initiatives. Hunter Water are to publish expenditure and water savings together with the key reasons for performance on its website.

### *Benchmarking Against the Australian Water Industry*

The Water Services Association of Australia (WSAA) has in the past reported on the performance of the Australian urban water industry. It compared performance on customers, service, and infrastructure, as well as economic and financial performance across Australian water retailers and wholesalers. The National Water Commission will now report this information under the National Water Initiative. The table below shows Hunter Water's performance over the past four years, on some of the key indicators.

Year ended 30 June	2003**	2004**	2005**	2006	2007
Average volume of water consumed (kl) per residential property	220.0	208.0	197.0	204.0	<b>192.0</b>
Water quality complaints per 1,000 properties	12.8	7.3*	6.3*	6.8	<b>3.5</b>
Average number of water supply interruptions per 1,000 properties					
Unplanned	419.5	368.4*	388.6*	234.2	<b>347.0</b>
Water main breaks and leaks per 100km of water main	46.6	45.9*	42.2*	52.5	<b>37.4</b>
Number of property connection sewer breaks and chokes per 1,000 properties	12.0	12.4	14.1	14.1	<b>13.6</b>
Wastewater biosolids reuse (% reused/recycled)	48.0	53.0	57.2	62.5	<b>100.0</b>

\* These figures are not directly comparable to 2005-06 because of a definitional change. Hunter Water provided the 2006 and 2007 figures.

\*\* WSAA figures.

Hunter Water's volume of water consumed declined from 2003 to 2007. While Hunter Water promotes a number of water saving schemes, water restrictions did not apply to the Hunter region from 2002-03 to 2006-07 due to favourable water storage levels (92 per cent of capacity at 23 October 2007).

Hunter Water's frequency of property connection sewer breaks and chokes per 1,000 properties has increased since 2003. Hunter Water advised us that the increase in 2006 is closely correlated to the increase in dry weather conditions at that time. There has been a reduction in 2007.

The increase in wastewater biosolids reuse is largely definitional and depends on how much waste water is dewatered out of the sludge lagoons each year and then subsequently used or stored. During 2006-07 Hunter Water advises us that they dewatered less waste water than 2005-06 and fully used what was dewatered, rather than dewatering larger volumes and not fully re-using it.

## OTHER INFORMATION

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

### Hunter Central Coast Pipeline

The pipeline connects the Hunter Region to the Central Coast. Hunter Water anticipates that it will supply approximately 25 million litres per day to the Central Coast. The Hunter Central Coast pipeline became operational in December 2006.

The project cost \$37.3 million. The Federal Government provided \$6.6 million towards the project, with the remaining funds contributed by Wyong and Gosford Councils and Hunter Water Corporation.

Wyong and Gosford Water Supply Authorities pay for this water as approved by the Treasurer. IPART will consider prices applicable for the period 1 July 2009.

## FINANCIAL INFORMATION

### Abridged Consolidated Income Statement

Year ended 30 June	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Tariff charges	158,028	144,826	158,028	144,826
Other revenue	<u>99,021</u>	<u>86,804</u>	<u>64,526</u>	<u>68,689</u>
<b>TOTAL REVENUE</b>	<b><u>257,049</u></b>	<b><u>228,630</u></b>	<b><u>222,554</u></b>	<b><u>213,515</u></b>
Operational costs	112,000	86,333	81,200	75,079
Depreciation	37,277	32,609	36,816	32,223
Other expenses	<u>18,524</u>	<u>14,175</u>	<u>18,807</u>	<u>14,417</u>
<b>TOTAL EXPENDITURE</b>	<b><u>167,801</u></b>	<b><u>133,117</u></b>	<b><u>136,823</u></b>	<b><u>121,719</u></b>
<b>PROFIT BEFORE INCOME TAX</b>	<b>89,248</b>	<b>95,513</b>	<b>85,731</b>	<b>91,796</b>
Income tax expense	<u>28,377</u>	<u>20,629</u>	<u>26,519</u>	<u>18,779</u>
<b>PROFIT AFTER INCOME TAX</b>	<b><u>60,871</u></b>	<b><u>74,884</u></b>	<b><u>59,212</u></b>	<b><u>73,017</u></b>

Hunter Water's tariff revenue increased mainly due to higher water and sewer charges following increases approved by IPART.

Other revenue includes the re-imbursement from the State for remediation work undertaken by the Regional Land Management Corporation. There was an increase in these remediation works this year, which is the reason why other revenue and as well as operational costs increased. The State reimburses the net cost of remediation works.

## Abridged Consolidated Balance Sheet

Year ended 30 June	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Current assets	50,847	49,825	43,739	42,080
Non-current asset	<u>1,976,005</u>	<u>2,286,785</u>	<u>1,975,866</u>	<u>2,277,758</u>
<b>TOTAL ASSETS</b>	<b><u>2,026,852</u></b>	<b><u>2,336,610</u></b>	<b><u>2,019,605</u></b>	<b><u>2,319,838</u></b>
Current liabilities	156,417	94,080	150,946	88,593
Non-current liabilities	<u>531,018</u>	<u>605,739</u>	<u>536,228</u>	<u>599,781</u>
<b>TOTAL LIABILITIES</b>	<b><u>687,435</u></b>	<b><u>699,819</u></b>	<b><u>687,174</u></b>	<b><u>688,374</u></b>
<b>NET ASSETS</b>	<b><u>1,339,417</u></b>	<b><u>1,636,791</u></b>	<b><u>1,332,431</u></b>	<b><u>1,631,464</u></b>

Non-current assets declined due to a decrease in the fair value water delivery assets at year end.

## 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.

For further information on Hunter Water, refer to [www.hunterwater.com.au](http://www.hunterwater.com.au).

## CONTROLLED ENTITIES

## Regional Land Management Corporation Pty Ltd

Year ended 30 June	2007 \$'000	2006 \$'000
Revenue	25,756	8,931
Expenses	25,756	8,931
Profit	--	--
Net assets (at 30 June)	--	--

The \$16.8 million increase in expenses was mainly due to higher levels of expenditure on remediation projects. Because the State has agreed to reimburse the company for the net cost of performing its activities, the company records a nil profit.

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, the properties are included in the accounts of the Crown Property Portfolio.

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

For further financial and other information on this entity we have listed the entity's website.

Entity Name	Website
Hunter Water Australia Pty Limited's	<a href="http://www.hwa.com.au">www.hwa.com.au</a>

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# State Water Corporation

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## AUDIT OPINION

The audit of State Water Corporation's financial report for the year ended 30 June 2006 resulted in an unqualified Independent Auditor's Report.

## KEY ISSUES

### Late Finalisation of the 2005-06 Audit

State Water has struggled to meet its financial reporting obligations since it was incorporated on 1 July 2004. State Water has taken a range of steps to help ensure it complies with its financial reporting obligations in future years.

We completed the audit for the financial year ended 30 June 2006 on 12 September 2007.

## PERFORMANCE INFORMATION

State Water's current ratio (a measure of its liquidity) is sound at 1.30 (1.6 in 2004-05). A current ratio of one is, in most instances, considered appropriate.

The following table compares State Water to the Australian water industry and other Government Trading Enterprises (GTEs).

Year ended 30 June	State Water*		All States#	
	2005	2006	Water 2006	All GTEs 2006
Return on assets (%)	0.4	3.2	5.5	4.9
Return on equity (%)	0.6	4.3	4.2	4.6
Debt to equity (%)	32.7	35.8	28.6	48.5

\* Audit Office of NSW.

# Productivity Commission; Financial Performance of government Trading Enterprises 2004-05 to 2005-06.

State Water's return on assets and equity improved considerably in 2005-06. However, its return on assets is lower than the average for the water industry across Australia. The improvement was largely due to a favourable movement in defined benefit superannuation liabilities.

Because of differences in the market environment and the valuation of assets, it is difficult to make a direct comparison between State Water, the water industry and all GTEs. For example, the water entities that value infrastructure assets at historic cost may report a higher rate of return on assets than those applying fair value, such as State Water.

## Ability to Provide Water

Because of the drought, State Water supplied approximately 4,300 gigalitres of water in 2005-06 (3,000 gigalitres in 2004-05) compared to the long term average of 5,500 gigalitres. Continuation of the drought may result in State Water becoming increasingly reliant on additional government funding to remain viable, and to supplement shortfalls in its revenue and/or reimbursement of any waivers provided to customers.

## OTHER INFORMATION

We identified a number of opportunities for improvement in internal controls and reported them to management. State Water is addressing all issues we raised.

## FINANCIAL INFORMATION

### Abridged Balance Sheet

Year ended 30 June	2006 \$'000	2005 \$'000
Water revenue	35,958	30,407
Contract revenue	12,798	6,923
Government contribution	25,000	10,495
Other revenue	<u>10,768</u>	<u>3,968</u>
<b>TOTAL REVENUE</b>	<b><u>84,524</u></b>	<b><u>51,793</u></b>
Operational costs	61,142	45,680
Depreciation	6,070	2,484
Other expenses	<u>4,349</u>	<u>1,870</u>
<b>TOTAL EXPENDITURE</b>	<b><u>71,561</u></b>	<b><u>50,034</u></b>
<b>PROFIT BEFORE INCOME TAX</b>	<b>12,963</b>	<b>1,759</b>
Income tax expense	<u>1,624</u>	<u>2,813</u>
<b>PROFIT/(LOSS) AFTER INCOME TAX</b>	<b><u>11,339</u></b>	<b><u>(2,039)</u></b>

Contract revenue increased due to State Water completing more work on behalf of the Murray Darling Basin Commission.

Government contributions comprised a transitional operating subsidy of \$7.9 million and an IPART-determined capital contribution of \$17.1 million.

Operational costs increased in part due to the additional work completed on behalf of the Murray Darling Basin Commission (MDBC) and payments of \$7.3 million to the NSW Treasury. The payments to NSW Treasury represent water charges collected from bulk water customers located within the area of the operations of MDBC. The funds form part of the State's contribution to the MDBC.

## Abridged Balance Sheet

Year ended 30 June	2006 \$'000	2005 \$'000
Current assets	64,581	59,881
Non-current asset	<u>346,659</u>	<u>337,443</u>
<b>TOTAL ASSETS</b>	<b><u>411,240</u></b>	<b><u>397,324</u></b>
Current liabilities	49,559	37,269
Non-current liabilities	<u>58,823</u>	<u>60,599</u>
<b>TOTAL LIABILITIES</b>	<b><u>108,382</u></b>	<b><u>97,868</u></b>
<b>NET ASSETS</b>	<b><u>302,858</u></b>	<b><u>299,456</u></b>

Liabilities include borrowings of \$61.2 million (\$67.1 million) from New South Wales Treasury Corporation.

