AUDITOR-GENERAL'S REPORT

FINANCIAL AUDITS

Volume One 2009

AUDITOR-GENERAL
NEW SOUTH WALES

The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

Pursuant to the *Public Finance and Audit Act 1983*, I present Volume One of my 2009 Report.

Peter Achterstraat
Auditor-General

Sydney
February 2009

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

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

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

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

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

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

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

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

Agency Activities 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.

Section Two refers to Performance Audits tabled or in progress at the time of this report.

Contents

Significant Items iii

SECTION ONE – Commentary on Government Agencies

Minister for Aboriginal Affairs 3
- New South Wales Aboriginal Land Council 5

Minister for Climate Change and the Environment 11

Minister for Finance 13
- Motor Accidents Authority of New South Wales 15
- Workers Compensation Nominal Insurer (trading as The NSW WorkCover Scheme) 17

Minister for Health 21
- Health Overview 23
- Department of Health 41
- Area Health Services:
  - Greater Southern 44
  - Greater Western 49
  - Hunter New England 55
  - North Coast 61
  - Northern Sydney and Central Coast 67
  - South Eastern Sydney and Illawarra 73
  - Sydney South West 79
  - Sydney West 85
- Other Health Services:
  - Cancer Institute NSW 91
  - Health Administration Corporation 94
  - Justice Health 100
  - Royal Alexandra Hospital for Children 104

Minister Mineral Resources 111
  - Mine Subsidence Board 113

Minister for Primary Industries 115
- Department of Primary Industries 117
- Forestry Commission of New South Wales (trading as Forests NSW) 124

Minister for Sport and Recreation 131

SECTION TWO – Performance Auditing

Performance Audit Reports Tabled in Parliament since Volume Four of 2008........................ 135

Performance Audits in Progress 136

Performance Audits Otherwise Acquitted 137

APPENDIX

Appendix 1 – Agencies not reported elsewhere in this Volume.. 145

INDEX...147

Significant Items

	Page
Health Overview	
Completion of the Department of Health and its controlled entities' financial reports were again delayed. Statutory dates were not achieved.	23
The consolidated entity budgeted for a $13.4 million operating surplus for 2007-08, but the actual result was a $380 million deficit. Budget monitoring during the year did not detect the extent of the overrun.	24
Amounts owing to trade creditors were $312 million at 30 June 2008, a significant increase from $162 million at 30 June 2007. Creditors over 45 days totalled $75.1 million. We found that in some cases invoices were placed 'on hold' or 'in dispute' because Area Health Services did not have funds to pay them.	25
Last year we recommended a review be undertaken on the appropriateness of the continued use of fully depreciated plant and equipment. Some initial review was undertaken but more is required.	27
The Department still has not resolved whether the Treasurer's Directions apply to Area Health Services. This issue has been outstanding for a number of years.	29
Improved data collection on the use of contract staff is required for monitoring and reporting purposes. Appropriate data was unable to be provided to us.	29
Hospital bed occupancy ranged from 90.9 percent in the South Eastern Sydney and Illawarra Area Health Service down to 71.0 per cent in the Greater Southern Area Health Service.	30
All eight Area Health Services achieved the Category 1 target for critical care triage for life threatening situations. For Category 2 life threatening situations, six Area Health Services achieved the target compared to eight last year. For the remaining life threatening situation, Category 3, four Area Health Services achieved the target compared to three last year.	34
Patients on elective surgery waiting lists increased from 56,630 to 58,173 over the year. However, the number of patients waiting more than waiting period benchmarks reduced by more than half compared to last year.	35
New South Wales triage performance, based on 2006-07 data was equal to or better than the national average in all five triage categories.	36
A large amount of funds are held in trust and special purpose accounts. The use of these funds for health operations is restricted. Some of these funds have been held for a number of years.	37
Health Administration Corporation	
The Corporation again did not meet the statutory timeframe for preparation of its accounts.	94
The Corporation is taking action to ensure expected savings from the centralising of corporate services to the health sector are realised.	94

Salary overpayments to health entities' staff were not being adequately reported or monitored.	95
There was insufficient claims history at 30 June 2008 to determine any reliable valuation of outstanding claims in the newly created Ambulance Death and Disability Fund.	95