## STATE WATER ACTIVITIES

State Water is a statutory State owned corporation. It incorporates all of NSW's bulk water delivery services outside of the areas of operation of Sydney Catchment Authority, Sydney Water Corporation, Hunter Water Corporation and other water supply authorities. It owns 20 large dams and one small dam, and manages another 11 small dams on behalf of the Department of Lands. It also owns and manages more than 280 weirs and regulators.

State Water delivers water to irrigation corporations, country town water supply authorities, farms, mines and electricity generators, by releasing flows from its dams into rivers to be accessed by water users. It also provides water for stock and domestic users and is responsible for delivering environmental flows on regulated rivers.

State Water's core water delivery business provides services to about 6,200 customers who purchase water sourced from 'regulated rivers'. It is capable of delivering, as a long-term average, about 5,500 gigalitres per year of bulk water to water users and the environment in the 14 regulated river systems along some 7,000 kilometres of rivers.

For further information on State Water, refer to [www.statewater.com.au](http://www.statewater.com.au).

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# State Water Corporation

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## AUDIT OPINION

The audit of State Water Corporation's financial report for the year ended 30 June 2007 resulted in an unqualified Independent Auditor's Report.

## KEY ISSUES

### Finalisation of the 2006-07 Audit

State Water completed its financial report for the year ended 30 June 2007 within statutory deadlines. This was the first time it had achieved the legislative requirements since it was incorporated on 1 July 2004. Management improved its year end accounting processes to achieve this outcome.

### Approval for Financial Accommodation

State Water did not obtain the Treasurer's approval to roll over its borrowing facility beyond 30 June 2006. This resulted in a breach of section 8(2) of the *Public Authorities (Financial Arrangements) Act 1987* because State Water continued to have borrowings after this date. Management has approval for its borrowing facilities for subsequent reporting periods.

## PERFORMANCE INFORMATION

### Financial Performance Information

State Water's current ratio (a measure of its liquidity) is 0.8 (1.46 in 2005-06). A current ratio of one is, in most instances, considered appropriate. The decline in the current ratio is due to the repayment of \$22.0 million of borrowings during 2006-07.

Key financial performance indicators for State Water are detailed below:

Year ended 30 June	State Water		
	2005*	2006*	2007
Return on assets (%)	0.4	2.7	3.0
Return on equity (%)	0.6	3.7	3.9
Debt to equity (%)	32.7	36.4	31.2

Source: Audit Office of NSW.

\* Prior year figures were amended to allow for more meaningful comparison to be made. These changes in comparative did not give rise to significant differences.

State Water's return on assets and equity remained stable in 2006-07 compared to the prior year.

The debt to equity position improved primarily due to the repayment of \$22.0 million of borrowings mentioned earlier.



## Operational Performance Indicators

### *IPART Audit*

The Independent Pricing and Regulatory Tribunal (IPART) measures annually State Water's operational performance against Operating Licence standards. The latest report is for 2005-06, issued in May 2007.

IPART found State Water achieved a reasonable level of compliance with the Operating Licence. A number of non-compliance issues were identified during the review. These included some instances where the scheduled date for completion of a requirement was outside the current audit period.

The results of the audit are summarised in the table below.

Year ended 30 June	No.	2006 %
Full compliance	59	72
High compliance	10	12
Medium compliance	5	6
Low compliance	6	7
Non compliance	<u>2</u>	<u>2</u>
<b>Total</b>	<b><u>82</u></b>	<b><u>100</u></b>
Not auditable	11	na

na: the requirements of the clause were not auditable as the date for implementing the requirements lay outside the audit period or the requirements are related to a clause that is not auditable.

Full compliance means State Water met all the requirements of a particular clause, while high compliance means most requirements were met with some minor technical failures.

IPART will monitor the issues closely during 2007-08. This was the first IPART audit since State Water was incorporated on 1 July 2004.

### Ability to Provide Water

In 2007, State Water received an additional subsidy from the NSW Government for \$1.9 million. This was part of drought assistance measures to compensate State Water for waiving the fixed entitlement charges for general security irrigators in the Lachlan Valley for the 2006-07 year.

Because of the drought, State Water supplied approximately 2,196 gigalitres of water in 2006-07 (4,300 gigalitres) compared to the long term average of 5,500 gigalitres. Continuation of the drought may result in State Water becoming increasingly reliant on additional government funding to remain viable, and to supplement the shortfalls in its revenue and/or reimbursement of any waivers provided to customers.

## OTHER INFORMATION

State Water experienced significant problems with the operation and effectiveness of its internal control framework and we have identified a number of opportunities for improvement. These were reported to management. Issues related to controls surrounding the revenue and payroll functions and control over the general information technology environment.

## Governance Issues

State Water recently appointed of a number of senior management positions including the Chief Executive Officer and the General Manager of Finance. The permanent appointments to these senior roles should contribute to greater certainty within the Corporation and drive continuous improvements within the accounting and management processes, similar to that achieved in the last six months.

## FINANCIAL INFORMATION

### Abridged Income Statement

Year ended 30 June	2007 \$'000	2006* \$'000
Revenue from storage and delivery of water	32,974	35,958
Infrastructure operation, maintenance and construction	8,792	13,470
Government grants and subsidies	27,446	25,000
Other revenue	<u>8,330</u>	<u>8,984</u>
<b>TOTAL REVENUE</b>	<b><u>77,542</u></b>	<b><u>83,412</u></b>
Operational costs	54,164	60,030
Depreciation	6,011	6,070
Other expenses	<u>2,532</u>	<u>4,349</u>
<b>TOTAL EXPENDITURE</b>	<b><u>62,707</u></b>	<b><u>70,449</u></b>
<b>PROFIT BEFORE INCOME TAX</b>	<b>14,835</b>	<b>12,963</b>
Income tax expense	<u>1,619</u>	<u>1,624</u>
<b>PROFIT AFTER INCOME TAX</b>	<b><u>13,216</u></b>	<b><u>11,339</u></b>

\* Prior year figures were amended to allow for more meaningful comparisons to be made. These changes in comparatives did not give rise to significant differences.

Revenue from the storage and delivery of water decreased primarily due to a decrease in the water available for sale due to continuing drought conditions across Australia.

Infrastructure operation, maintenance and construction revenue decreased due to State Water completing less work on behalf of the Murray Darling Basin Commission during the year.

Government contributions to State Water increased in 2006-07 by \$2.4 million. The contributions totalled \$27.4 million, comprising an operating subsidy of \$10.6 million, an IPART determined contribution to operations of \$14.9 million and a community service subsidy of \$1.9 million.

Operational costs decreased in part because State Water did less work for the Murray Darling Basin Commission during the 2006-07 year.

## Abridged Balance Sheet

Year ended 30 June	2007 \$'000	2006* \$'000
Current assets	44,595	64,768
Non-current asset	<u>399,139</u>	<u>348,380</u>
<b>TOTAL ASSETS</b>	<b><u>443,734</u></b>	<b><u>413,148</u></b>
Current liabilities	53,980	44,638
Non-current liabilities	<u>51,427</u>	<u>65,652</u>
<b>TOTAL LIABILITIES</b>	<b><u>105,407</u></b>	<b><u>110,290</u></b>
<b>NET ASSETS</b>	<b><u>338,327</u></b>	<b><u>302,858</u></b>

\* Prior year figures were amended to allow for more meaningful comparisons to be made. The changes did not give rise to significant differences.

Current assets decreased due to the repayment of \$22.0 million of borrowings from New South Wales Treasury Corporation during 2006-07.

Non-current assets increased due to a \$40.0 million (nil) increase in the recoverable amount and revaluation of Property, Plant and Equipment.

Non-current liabilities include borrowings of \$39.1 million from New South Wales Treasury Corporation.

## STATE WATER ACTIVITIES

State Water is a statutory State owned corporation. It incorporates all of NSW's bulk water delivery services outside of the areas of operation of Sydney Catchment Authority, Sydney Water Corporation, Hunter Water Corporation and other water supply authorities. It owns 20 large dams and one small dam, and manages another 11 small dams on behalf of the Department of Lands. It also owns and manages more than 280 weirs and regulators.

State Water delivers water to irrigation corporations, country town water supply authorities, farms, mines and electricity generators, by releasing flows from its dams into rivers to be accessed by water users. It also provides water for stock and domestic users and is responsible for delivering environmental flows on regulated rivers.

State Water's core water delivery business provides services to about 6,200 customers who purchase water sourced from 'regulated rivers'. It is capable of delivering, as a long-term average, about 5,500 gegalitres per year of bulk water to water users and the environment in the 14 regulated river systems along some 7,000 kilometres of rivers.

For further information on State Water, refer to [www.statewater.com.au](http://www.statewater.com.au).

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# Sydney Water Corporation

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## AUDIT OPINION

The audit of Sydney Water Corporation's financial report for the year ended 30 June 2007 resulted in a qualified Independent Auditor's Report. The qualification related to assets and liabilities of the Build-Own-Operate (BOO) schemes not being recognised in Sydney Water's balance sheet. The audit report for 2005-06 was similarly qualified.

The audits of the financial reports of Australian Water Technologies Pty Ltd and its controlled entity for the year ended 30 June 2007 resulted in unqualified Independent Auditor's Reports.

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

## KEY ISSUES

### Desalination Plant and the Price of Water

Sydney Water will need to achieve price increases to fund its future cost of debt.

The future cost of debt will increase as the desalination plant, with an approved cost of \$1.8 billion, will be fully debt funded. The debt will alter Sydney Water's debt profile significantly over the next few years.

Refer also to our comment below on Sydney Water's ability to fund the replacement of its existing system assets given the age and condition of the system and relevant regulatory pricing structures.

The desalination plant's approved budget includes contingencies of \$128 million (about 12 per cent of the total project cost) and provision of \$64.0 million to cover expenses such as the acquisition of easements, settlement of land valuation dispute and compensation for disruption and damages to businesses and residences. The provision also covers time and safety incentives. The contractors can earn up to \$20.0 million if they achieve Sydney Water's safety targets and complete the work three months ahead of the scheduled completion dates.

Contracts were signed in June and July 2007 to construct the water delivery infrastructure and desalination plant respectively. The contracts commit the parties to delivering the infrastructure within 26 months of the contract date. The party responsible for constructing the plant will also operate it for a 20 year period.

The deliverables of this project are outlined in the table below.

Deliverable	Original (November 2005)*	Approved (July 2007)#
Desalination plant cost (\$b)	Not available	1.0
Water delivery infrastructure cost (\$b)	Not available	0.6
Total project cost (\$b)	1.3	1.8
Completion date	na	December 2009

Source: Sydney Water.

\* Based on a 125 megalitre per day desalination plant.

# Based on a 250 megalitre per day desalination plant.

na not applicable.

The latest internal status report prepared by Sydney Water suggests there are no significant environmental, technical or time issues related to the plant and its contracted cost of \$1.0 billion. This estimated cost of the water delivery pipeline outlined in the table above was \$570 million in July 2007. Sydney Water is still working through the agreed final cost for this part of the project with its alliance partners. Geotechnical investigations are continuing and the final cost estimate for the pipeline works is expected to be available in November 2007.

Work has commenced on constructing the desalination plant. It will be capable of producing 250 megalitres of water per day. Once operational, it will have the capacity to provide over 15 per cent of Sydney's current water consumption. At 30 June 2007, Sydney Water had spent \$109 million on the project (\$70.7 million at 30 June 2006).

When operational, Sydney Water estimates it will cost between \$9.0 million and \$55.0 million per annum to operate the plant depending on the volume of water produced. At full capacity the cost is \$55.0 million per annum while it will cost an estimated \$9.0 million per annum to have the plant on minimal utilisation.

Sydney Water estimates it will need 400,000 megawatt hours of electricity per year to operate the desalination plant at full capacity. Sydney Water has recently sought Request for Proposals from the market place to supply 100 per cent renewable energy. Electricity will be the largest component of the operating cost. Based on \$76.00 per megawatt hour, Sydney Water estimates electricity will be 35 to 46 per cent of the total operating costs.

Sydney Water advises the NSW Government has not decided on the operating rules for the plant, other than it will operate at full capacity for the first two years. Until the operating rules are determined, the impact this will have on Sydney Water's existing arrangements with the operators of the four largest water filtration plants is unknown. Currently, most of Sydney's drinking water is processed by the Prospect water filtration treatment plant. The arrangement with this operator does not expire until 2022.

The supply of water from the desalination plant is unlikely to have a financial impact on the Sydney Catchment Authority (SCA). Sydney Water currently sources all of its water from SCA. Sydney Water advises that it expects to favour SCA bulk water over desalinated water when the SCA supply is adequate.

In June 2007, a wholly controlled entity, Sydney Desalination Plant Pty Ltd, was created. This entity will own the desalination plant, the intake and outlet pipes. The water pipeline delivery infrastructure will be owned directly by Sydney Water.

#### **Ability to Replace System Assets in the Future - Repeat Issue**

The gap between Sydney Water's 'replacement' asset values and their value based on cash generating capability is significant.

At 30 June 2007, Sydney Water estimates it would cost \$22.3 billion (\$21.7 billion) to replace its assets as they currently exist at today's prices. In comparison, the recoverable amount of the assets at 30 June 2007, being the estimate of the discounted future net cash inflows the assets are expected to generate over their remaining life, was \$11.2 billion (\$10.0 billion).

Sydney Water uses its weighted average cost of capital to discount the cash inflows generated by the assets. However, this is significantly higher than the actual return Sydney Water has made on its assets. This highlights that the current regulatory framework, amongst other factors, presents a problem for Sydney Water in being able to achieve a commercial rate of return on the replacement value on its water and wastewater services as they currently exist.

In its recent submission to the Independent Pricing and Regulatory Tribunal (IPART), Sydney Water has sought increased water prices to improve its financial viability and to bridge the gap between the replacement cost of its existing infrastructure assets and their recoverable amount. Sydney Water has requested IPART grant it a seven per cent real rate of return on its regulated asset base, and that it reconsider the assumption all new assets have a 100 year life. Sydney Water believes its assets have a significantly lower actual life. Sydney Water estimates the weighted average life of water and wastewater assets will be 83 and 75 years respectively from 30 June 2008.

IPART considers the prices it determines provide for a rate of return equivalent to Sydney Water's weighted average cost of capital on the regulatory asset base, as calculated by IPART.

IPART points out Sydney Water's replacement cost asset valuation of \$22.3 billion includes assets paid for and supplied free of charge by developers, as well as those funded by government grants. IPART makes no provision for the replacement of such assets in determining Sydney Water's water and sewerage service charges until they are due to be replaced at Sydney Water's cost. IPART believes to do otherwise would effectively mean Sydney Water is being funded twice for the same assets. There are discrete developer charges determined separately by Sydney Water in accordance with a methodology determined by IPART.

IPART will consider Sydney Water's arguments, including those relating to its weighted average cost of capital and average asset lives as part of its assessment of Sydney Water's pricing proposals. IPART is expected to release its report and determination of future water, sewerage and stormwater prices for Sydney Water in June 2008.

IPART has also indicated that it undertakes an annual audit of Sydney Water's compliance with the system performance standards and asset management provisions contained in Sydney Water's operating licence. The outcomes of this audit are tabled in Parliament and are considered by IPART in determining Sydney Water's prices. The results of the operating licence are summarised below under the heading 'IPART Operational Audit'.

## Dividends

Sydney Water's ability to pay future dividends is dependent on profits being available for distribution and access to loan funds.

Sydney Water provided \$140 million (\$193 million) for dividends in 2006-07. Dividend targets have been established for the next five years.

## Field Resources Management (FRM) Project

In Volume Four of the 2006 Auditor-General's Report to Parliament we reported that Sydney Water encountered problems with its FRM project. The FRM project will replace the paper based system and ageing mobile radio dispatch system used in scheduling and reporting maintenance works. The problems included complexities with the project scope, security, testing and integration. The deliverables of this project are outlined in the table below.

Deliverable	Original (November 2004)	Revised (September 2006)	Forecast (September 2007)
Project cost (\$m)	9.3	20.5	18.8
Completion date	March 2007	March 2008	May 2008

Source: Sydney Water.

While the completion date has been delayed, the forecast project cost is almost nine per cent lower than the revised cost approved by the Sydney Water Board in September 2006. The project cost and completion date only relate to stage one of the project. Sydney Water is preparing a business case for of the next stage project. The original budget for stage two was \$2.3 million.

Internal reporting to the Sydney Water Board and an independent health check conducted in June 2007 suggests the project is proceeding in line with the current project plan. None of the concerns raised in the July 2006 health check, such as improving management processes and capability and expertise, were evident in the recent health check.

In September 2006, Sydney Water reassessed the business case supporting the project and concluded that continuing with the project was the best outcome for the organisation. Amongst other benefits, the new system is expected to deliver business efficiencies and improve Sydney Water's response times to breaks and leaks in the water network. Once implemented, Sydney Water believes the new system will reduce its operating expenditure by \$4.4 million per annum. At 30 June 2007, Sydney Water had spent \$9.9 million on the project.

### Customer Information Billing System (CIBS)

Sydney Water commenced litigation in the Supreme Court against PricewaterhouseCoopers (PwC) in 2003. Sydney Water is seeking damages against PwC for the failed CIBS project. Sydney Water has incurred significant legal and related costs associated with this litigation. The matter has now been set for hearing in May 2008.

We reported our key findings and recommendations following the termination of the CIBS project in Volume One of the 2003 Auditor-General's Report to Parliament.

## PERFORMANCE INFORMATION

### IPART Operational Audit

IPART reported the results of its 2005-06 operational audit of Sydney Water in May 2007. The audit assessed Sydney Water's performance against the standards in its operating licence.

The audit found 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	2002 %	2003 %	2004 %	2005 %	2006 %
Full compliance	69	67	65	71	86
High compliance	14	22	21	19	12
Partial compliance	11	5	7	6	2
Low compliance	3	--	1	1	--
Noncompliance	1	--	--	--	--
Insufficient information	2	7	5	3	--

Source: Sydney Water.

Sydney Water's performance in 2006 was better than in previous years. In particular, Sydney Water achieved full compliance in water conservation and demand management, which was a significant improvement. IPART believes Sydney Water is on target to reduce water consumption to 329 litres per capita per day by 2011. Part of the reason for achieving full compliance in water conservation and demand management was IPART's decision to include savings attributable from water restrictions.

The audit concluded Sydney Water achieved partial compliance in responding to water main breaks and installing flow meters in the water supply system. Further information on response times can be found below under the heading 'Response Times'.

Full compliance means Sydney Water met all the requirements of a particular standard, whilst high compliance means most requirements were met with some minor technical failures or breaches.

### Water Conservation

As mentioned above, Sydney Water must meet the water conservation target of 329 litres per capita per day by 30 June 2011. Water consumption for 2006-07 and 2005-06 are detailed in the table below.

Year ended 30 June	Actual		Target
	2006	2007	2011
Target water consumption per capita per day (litres)	na	<i>na</i>	329
Actual water consumption per capita per day (litres)	341	<i>328</i>	na

Source: Sydney Water.  
na: not applicable.

The reduced actual water consumption in 2006-07 is just below the 30 June 2011 target as result of a number of initiatives including reducing leaks, recycling and demand management programs.

The IPART operational audit concluded Sydney Water's demand management strategy is in line with world's best practice. Most of Sydney Water's demand management programs are achieving or exceeding planned water savings. However, actual savings from tiered pricing and the Building Sustainability Index (BASIX) were less than expected.

### Response Times

The table below shows the percentage of calls to Sydney Water relating to water main breaks and leaks responded to within the target time. The response times and targets form part of Sydney Water's operating license.

Year ended 30 June	Actual		Target
	2006 %	2007 %	2007 %
Priority 6 (stop water loss within 2 hours)	72.3	<i>86.9</i>	<i>70</i>
Priority 6 (stop water loss within 3 hours)	84.4	<i>94.2</i>	<i>90</i>
Priority 5 (stop water loss within 3 hours)	57.8	<i>71.0</i>	<i>65</i>
Priority 5 (stop water loss within 6 hours)	80.1	<i>92.6</i>	<i>85</i>
Priority 4 (stop water loss by the end of next working day)	67.3	<i>79.6</i>	<i>50</i>
Priority 4 (stop water loss within 5 days)	90.9	<i>96.0</i>	<i>100</i>

Source: Sydney Water.

The table shows that Sydney Water has improved its response time in 2006-07, meeting all the targets except for one. Reasons for the improvements include: improved resource management during periods of high workloads; delaying non essential planned works; increased overtime; and re-starting the clock when the priority assigned to a break or leak is upgraded.



A priority 6 is defined as a high flow of water causing an immediate danger to people, property or the environment. Typically this involves water gushing or spurting from the ground and results in a major water loss. A leak is classified as priority 5 when it is running at a rate greater than the full flow of a garden tap, while a priority 4 leak exists when the water loss is less than the full flow of a garden tap.