Department of Primary Industries

The Department's 2007-08 annual report did not disclose actual targets for its key performance indicators.	117

Forestry Commission of New South Wales (trading as Forests NSW)

For the second year in a row we were unable to obtain sufficient evidence on the valuation of native forests worth $333 million on 30 June 2008. Additionally, there was uncertainty over the tax deductibility of significant plantation costs.	124

Section One

Commentary on Government Agencies

Minister for Aboriginal Affairs

New South Wales Aboriginal Land Council

New South Wales Aboriginal Land Council

AUDIT OPINION

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

KEY ISSUES

Audit Reports of Local Aboriginal Land Councils (LALCs) (Repeat Issue)

For the purpose of financial reporting, each LALC is a separate reporting entity. A number of LALCs have failed to comply with the reporting requirements of the *Aboriginal Land Rights Act 1983* (the Act). Although the Council has used its statutory powers to improve internal control and reporting requirements, for example by ceasing annual funding of non complying LALCs, the results remain constant.

The Council determined the LALCs' 2007-08 funding based on the audit results of the LALCs' 2006-07 financial reports. An analysis of audit results shows:

Year ended 30 June	2007	2006	2005	2004
Satisfactory	***91***	90	93	90
Unsatisfactory	***14***	7	10	19
Disclaimer	**--**	--	--	--
Not received	***16***	24	18	12
Total	***121***	121	121	121

While the table shows steady performance, 25 per cent of Council's financial reports (26 per cent in 2005-06) were unsatisfactory or not received for the year ended 30 June 2007.

There were seven LALCs under administration at 30 June 2008 (five at 30 June 2007). The reasons for appointment of administrators vary and include failure to comply with statutory reporting requirements, possible disposal of land without proper approval, possible fraudulent activity and unsatisfactory audit reports.

OTHER INFORMATION

We identified areas for the Council to improve its internal controls which have been reported to management. The Council's response was generally favourable and the Council advised that many of our recommendations have either been or are in the process of being implemented.

Loans Acquired from LKM Capital Ltd (LKM)

During 2001-2002, K.L.A.L.C Property and Investment Pty Ltd (the Trustee) & Sanpine Pty Limited (Sanpine), and K.L.A.L.C Property and Investment Pty Ltd (the Trustee) and Paramount Land Pty Limited (Paramount), borrowed approximately $2.2 million from LKM Capital Limited (LKM) in separate loans that were repayable in one year. The Sanpine loan guarantee was an 815.2 hectare plot of land at Morisset that Koompahtoo Local Aboriginal Land Council had transferred to the Trustee. The Trustee, Sanpine and Paramount did not repay any of the loans within the agreed period and no payments had been made as at September 2007.

In September 2007, the Council acquired LKM's rights on the loans which by then amounted to $5.4 million, to stave off the possibility of the land being lost as a result of LKM being successful in exercising its right to sell the land. At 30 June 2008, the amount due to the Council was $6.1 million

The Department of Lands indicated on 27 September 2007 that the land was valued at only $2.3 million for rating purposes. The Council is in the process of obtaining a current valuation of this land.

The Council is taking action to recover the moneys expended on acquiring LKM's rights, together with its costs and interest.

Debts of Local Aboriginal Land Councils (Repeat Issue)

The Council is carrying loans to LALCs for rates and special purposes as advances receivable. At 30 June 2008, total LALC debt increased by $1.4 million ($1.1 million in 2006-07) to $13.5 million ($12.1 million). Of this, $8.1 million ($7.8 million) is not considered collectable and has been provided as doubtful debts. Worimi and Mungindi Local Aboriginal Land Councils are the largest debtors, with balances of $1.9 million each, largely for administrators' costs and legal expenses.

The Council has negotiated agreements with some LALCs to assign a proportion of their annual funding towards debt repayment or to sell property to recover the debt. For the LALCs with outstanding rate debts, Council's policy is to deduct 30 per cent or more of the LALC annual funding allocation for repayment of debt.

The Council has difficulty in controlling the amount advanced to LALCs in respect of outstanding rates. In terms of section 44A of the Act, the Council must pay the appropriate rating authorities within 30 days after receipt of a notice for rates owed by LALCs for more than 12 months.

The Council is currently reviewing its policy on the treatment of the debts to LALCs.