For 2006-07, if the break or leak was re-prioritised, the clock was reset. The 2005-06 results were not updated to reflect this new approach.

### National Performance Report

The table below shows Sydney Water's performance over the past four years on some of the key indicators.

Year ended 30 June	2004	2005	2006	2007
Volume of water consumed (kilolitres) per residential property	224.0	211.0	205.0	<b>199.0</b>
Water quality complaints per 1,000 properties	1.4*	1.1*	0.8	<b>0.8</b>
Water interruption frequency per 1,000 properties - Unplanned	260.4*	233.8*	196.4	<b>183.8</b>
Water main breaks and leaks per 100 km	37.5	37.3	41.9	<b>34.5</b>
Sewer main breaks and chokes per 100 km	81.5	92.3	87.1	<b>90.1</b>
Water recycled (%)	3.2	2.8	3.5	<b>4.3</b>
Water leakage (Infrastructure Leakage Index) (%)	2.1	1.8	1.5	<b>1.5</b>

Source: Figures for 2004 to 2006 from National Performance Report 2005-06. The 2006-07 figures provided by Sydney Water.

\* These numbers are not directly comparable because of a change in definition. Provided for information only.

The volume of water consumed continues to decrease as a result of water restrictions and Sydney Water's demand management strategies. The increase in sewer main breaks and chokes is a result of the dry weather during the year.

Sydney Water's water leakage has remained constant at 1.5 in 2006 and 2007. Further information on this is provided under the heading 'Water Loss' below. The International Water Association believes an infrastructure leakage index between 1.0 and 2.9 indicates that an entity is making a substantial effort to manage and maintain its infrastructure, and to ensure all detected leaks and bursts are promptly repaired.

## Water Loss

The table below summarises water loss within the water distribution system. Water is lost because of leaks in water mains.

Year ended 30 June	2006	2007
Volume of water loss (megalitres)	42,602	<b>44,261</b>
Water loss compared to water supplied (%)	8.5	<b>8.5</b>
Costs incurred to reduce water loss (\$m)	68.9	<b>91.6</b>

Source: Sydney Water.

Sydney Water must reduce water loss to no more than 38,325 megalitres per year by 30 June 2009. It is currently reviewing its leakage program and has identified new initiatives that increase the likelihood of achieving the operating licence requirement.

In 2006-07, Sydney Water inspected 18,080 kilometres of pipeline (18,011 kilometres) and believes this annual inspection program is the main reason for the significant decrease in water loss since 2002-03. However, it also believes the full benefits of this program have been realised and the annual inspection of pipelines will only maintain or slightly reduce current water losses.

Sydney Water plans to spend a further \$205 million on leak reduction activities over the next two years. Leak reduction activities include the annual inspection program, renewal of water mains and improving pressure management.

The target of 38,325 megalitres was assessed by IPART as being the economic level of leakage, which is the point at which costs associated with leakage reduction equal the benefits derived from water savings. Reducing water loss beyond this point would cost more than producing the lost water from another source.

## Recycling

The table below shows the volume of water recycled by Sydney Water over the last three years.

Year ended 30 June	2005	2006	2007
Volume of recycled water (billion litres)	13.0	15.0	<b>22.0</b>
Recycled water as a percentage of total effluent discharged (%)	2.8	3.5	<b>4.3</b>

Source: Sydney Water .

While Sydney Water increases the level of recycled water, it ranks amongst the lowest recyclers on a percentage basis when compared to other water retailers in Australia.

According to Sydney Water a direct comparison between water retailers is problematic. The overwhelming majority of water recycling projects in Sydney have been implemented to save drinking water in the dams. Other States have achieved higher volumes of recycling where there are opportunities to recycle for agricultural and irrigation purposes. While these are important uses of recycled water, they do not, in the majority of cases, save on the draw of the stored drinking water supply.

However, the NSW Government plans to increase the volume of recycling to 70 billion litres a year in 2015 and to 100 billion litres by 2032. Sydney Water believes water recycling in Sydney will exceed the 70 billion litre target by 2015.

Sydney Water is committed to several projects to meet the 2015 target, including the Western Sydney Recycled Water project, which it estimates will result in the recycling of up to 27.0 billion litres of water by 2015. A contract for the first stage of this project was recently awarded and involves replacing water releases from Warragamba Dam into the Hawkesbury-Nepean River with treated effluent from Sydney Water's sewerage system. Sydney Water believes this will save up to 18 billion litres of water, and will be commissioned by mid 2009.

Sydney Water believes creating a recycled water grid which will service existing urban and growth areas will help achieve the 100 billion litre target. The Liverpool to Ashfield pipeline will be a key component of the recycled water grid and will have the capacity to transport 47 billion litres of treated effluent per year. Sydney Water estimates demand would exist for 29 billion litres per year.

Sydney Water plans to invest more than \$650 million on recycling projects over the next five years.

### Wastewater Services

Sydney Water operates its 30 sewerage treatment plants (STPs) and 659 sewer pumping stations in accordance with strict licence conditions set by the Department of Environment and Climate Change (DECC). The table below highlights Sydney Water's compliance with those licence conditions.

Year ended 30 June	2005	2006	2007
Total number of Penalty Infringement Notices issued by DECC (usually relating to prior year Noncompliances)	2	3	2
Total number of licence Noncompliances	380	408	243

Source: Sydney Water.

Of the 243 licence Noncompliances in 2006-07, 48 per cent (59 per cent) relate to uncontrolled dry weather overflows, which are usually caused by tree root chokes, mechanical and electrical failures and power outages at pumping stations. Sydney Water advises the reduction in overflows is mainly a result of improved response times to incidents and a program of inspecting and rehabilitating key assets susceptible to overflow.

Sydney Water has reported its 2006-07 Noncompliances to DECC. DECC has yet to review all Noncompliances to determine if any result in a licence breach. Of the 408 Noncompliances reported in 2005-06, DECC determined that only one breached the licence conditions, resulting in a penalty infringement notice. The other penalty infringement notice reported in the table above relates to an incident that occurred in September 2006. Sydney Water was fined \$1,500 for each breach.

Under its operating licence, Sydney Water must ensure no more than 25,000 properties are affected by an uncontrolled dry weather overflow each year. Sydney Water advises it met this target in 2006-07, with 24,924 properties affected (22,572) and attributes the increase to extended dry weather conditions.

## Maintenance Activities

The table below shows Sydney Water completed all its planned maintenance for 2006-07. The results are consistent with the previous year.

Year ended 30 June	2006	2007
Total planned maintenance completed for network and treatment assets (%)	97.0	95.0
Total planned maintenance completed for critical assets (%)	99.5	100.0
Budgeted maintenance expenditure (\$m)	157.0	178.3
Actual maintenance expenditure (\$m)	153.0	175.4
Backlog maintenance (number of jobs)	6,963	6,347
Backlog maintenance (\$m)	9.0	9.5

Source: Sydney Water.

During 2005-06, Sydney Water completed 210,188 maintenance jobs (212,529). Backlog maintenance has gradually decreased over the last two years. Sydney Water believes this is an acceptable amount of backlog insofar as it allows efficient scheduling and continuation of workflow. Backlog maintenance is lower priority maintenance work Sydney Water had planned to address by a certain date, but did not achieve. While no formal plan is in place to reduce backlog maintenance by a certain date and/or by a certain percentage, Sydney Water does monitor backlog maintenance each month to ensure critical work is not delayed.

At present, most of Sydney Water's planned maintenance activities are time based. Sydney Water is gradually moving to condition based and 'run to fail' maintenance programs for some less critical assets because these methods are more cost efficient. Under the 'run to fail' maintenance program, Sydney Water waits until its assets break down before carrying out maintenance.

## Financial Performance Information

Sydney Water's current ratio (a measure of its financial liquidity) is relatively steady at 0.36 (0.33). A current ratio of one is, in most instances, considered appropriate. However, Sydney Water can manage its cash flows with a lower liquidity ratio because its revenues and expenditures are highly predictable, and because it can quickly source funds from a facility with NSW Treasury Corporation, as well as approved borrowing facilities and a bank overdraft.

Year ended 30 June	2006 \$m	2007 \$m
Profit before tax before superannuation actuarial gains	256.6	359.9
Dividend payable	193.0	140.0
Income tax payable	54.8	89.7
<b>Total government contributions</b>	<b>247.8</b>	<b>229.7</b>
Dividend + tax/profit before tax and superannuation actuarial gains (%)	96.6	63.8
Net profit margin before superannuation actuarial gains (%)	16.7	21.4
Current ratio	0.33	0.36

Source: Sydney Water.

Price increases, as determined by IPART, and an increase in developer contributions were the main reasons for a favourable improvement in the net profit margin before superannuation actuarial gains.

The following table compares Sydney Water to the Australian water industry and other Government Trading Enterprises (GTEs).

Year ended 30 June	Sydney Water		All States	
	2005	2006	Water 2006	All GTEs 2006
Return on assets (%)	2.7	5.7	5.5	4.9
Return on equity (%)	1.5	3.9	4.2	4.6
Debt to equity (%)	36.5	44.3	28.6	48.5
Cost recovery (%)	128.0	167.7	163.5	120.8

Source: The Productivity Commission's Financial Performance of Government Trading Enterprises 2004-05 to 2006-07.

Sydney Water's return on assets and equity, and cost recovery, improved considerably in 2005-06 and were generally consistent with the averages for the water industry across Australia. The increases were largely due to a favourable movement in defined benefit superannuation liabilities. The reduction in superannuation liabilities resulted in non cash revenue of \$112 million (\$205 million) being recognised in the income statement.

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 may report a higher rate of return on assets than those applying fair value, such as Sydney Water.

## OTHER INFORMATION

We identified some opportunities for improvement in internal controls and procedures. These were minor, and we reported them to management.

### Review of Major Capital Projects

Sydney Water's capital expenditure in 2006-07 was \$648 million (\$520 million). This was five per cent above the Statement of Corporate Intent target of \$609 million. Sydney Water advised that this was mainly due to some projects running ahead of schedule, such as the South Western Sydney Sewerage Scheme project.

In its 2005 price determination, IPART suggested Sydney Water should achieve efficiency savings of six per cent in delivering its capital works program in 2006-07 (3.5 per cent). Sydney Water advised that it achieved capital efficiencies of two per cent (3.1 per cent).

The original and current cost estimates and service delivery dates for all capital projects with an original cost above \$50.0 million are listed in the table below. Most projects are consistent with the original cost estimate. The delays in service delivery are mainly due to scope changes and delays in obtaining regulatory approvals.

Project	Original Cost Estimate (and year) \$'m	Current Cost Estimate \$'m	Original Service Delivery Date	Current Service Delivery Date
<b>Completed during 2006-07:</b>				
Illawarra Waste Water Strategy	104 (1997)	212	Mid 2005	--
Malabar System Risk Reduction - Stages 1-3	53 (1998)	129	Mid 2007	--
<b>In progress at 30 June 2007:</b>				
Desalination Project	1,950 (2007)	1,833	Late 2009	Early 2010
Replacement Flows	265 (2006)	230	Late 2009	Early 2010
South Western Sydney Sewerage Scheme	201 (2001)	181	Late 2007	Mid 2008
North Head Sewerage Treatment Plant	106 (2003)	152	Mid 2009	Late 2009
Rouse Hill Sewage Treatment Plant and Recycled Water Plant	78 (2006)	78	Late 2008	Early 2009
Hoxton Park Recycled Water	65 (2006)	65	Mid 2009	Late 2009
Brooklyn and Dangar Island Sewerage Scheme	56 (2006)	56	Mid 2008	Mid 2008
Blue Mountains Sewerage Scheme Stage Two	51 (1998)	156	Late 2006	Early 2009

The significant increase in cost of the North Head Sewerage Treatment Plant project is due to a re-evaluation of the design development, cost escalation and tender prices. The significant increase in the cost of the Blue Mountains Sewerage Scheme Stage Two was caused by a change in how sewage discharge should be treated.

Sydney Water considers the overall risk profile of its capital program, other than the desalination delivery pipeline, to be low. The desalination delivery pipeline is rated as medium risk as the construction passes through difficult soil risk conditions.

### Property disposals

In accordance with a Ministerial Direction issued in February 2006, Sydney Water sold its Miranda property for \$11.0 million. Under the Ministerial Direction and covenants placed on the sale, the successful purchaser is required to develop the site for three tier aged care accommodation and affordable housing.

As a result of complying with the Ministerial Direction, Sydney Water incurred significant costs and had to forego a higher sale price. Accordingly, NSW Treasury reimbursed Sydney Water \$8.9 million.

Sydney Water disposed of a further ten properties in 2006-07 for \$63.4 million (11 properties for \$10.7 million). Over the next three years, Sydney Water plans to dispose of 32 properties worth approximately \$179 million. This includes Sydney Water's current head office site which will become surplus once it moves to its new Parramatta office in 2009.

### Carbon Neutrality Program and Renewable Energy

Sydney Water has decided to become carbon neutral by 2020. Sydney Water plans to achieve this milestone by predominantly using carbon credits it has already earned, future carbon credits it will earn through demand management programs and generation of green energy, and acquiring carbon credits from the external market. Other strategies to achieve a carbon neutral status include reducing energy use and generating renewable energy.

Sydney Water's first milestone is a 60 per cent reduction in carbon emissions by 30 June 2012. It can achieve this target by retiring existing and future carbon credits.

Sydney Water estimates the financial impact of achieving carbon neutrality status by 2020 is in excess of \$70.0 million. Most of this relates to revenue foregone as a result of retiring carbon credits.

Sydney Water has approved the construction of seven renewable energy generation projects. These projects include biogas cogeneration and hydroelectric. These projects will cost \$39.0 million to construct and will generate about 51 gigawatt hours of renewable energy. The net present value of this investment is approximately \$7.2 million.

### Occupational Health and Safety (OH&S)

In Volume Four of the 2006 Auditor-General's Report to Parliament, we reported that an internal audit review found Sydney Water had not implemented the health and safety management system consistently, exposing it to unacceptable occupational health and safety risks. Sydney Water is appropriately addressing its occupational health and safety risks.

The level of injury in Sydney Water has gradually reduced over time. Sydney Water measures workplace injury through the Lost Time Injury Frequency Rate (LTIFR), which measures the number of lost time injuries per million hours worked. The LTIFR at 30 June 2007 was 6.5 (8.2).

## FINANCIAL INFORMATION

### Abridged Consolidated Income Statement

Year ended 30 June	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Service charges	704,992	676,093	704,992	676,093
Usage charges	651,178	589,106	651,178	589,106
Superannuation actuarial gains	112,412	205,457	112,412	112,412
Other	336,034	275,345	335,396	274,479
<b>TOTAL REVENUE</b>	<b>1,804,616</b>	<b>1,745,588</b>	<b>1,803,978</b>	<b>1,745,135</b>
Employee related expenses	291,268	287,737	291,261	287,733
Bulk water	151,015	137,382	151,015	137,382
Water treatment	98,730	97,387	98,730	97,387
Maintenance and operational services	167,161	145,067	167,142	145,129
Borrowing	179,830	171,564	179,830	171,564
Depreciation and amortisation	163,967	170,356	163,967	170,356
Other	280,374	274,009	280,322	273,856
<b>TOTAL EXPENSES</b>	<b>1,332,345</b>	<b>1,283,502</b>	<b>1,332,267</b>	<b>1,283,447</b>
<b>PROFIT BEFORE INCOME TAX</b>	<b>472,271</b>	<b>462,086</b>	<b>471,711</b>	<b>461,688</b>
Income tax expense	120,440	196,155	136,120	196,012
<b>PROFIT AFTER INCOME TAX</b>	<b>351,831</b>	<b>265,931</b>	<b>335,591</b>	<b>256,676</b>

The increase in service and usage charges is consistent with the increase in prices as set by IPART. Other revenue increased because Sydney Water received more developer contributions.

The increase in bulk water charges is consistent with the increase in price as set by IPART. An increase in maintenance activity led to the increase in maintenance and operational services expenses. The increase in borrowing expenses is explained by Sydney Water's increasing debt portfolio.

### Abridged Consolidated Balance Sheet

At 30 June	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Current assets	254,175	222,161	253,040	221,194
Non-current assets	<u>12,041,637</u>	<u>10,596,687</u>	<u>12,043,668</u>	<u>10,594,597</u>
<b>TOTAL ASSETS</b>	<b><u>12,295,812</u></b>	<b><u>10,818,848</u></b>	<b><u>12,296,708</u></b>	<b><u>10,819,791</u></b>
Current liabilities	710,046	672,101	717,629	679,265
Non-current liabilities	<u>4,345,757</u>	<u>3,663,006</u>	<u>4,345,767</u>	<u>3,663,030</u>
<b>TOTAL LIABILITIES</b>	<b><u>5,055,803</u></b>	<b><u>4,335,107</u></b>	<b><u>5,063,396</u></b>	<b><u>4,342,295</u></b>
<b>NET ASSETS</b>	<b><u>7,240,009</u></b>	<b><u>6,483,741</u></b>	<b><u>7,233,312</u></b>	<b><u>6,477,496</u></b>

Current assets increased mainly due to customers owing larger amounts and higher values of assets held for sale.

Property, plant and equipment were higher than 2006 due to an increase in the recoverable amount for those assets, as previously noted in this report.

Investments and other financial assets include the \$87.5 million surplus in one of the defined benefit superannuation schemes. At 30 June 2006, the three defined benefit superannuation schemes had a combined deficit of \$59.0 million.

The increase in total current liabilities was largely due to an increase in accruals and income tax payable.

### 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](http://www.sydneywater.com.au).



## CONTROLLED ENTITIES

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

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Entity Name
Australian Water Technologies Pty Ltd
AWT International (Thailand) Limited
Sydney Desalination Plant Pty Limited

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# Wyong Water Supply Authority

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## AUDIT OPINION

The audit of the financial report of Wyong Water Supply Authority (Wyong Water) for the year ended 30 June 2006 resulted in an unqualified Independent Auditor's Report.

## KEY ISSUES

### Desalination Plant

Wyong Shire and Gosford City Councils' Water Supply Authorities have obtained planning approval to build a desalination plant in the Wyong Shire Council area. The proposed plant would produce up to 20 million litres of drinking water per day from seawater. The desalination plant is one option under the Water Plan 2050 to help ensure long term water supply.

### Central Coast Water Corporation

In 2006, the NSW Parliament assented to the *Central Coast Water Corporation Act 2006*. The Act, once commenced, will establish the Central Coast Water Corporation (the Corporation) as a water supply authority. Assets, rights and liabilities of Wyong Shire and Gosford City Councils' may be transferred to the Corporation.

Wyong Shire and Gosford City Councils have formed a working party to review the legislation and the possible structure of the Corporation. The Minister administering the act cannot proclaim it until the Councils approve a constitution for the Corporation, enter into a shareholder's agreement and request the Minister to recommend the Act is proclaimed.

### Hunter Central Coast Water Pipeline

The Hunter Central Coast pipeline is now operational. The pipeline connects the Hunter Region to the Central Coast.

The project cost \$37.3 million. The Federal Government provided \$6.6 million towards the project, with the remaining funds contributed by Wyong and Gosford Councils and Hunter Water Corporation.

### Dividend

Wyong Water paid a dividend of \$205,000 (\$325,000 in 2004-05) to Wyong Shire Council. Local Government water and sewerage supply businesses are permitted to pay an annual dividend to their Council from their surplus.

The dividend payable is split into two components, comprising dividend for tax equivalents and dividend from surplus.

The dividend for tax equivalents is mandatory and is based upon the annual tax equivalent charges (excluding income tax) for water and sewer business activities.

## FINANCIAL INFORMATION

## Abridged Income Statement

Year ended 30 June	2006 \$'000	2005 \$'000
Service charges	25,734	24,497
Usage charges	12,591	10,679
Other	13,943	15,603
<b>TOTAL REVENUE</b>	<b>52,268</b>	<b>50,779</b>
 TOTAL EXPENSES	 49,133	 45,717
 SURPLUS	 3,135	 5,062

## Abridged Balance Sheet

At 30 June	2006 \$'000	2005 \$'000
Current assets	60,008	47,223
Non-current assets	559,923	544,121
<b>TOTAL ASSETS</b>	<b>619,931</b>	<b>591,344</b>
 Current liabilities	 19,208	 15,646
Non-current liabilities	58,169	36,073
<b>TOTAL LIABILITIES</b>	<b>77,377</b>	<b>51,719</b>
 NET ASSETS	 542,554	 539,625

## WYONG WATER ACTIVITIES

Wyong Water is part of Wyong Shire Council and provides water, sewerage and related services.

For further information on Wyong Shire Council refer to [www.wyong.nsw.gov.au](http://www.wyong.nsw.gov.au).