Rural Properties

The Council engaged Riverina F.A.R.M. Pty Limited (and Riverina Farm Services Pty Ltd as sub-manager) late in 2004 to manage the Council's rural properties.

The rural properties managed by Riverina F.A.R.M. are:

Name of Property	Location	Size (ha)
Appin Station	Menindee	31,704
Barooga-Karrai	Euabalong	9,890
Calooma/Nulty Springs	Bourke	35,609
Kaituna-Uno	Coonamble	5,184
Total		82,387

Source: NSW Aboriginal Land Council Annual Report 2006-07.

Under Riverina F.A.R.M.'s management, losses from rural properties in 2007-08 were $915,000 ($928,950). Since 2004, losses incurred by Council's rural properties under these management arrangements have totalled $3.3 million.

Management of Head Office Building

The building at 33 Argyle Street, Parramatta, is a major asset of the Council. It was purchased in December 1992 at a cost of $9.8 million and was valued at 22 April 2008 at $14.4 million ($16.6 million).

Rental income from the premises in 2007-08 was $990,000 ($1.1 million). This represents a return on investment of 6.9 per cent (6.6 per cent).

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2008 $'000	2007 $'000
Interest and investment income	***47,756***	67,535
Net increment on investment revaluation	**--**	22,449
Other income	***3,657***	2,447
TOTAL INCOME	***51,413***	92,431
Employee expenses	***9,233***	7,292
Funding of regional and local Aboriginal Land Councils	***13,648***	11,162
Net decrement on investment revaluation	***93,134***	--
Other expenses	***22,602***	12,903
TOTAL EXPENDITURE	***138,617***	31,357
(DEFICIT)/SURPLUS	***(87,204)***	61,074

The net decrease in the value of investments was $93.1 million in 2007-08 ($22.4 million net increase) due to the downturn in global financial markets.

The Council also had to transfer $42.7 million ($28.0 million) from its investment account to meet its administrative costs and program funding. Of this amount, $13.6 million ($11.2 million) was used to fund regional and local aboriginal land councils, mainly through standard allocations of $130,000 ($114,000).

Interest and investment income has reduced from $67.5 million to $47.7 million in 2008 due to the reduction in income distribution received from the Council's managed fund in 2008, which totalled $42.0 million ($62.9 million). Income distribution from the managed fund is based on the capital gains on investments.

As a result of the global financial crisis during 2008, capital gains distribution for equities included in the managed fund was only $8.0 million ($27.0 million).

Investment Portfolio

The Council has largely retained the investment strategy adopted in 1998-99 following the cessation of land tax funding. The strategy is mainly achieved by placing funds with a fund manager to obtain capital growth over the long-term and provide funds for the Council's operations.

The portfolio incurred an average loss of 6.57 per cent for the year (14.54 per cent gain). Investment income for the last four years is summarised below.

Year	2008 $'000	2007 $'000	2006 $'000	2005 $'000
Opening balance	***698,919***	637,703	587,822	538,002
Closing balance	***614,461***	698,919	637,703	587,822
Net (losses)/income	***(44,592)***	90,609	75,540	67,506
Average fund balance	***678,986***	623,006	574,992	529,159
Average (loss)/earning	***(6.57)***	14.54	13.14	12.76

Abridged Balance Sheet

At 30 June	2008 $'000	2007 $'000
Current assets	***609,996***	685,764
Non-current assets	***33,139***	38,492
TOTAL ASSETS	***643,135***	724,256
Current liabilities	***9,198***	3,304
Non-current liabilities	***178***	127
TOTAL LIABILITIES	***9,376***	3,431
NET ASSETS	***633,759***	720,825

Total assets decreased by $81.1 million (increase $65.2 million) primarily due to the adverse performance of the Council's investment portfolio. The worst performing investments were units in Managed Australian Equities which were $141 million at year end ($179 million).