# Minister for Youth

**Refer to Appendix 1 for:**

NSW Commission for Children and Young People

Office for Children



# Premier

**Refer to Appendix 1 for:**

Community Relations Commission for a Multicultural NSW

Election Funding Authority of New South Wales

Natural Resources Commission





# Treasurer

New South Wales Treasury Corporation

Refer to Appendix 1 for:

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

Crown Lands Homesites Program

Internal Audit Bureau of New South Wales



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# New South Wales Treasury Corporation

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## AUDIT OPINION

The audits of the financial reports of New South Wales Treasury Corporation (TCorp) and its controlled entities for the year ended 30 June 2007 resulted in unqualified Independent Auditor's Reports.

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

## PERFORMANCE INFORMATION

### Funding the NSW Public Sector

TCorp raised \$2.9 billion (\$6.5 billion in 2005-06) during the year from the domestic and international debt markets to on-lend to public sector agencies. The most prominent sectors requiring these funds were rail, energy, and water agencies. There continues to be strong demand from international investors for TCorp's Global Exchangeable benchmark bonds, contributing to a \$3.4 billion increase (\$2.9 billion). These increases along with reduced demand for borrowings from public sector agencies assisted TCorp in meeting their funding targets for 2006-07 and having \$2.5 billion in reserve for future funding needs.

Standard and Poor's reaffirmed the State's credit rating at AAA stable. This rating influences TCorp's ability to obtain cost effective funding.

The Government has planned for net debt of the Total State Sector to increase by \$19.6 billion over a four year period to \$36.5 billion.

In 2007-08, TCorp's strategy will continue to centre on maintaining large, liquid lines of Benchmark bonds to provide around 70 per cent of their funding requirements. In addition, offshore commercial paper and the domestic Promissory Note market will be utilised to assist with meeting the maturity of the March 2008 Benchmark bonds.

### Management of Client Debt

TCorp reported that its performance as a manager of debt portfolios for its 19 clients met benchmarks and was in line with other fixed-interest managers. Total managed debt portfolios were \$19.0 billion at 30 June 2007 (\$18.5 billion).

TCorp actively manages client agency debt portfolios by adjusting actual portfolios to take advantage of fluctuations in shorter term interest rates. This activity is conducted within a prudent framework and in accordance with risk constraints prescribed by each agency. The benchmarks vary from agency to agency and are not standard as each benchmark is based on the specific business 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 facilities slightly under performed against the benchmark after deduction of fees. Funds invested at 30 June 2007 increased to \$11.6 billion (\$10.5 billion).

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

Year ended 30 June	2003	2004	2005	2006	2007
Hour-glass cash facility return %pa	4.85	5.25	5.59	5.69	<b>6.41</b>
Benchmark index return %pa	4.97	5.30	5.64	5.76	<b>6.42</b>
Total deposits in \$m	1,033	1,571	1,901	2,809	<b>3,157</b>
Hour-glass bond market facility return %pa	7.60	3.31	6.95	3.86	<b>4.68</b>
Benchmark index return %pa	7.85	3.45	7.09	4.04	<b>4.75</b>
Total deposits in \$m	99	128	137	134	<b>68</b>
Hour-glass medium term growth facility return %pa	4.63	8.59	9.24	8.76	<b>8.48</b>
Benchmark return %pa	3.51	7.33	8.61	8.44	<b>8.80</b>
Total deposits in \$m	103	106	111	288	<b>417</b>
Hour-glass long term growth facility return %pa	(1.75)	15.42	12.06	16.88	<b>13.80</b>
Benchmark return %pa	(1.62)	13.94	13.08	15.88	<b>14.67</b>
Total deposits in \$m	444	518	594	826	<b>1,081</b>

Source: NSW Treasury Corporation.

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

### *Tailored Investment Portfolios*

TCorp manages investment portfolios for a number of public sector agencies. Funds invested at 30 June 2007 decreased to \$4.0 billion (\$10.8 billion) with the transfer of the General Government Liability Management Fund (LMF) to SAS Trustee Corporation and the withdrawal of surplus capital from the Treasury Managed Fund.

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

## FINANCIAL INFORMATION

## Abridged Consolidated Income Statement

Year ended 30 June	2007 \$'000	2006 \$'000
Income from changes in fair value	2,558,782	2,602,246
Expenses from changes in fair value	<u>2,512,576</u>	<u>2,546,997</u>
Net income from changes in fair value	46,206	55,249
Fees and commissions	<u>23,235</u>	<u>24,417</u>
<b>TOTAL NET INCOME</b>	<b><u>69,441</u></b>	<b><u>79,666</u></b>
Staff costs	12,875	11,049
Other costs	<u>10,893</u>	<u>9,731</u>
<b>TOTAL GENERAL ADMINISTRATIVE COSTS</b>	<b>23,768</b>	<b>20,780</b>
Profit before income tax equivalent expense	45,673	58,886
Income tax equivalent expense	<u>11,875</u>	<u>15,310</u>
<b>PROFIT AFTER TAX</b>	<b><u>33,798</u></b>	<b><u>43,576</u></b>

The result was down on the previous year, but was above the budget forecasts. The transfer of the LMF assets contributed to the decrease in revenue.

## Abridged Consolidated Balance Sheet

At 30 June	2007 \$'000	2006 \$'000
Cash and liquid assets	286,580	193,337
Outstanding settlements receivable	402,582	444,576
Due from financial institutions	20,996	20,495
Securities held	3,847,188	2,327,495
Derivative financial instruments receivable	90,956	43,889
Loans to clients	27,703,804	26,660,086
Other assets	<u>17,992</u>	<u>18,224</u>
<b>TOTAL ASSETS</b>	<b><u>32,370,098</u></b>	<b><u>29,708,102</u></b>
Due to financial institutions	100,058	124,799
Outstanding settlements payable	531,471	294,528
Due to clients	409,375	949,904
Borrowings	30,275,054	27,700,527
Derivative financial instruments payable	967,033	573,189
Other liabilities and provisions	<u>43,958</u>	<u>22,004</u>
<b>TOTAL LIABILITIES</b>	<b><u>32,326,949</u></b>	<b><u>29,664,951</u></b>
<b>NET ASSETS</b>	<b><u>43,149</u></b>	<b><u>43,151</u></b>

TCorp maintains a relatively small equity base as reflected in its net assets position. Excess amounts after tax equivalent payments are normally returned to the Crown as dividends.

## Derivative Financial Instruments

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

## Credit Risk

TCorp manages its financial assets prudentially by ensuring its counterparties have acceptable credit ratings. The New South Wales Government fully guarantees the large majority of amounts owed to TCorp.

## ENTITY 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 positions.

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

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

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## CONTROLLED ENTITIES

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

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Entity Name
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TCorp Nominees Pty Limited Treasury Corporation Division
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# Section Two



## Performance Auditing

Performance Audit Reports Tabled in Parliament Since Volume Two of 2007

Performance Audits in Progress

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





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## Performance Audit Reports Tabled in Parliament Since Volume Two of 2007

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We have tabled six performance audit reports in Parliament since Volume Two 2007 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/publications/reports/performance/performance\\_reports.htm](http://www.audit.nsw.gov.au/publications/reports/performance/performance_reports.htm)

### USING COMPUTERS IN SCHOOLS FOR TEACHING AND LEARNING: FOLLOW-UP OF PERFORMANCE AUDIT

In this audit we reviewed the actions taken by the Department of Education and Training in response to our 2000 report on using computers in schools for teaching and learning.

#### Key Findings

Access to computers in our schools is significantly greater than in 2000. Schools have more computers and they work faster.

There is currently one computer for every six students. This is based on 100,000 computers provided by the department through its Technology for Learning Program, plus extra computers purchased by schools that also meet the department's standards.

The department has also been proactive in advancing Information Communication Technology (ICT) into schools. Since 2000 it has provided high-speed internet communication to schools, invested in training for teachers, and set up a support organisation for ICT teaching resources.

Teachers and students are increasingly using computers for teaching and learning. Students are achieving a high level of competence in computer use, and more and more teachers and students are accessing ICT resources. We also saw many examples of computer use on our school visits.

However, there are still a few remaining problems like infrastructure and technical support holding some schools back. For example, teachers are less likely to use computers where:

- high-speed cabling does not extend to all classrooms
- the school does not have enough rooms for computer labs
- there are not enough skilled personnel in schools to help out when problems occur.

To address these concerns we recommend the Department of Education and Training identify ICT needs in schools and develop strategies to systemically address the needs of any schools falling behind computer use.

The report was tabled in Parliament on 9 May 2007.

## **READINESS TO RESPOND: AMBULANCE SERVICE OF NEW SOUTH WALES FOLLOW-UP OF PERFORMANCE AUDIT**

In this audit we reviewed the actions taken by the Ambulance Service of New South Wales in response to our 2001 report on Readiness to Respond.

### **Key Findings**

The Ambulance Service had made substantial changes to its organisation and operations to address our 2001 recommendations. It has also introduced significant new initiatives to improve performance that were not part of our 2001 recommendations.

The Service can now better manage its day-to-day operations and analyse its performance.

For example:

- The Service and emergency departments have reduced patient transfer times to emergency departments, reduced ambulance queues and freed ambulances to respond more quickly to new emergencies.
- Despite demand for ambulance services increasing faster than population growth, the Service has slightly improved its response time since 2001.

The report was tabled in Parliament on 6 June 2007.

## **CONNECTING WITH PUBLIC TRANSPORT: MINISTRY OF TRANSPORT**

In this audit we reviewed how well Sydney's system of interchanges promotes the use of public transport. Interchanges provide access to public transport and include bus stops, railway stations, ferry wharves, taxi ranks, 'kiss and ride' areas, cycle racks and 'park and ride' areas.

The report focused on the critical role of the Ministry of Transport.

### **Key Findings**

We found little to indicate how or why specific projects were chosen, and what may have been needed in the longer term. The Ministry's new prioritising processes are a step forward and potentially offer greater transparency. The processes need to be further developed.

There was no information about who is using newly constructed interchange facilities and whether there has been any improvement in travel time. We found little to indicate which facilities could be considered successes and which could be considered failures.

One of the major problems with the operation of interchanges is that no one has responsibility for the interchange as a whole. This lack of 'ownership' contributes to poor features and poorly maintained facilities.

The State Government has in recent years developed a State Plan, a Metropolitan Strategy and an Urban Transport Statement to encourage development in accessible locations and improve transport between Sydney's centres.

We believe that the Ministry needs to focus more on interchange performance. It needs to assign responsibility for their coordination and oversight to an entity resourced for the purpose.

The report was tabled in Parliament on 6 June 2007.

## DEALING WITH HOUSEHOLD BURGLARIES

In this audit we reviewed how well the NSW Police Force deals with household burglaries.

### Key Findings

The number of household burglaries has dropped by 30 per cent over the last five years. Rates of burglary are now lower than they were 10 years ago.

Despite this, around 49,000 household burglaries occurred in NSW last year, and household burglary is the fourth most common crime affecting citizens, representing around 11 per cent of all recorded crimes.

In 2005-06, over 90 per cent of NSW break and enters remained unsolved and NSW does not rank well in clearing break and enter cases compared to other Australian jurisdictions.

According to research, persons at greatest risk of being burgled are those who have been burgled before. Although the Police Force offers security assessments to all victims who have been burgled twice, they could direct more resources to preventing first time victims from being burgled again, particularly in high risk neighbourhoods.

Police need to focus on collecting more and better intelligence on household burglary. They also need to ensure forensic evidence is collected and analysed more quickly.

While we know how many household burglaries are reported, we could not determine how many crime scenes were attended by general duties officers.

While police are doing much to prevent household burglary, they need to set a target to reduce household burglary that contributes to the State Plan outcomes. The State Plan sets a target of a 15 per cent reduction in property crime over the next ten years, including household burglaries.

The report was tabled in Parliament on 27 June 2007.

## SIGNAL FAILURES ON THE METROPOLITAN RAIL NETWORK

In this audit we reported on whether RailCorp is keeping the number and duration of signal failures low enough to support its on-time running target.

Effective maintenance and response to signaling failures is crucial to on-time running. Delays due to signaling failures are on average 40 per cent longer than delays due to train breakdowns.

### Key Findings

Between 2004 and 2006, the number of signaling failures, signaling downtime and trains delayed as a result of signaling failures all fell. RailCorp's on-time running performance improved over the same period.

RailCorp has improved its management of signal assets and its response to signal incidents.

RailCorp needs to determine with more confidence the number and duration of signaling failures the network can tolerate without impacting on service levels. This would reduce the risk that it may focus too little or too much effort on signaling failures compared to other causes of delays such as train breakdowns. RailCorp also needs to compare its signaling reliability and incident response practices and performance against other networks.

RailCorp's present signaling system uses a range of technologies, some dating back to the 1920's. A more advanced signaling system may be required to carry the substantial increase in passenger numbers targeted in the State Plan.

While RailCorp has been reducing the infrastructure maintenance backlog created by under spending in the 1990s, we observed that planned work to upgrade and expand the rail network will place pressure on maintenance spending and its pool of skilled staff.

The report was tabled in Parliament on 15 August 2007.

## **GOVERNMENT ADVERTISING**

In this audit we reviewed whether current government advertising guidelines are sufficient to prevent the use of public funds for party political purposes.

### **Key Findings**

Governments legitimately use advertising to increase public awareness of new policies, legislation, programs or services - such as anti smoking or get fit campaigns.

In 2006-07, the NSW Government spent \$112 million on government advertising - an increase of 21 per cent from 2005-06. 27 per cent or \$30.2 million was for non-campaign advertising (such as for job vacancies and tenders) and 73 per cent or \$81.5 million was for campaign advertising.

We have seen an increase in the amount spent on advertisements in the media leading up to the March 2007 state election. Although this may be justified, it contributes to the perception that government advertising may be promoting the incumbent government.

Our first performance audit of government advertising in 1995 found that guidance to agencies was not sufficient to prevent the use of public funds for party political purposes.

Processes have improved for the review and approval of advertising campaigns. Campaigns are now assessed for need, effectiveness and value for money before being approved.

However the current NSW guidelines are still not sufficient to prevent the use of public funds for party political purposes.

The audit called for more public information on what is spent on government advertising, and for more rigorous guidelines to help prevent government advertising being used for party political purposes.

The report was tabled in Parliament on 29 August 2007.

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## Performance Audits in Progress

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The planned tabling dates for audits in progress are:

Title	Planned Tabling Date
Improving Efficiency of Irrigation Water Use on Farms	21 November 2007
Police Rostering	5 December 2007
Amalgamating Government Agencies	January 2008
Protecting our Rivers: Follow-up of Performance Audit	1 <sup>st</sup> quarter of 2008
Office of the Director of Public Prosecutions	1 <sup>st</sup> quarter of 2008
Preventing Alcohol-Related Incidents through Responsible Service of Alcohol	2 <sup>nd</sup> quarter of 2008
Ageing Government Workforce - Teachers	2 <sup>nd</sup> quarter of 2008
Waste Reduction and Recycling Efforts in Government Agencies	2 <sup>nd</sup> quarter of 2008

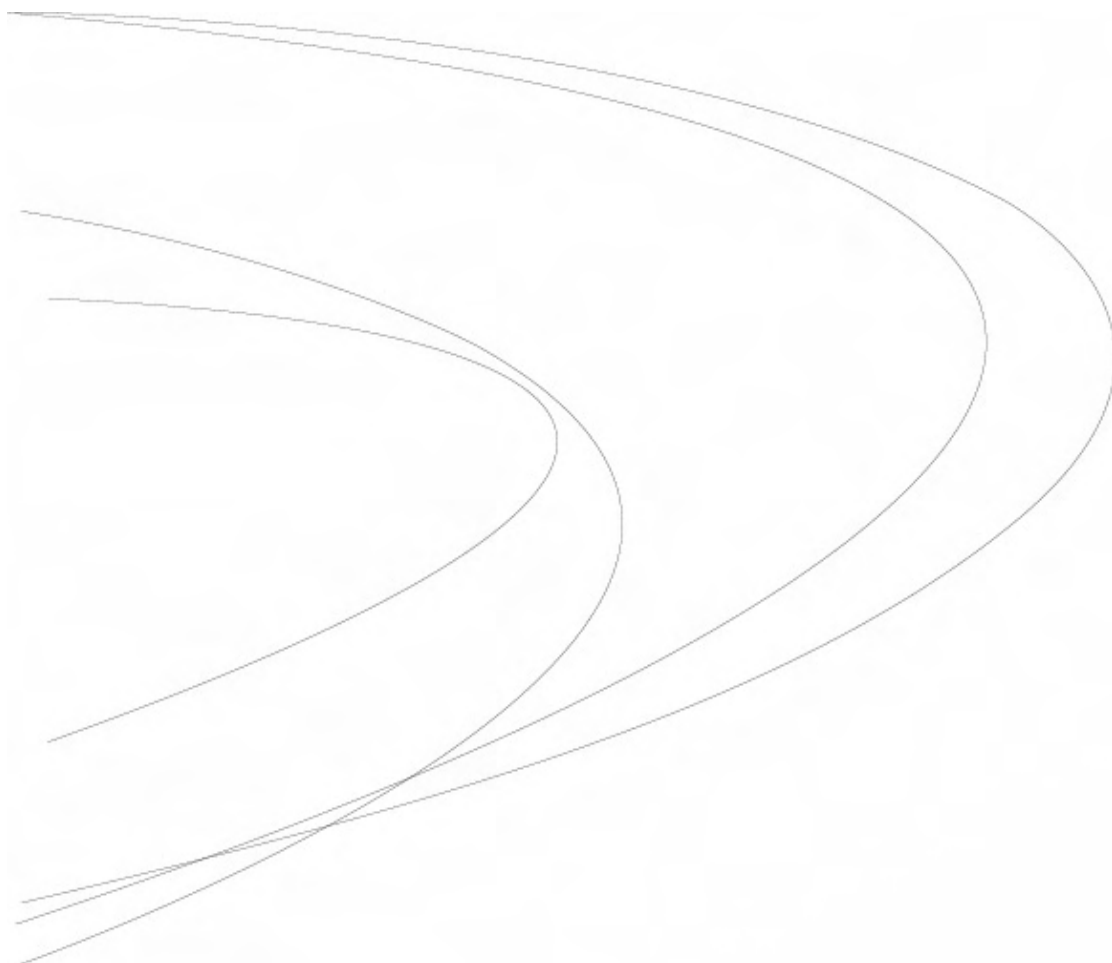
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For up-to-date information on audits in progress, refer to [www.audit.nsw.gov.au](http://www.audit.nsw.gov.au).



# Appendix

## Appendix 1 Agencies not reported elsewhere in this Volume







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

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The following audits resulted in unqualified Independent Auditor's Reports and we did not identify any significant issues or risks.

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

Entity Name	Website
Art Gallery of New South Wales Foundation	<a href="http://www.artgallery.nsw.gov.au">www.artgallery.nsw.gov.au</a>
Arts Education Foundation Trust	<a href="http://www.schools.nsw.edu.au">www.schools.nsw.edu.au</a>
Board of Surveying and Spatial Information	<a href="http://www.bossi.nsw.gov.au">www.bossi.nsw.gov.au</a>
Border Rivers - Gwydir Catchment Management Authority	<a href="http://www.brg.cma.nsw.gov.au">www.brg.cma.nsw.gov.au</a>
Building Professionals Board	<a href="http://www.bpb.nsw.gov.au">www.bpb.nsw.gov.au</a>
Central West Catchment Management Authority	<a href="http://www.cw.cma.nsw.gov.au">www.cw.cma.nsw.gov.au</a>
Chief Investigator of the Office of Transport Safety Investigations	<a href="http://www.otsi.nsw.gov.au">www.otsi.nsw.gov.au</a>
Chiropractors Registration Board	<a href="http://www.chiroreg.health.nsw.gov.au">www.chiroreg.health.nsw.gov.au</a>
Coffs Harbour Technology Park Limited	*
Community Relations Commission for a Multicultural NSW	<a href="http://www.crc.nsw.gov.au">www.crc.nsw.gov.au</a>
- Office of the Community Relations Commission	*
Crown Lands Homesites Program	*
Dams Safety Committee	<a href="http://www.damsafety.nsw.gov.au">www.damsafety.nsw.gov.au</a>
Dental Technicians Registration Board	<a href="http://www.dtechreg.health.nsw.gov.au">www.dtechreg.health.nsw.gov.au</a>
Dumaresq - Barwon Border Rivers Commission	<a href="http://www.brc.gov.au">www.brc.gov.au</a>
Election Funding Authority of New South Wales	<a href="http://www.efa.nsw.gov.au">www.efa.nsw.gov.au</a>
Fair Trading Administration Corporation	<a href="http://www.fairtrading.nsw.gov.au">www.fairtrading.nsw.gov.au</a>
Festival Development Corporation	*
Financial Counselling Trust Fund	*
Growth Centres Commission	<a href="http://www.gcc.nsw.gov.au">www.gcc.nsw.gov.au</a>
Hawkesbury - Nepean Catchment Management Authority	<a href="http://www.hn.cma.nsw.gov.au">www.hn.cma.nsw.gov.au</a>
Health Care Complaints Commission	<a href="http://www.hccc.nsw.gov.au">www.hccc.nsw.gov.au</a>
Honeysuckle Development Corporation	<a href="http://www.honeysuckle.net">www.honeysuckle.net</a>
Hunter - Central Rivers Catchment Management Authority	<a href="http://www.hcr.cma.nsw.gov.au">www.hcr.cma.nsw.gov.au</a>

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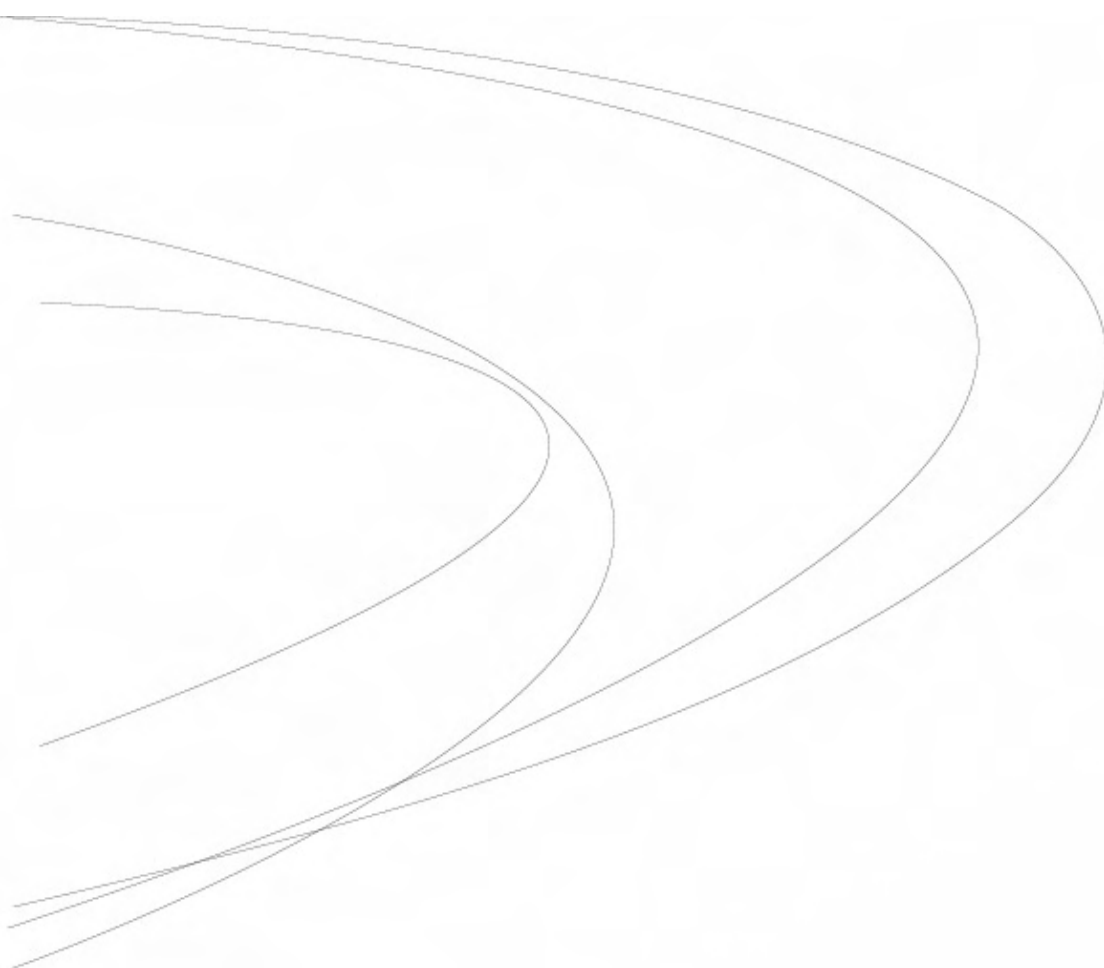
Entity Name	Website
Independent Transport Safety and Reliability Regulator	<a href="http://www.transportregulator.nsw.gov.au">www.transportregulator.nsw.gov.au</a>
- Independent Transport Safety and Reliability Regulator Division	*
Institute of Psychiatry	<a href="http://www.nswiop.nsw.edu.au">www.nswiop.nsw.edu.au</a>
Internal Audit Bureau of New South Wales	<a href="http://www.iab.nsw.gov.au">www.iab.nsw.gov.au</a>
- Internal Audit Bureau Division	*
Lachlan Catchment Management Authority	<a href="http://www.lachlan.cma.nsw.gov.au">www.lachlan.cma.nsw.gov.au</a>
Lake Illawarra Authority	<a href="http://www.lia.nsw.gov.au">www.lia.nsw.gov.au</a>
Liquor Administration Board	<a href="http://www.olgr.nsw.gov.au">www.olgr.nsw.gov.au</a>
Lower Murray - Darling Catchment Management Authority	<a href="http://www.lmd.cma.nsw.gov.au">www.lmd.cma.nsw.gov.au</a>
Luna Park Reserve Trust	*
Ministry for Police	*
Motor Vehicle Repair Industry Authority	<a href="http://www.mvria.nsw.gov.au">www.mvria.nsw.gov.au</a>
Murray Catchment Management Authority	<a href="http://www.murray.cma.nsw.gov.au">www.murray.cma.nsw.gov.au</a>
Murrumbidgee Catchment Management Authority	<a href="http://www.murrumbidgee.cma.nsw.gov.au">www.murrumbidgee.cma.nsw.gov.au</a>
Namoi Catchment Management Authority	<a href="http://www.namoi.cma.nsw.gov.au">www.namoi.cma.nsw.gov.au</a>
Natural Resources Commission	<a href="http://www.nrc.nsw.gov.au">www.nrc.nsw.gov.au</a>
- Natural Resources Commission Division	*
New South Wales Casino Control Authority	<a href="http://www.casinocontrol.nsw.gov.au">www.casinocontrol.nsw.gov.au</a>
- Casino Control Authority Division	*
New South Wales Crime Commission	<a href="http://www.crimecommission.nsw.gov.au">www.crimecommission.nsw.gov.au</a>
- New South Wales Crime Commission Division	*
- Office of the New South Wales Crime Commission	*
New South Wales Institute of Sport	<a href="http://www.nswis.com.au">www.nswis.com.au</a>
- Institute of Sport Division	*
New South Wales Medical Board	<a href="http://www.nswmb.org.au">www.nswmb.org.au</a>
Northern Rivers Catchment Management Authority	<a href="http://www.northern.cma.nsw.gov.au">www.northern.cma.nsw.gov.au</a>
NSW Architects Registration Board	<a href="http://www.architects.nsw.gov.au">www.architects.nsw.gov.au</a>
NSW Board of Vocational Education and Training	<a href="http://www.bvet.nsw.gov.au">www.bvet.nsw.gov.au</a>
NSW Commission for Children and Young People	<a href="http://www.kids.nsw.gov.au">www.kids.nsw.gov.au</a>
NSW Institute of Teachers	<a href="http://www.nswteachers.nsw.edu.au">www.nswteachers.nsw.edu.au</a>
- Office of the Institute of Teachers	*

Entity Name	Website
NSW Vocational Education and Training Accreditation Board	<a href="http://www.vetab.nsw.gov.au">www.vetab.nsw.gov.au</a>
Nurses and Midwives Board	<a href="http://www.nmb.nsw.gov.au">www.nmb.nsw.gov.au</a>
Office for Children	<a href="http://www.kidsguardian.nsw.gov.au">www.kidsguardian.nsw.gov.au</a> & <a href="http://www.kids.nsw.gov.au">www.kids.nsw.gov.au</a>
Optical Dispensers Licensing Board	<a href="http://www.opticalreg.health.nsw.gov.au">www.opticalreg.health.nsw.gov.au</a>
Optometrists Registration Board	<a href="http://www.optomreg.health.nsw.gov.au">www.optomreg.health.nsw.gov.au</a>
Osteopaths Registration Board	<a href="http://www.osteoreg.health.nsw.gov.au">www.osteoreg.health.nsw.gov.au</a>
Parramatta Park Trust	<a href="http://www.ppt.nsw.gov.au">www.ppt.nsw.gov.au</a>
Payments to other Government Bodies under the control of the Minister	*
Physiotherapists Registration Board	<a href="http://www.physioreg.health.nsw.gov.au">www.physioreg.health.nsw.gov.au</a>
Podiatrists Registration Board	<a href="http://www.podreg.health.nsw.gov.au">www.podreg.health.nsw.gov.au</a>
Police Integrity Commission	<a href="http://www.pic.nsw.gov.au">www.pic.nsw.gov.au</a>
- Office of the Police Integrity Commission	*
- Police Integrity Commission Division	*
Psychologists Registration Board	<a href="http://www.psychreg.health.nsw.gov.au">www.psychreg.health.nsw.gov.au</a>
Small Business Development Corporation of New South Wales	*
Southern Rivers Catchment Management Authority	<a href="http://www.southern.cma.nsw.gov.au">www.southern.cma.nsw.gov.au</a>
Sporting Injuries Committee	<a href="http://www.sportinginjuries.nsw.gov.au">www.sportinginjuries.nsw.gov.au</a>
State Sports Centre Trust	<a href="http://www.sports-centre.com.au">www.sports-centre.com.au</a>
- State Sports Centre Trust Division of the Government Service	*
Sydney 2009 World Masters Games Organising Committee	<a href="http://www.2009worldmasters.com">www.2009worldmasters.com</a>
- Sydney 2009 World Masters Games Organising Committee Division	*
Sydney Metropolitan Catchment Management Authority	<a href="http://www.sydney.cma.nsw.gov.au">www.sydney.cma.nsw.gov.au</a>
The Board of Studies	<a href="http://www.boardofstudies.nsw.edu.au">www.boardofstudies.nsw.edu.au</a>
- Board of Studies Casual Staff Division	*
The Brett Whiteley Foundation	<a href="http://www.brettwhiteley.org">www.brettwhiteley.org</a>
The Crown Employees (NSW Fire Brigades Firefighting Staff Death and Disability) Superannuation Fund	*
Veterinary Practitioners Board	<a href="http://www.vpb.nsw.gov.au">www.vpb.nsw.gov.au</a>
Wentworth Park Sporting Complex Trust	<a href="http://www.wentworthparksport.com.au">www.wentworthparksport.com.au</a>
Western Catchment Management Authority	<a href="http://www.western.cma.nsw.gov.au">www.western.cma.nsw.gov.au</a>

\* These entities do not have websites



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