COUNCIL ACTIVITIES

The Council was constituted under the *Aboriginal Land Rights Act 1983* (the Act), which was amended in 2007 to substantially increase the scope and range of responsibilities and functions of the Council. The Council comprises nine members, each elected by voting members of the LALCs within the nine regions of New South Wales. The functions of the Council include the following:

- administering the New South Wales Aboriginal Land Council Account and the Mining Royalties Account established under the Act
- acquiring and managing land on its own behalf, on behalf of, or to be vested in a LALC
- making claims to Crown lands, either on its own behalf, or on behalf of a LALC if requested
- purchasing, leasing or holding any property, or acquiring property by gift, devise or bequest
- exploring for and exploiting mineral or other natural resources
- considering applications from LALCs to purchase, sell, exchange, mortgage or otherwise dispose of land
- paying rating authorities in certain situations where rates are unpaid by LALCs
- compiling and maintaining a register of all land held by LALCs
- managing the affairs of a LALC, with the agreement of that LALC
- advising the Minister on matters relating to Aboriginal Land Rights
- preparing and implementing policies relating to its functions under the Act and the functions of LALCs
- exercising certain functions conferred or imposed by the Commonwealth Native Title Act
- protecting and promoting Aboriginal culture and heritage
- preparing and implementing policies relating to the community, land and business plans required to be adopted by LALCs
- managing the investment of any assets of the Council
- granting funds for the payment of costs and expenses of LALCs
- providing community benefits under relevant schemes, and approving and supervising those of LALCs (including social housing schemes)
- making grants, lending money to, or investing money for or on behalf of Aboriginal persons
- providing, acquiring, constructing, upgrading, or extending residential accommodation for Aboriginal persons in the State
- increasing the total number of voting members of LALCs in the State by not less than three per cent per annum for the five year period commencing 1 July 2007.

For further information on the Council, refer to www.alc.org.au.

Minister for Climate Change and the Environment

Refer to Appendix 1 for:

Jenolan Caves Reserve Trust

Minister for Finance

Motor Accidents Authority of New South Wales

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

Motor Accidents Authority of New South Wales

AUDIT OPINION

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

KEY ISSUES

Sponsorship Arrangements

> We recommend the Authority implement better practice policies to address risks arising from benefits attached to advertising and sponsorship arrangements.

The Authority enters into advertising and sponsorship arrangements in undertaking its functions. Some arrangements provide benefits to the Authority in the form of tickets to various sporting events.

The Authority has advised it accepts the need for better practice systems and work is progressing in this regard. Sponsorship arrangements are being modified as appropriate.

The Authority does not believe there has been any inappropriate use of benefits received.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2008 $'000	2007 $'000
Compulsory Third Party premium levy (CTP)	***116,088***	78,844
Other	***2,779***	2,114
TOTAL REVENUE	***118,867***	80,958
Personnel services	***11,891***	11,139
Roads and Traffic Authority, health and ambulance service fees	***62,205***	43,652
Medical and claims assessor fees	***7,231***	8,661
Rehabilitation, road safety grants and sponsorships	***6,718***	7,686
Other expenses	***8,276***	8,177
TOTAL EXPENSES	***96,321***	79,315
SURPLUS	***22,546***	1,643

The increase in CTP premium levies is largely due to increases in the proportion of insurance premiums collected by licensed insurers being paid over to the Authority. There were a series of proportion increases from 2.5 per cent to 8.4 per cent in 2006-07 to 10 per cent in 2007-08.

The increased levies were used to meet the expenses of the Authority's operations including fees for the Roads and Traffic Authority, health and ambulance services. From 1 October 2006, the Authority was required to meet expenses relating to the coordination of registration and insurance of motor vehicles, and hospital and ambulance services to persons with claims under the *Motor Accidents Compensation Act 1999*.

Abridged Balance Sheet

At 30 June	2008 $'000	2007 $'000
Cash and cash equivalents	***43,603***	25,235
Receivable from Crown Entity – outstanding nominal defendant claims	***38,260***	49,414
Other assets	***23,320***	16,200
TOTAL ASSETS	***105,183***	90,849
Provision for outstanding Nominal Defendant claims	***47,112***	58,218
Payables and other provisions	***23,046***	20,152
TOTAL LIABILITIES	***70,158***	78,370
NET ASSETS	***35,025***	12,479

Outstanding nominal defendant claims and recovery from the Crown Entity have decreased following the settlement of claims and an actuarial reassessment of the liability. This liability relates to injuries in 2000 or earlier and the liability is expected to continue to decline as claims on hand are settled.

AUTHORITY ACTIVITIES

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

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

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

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

AUDIT OPINION

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

PERFORMANCE INFORMATION

Investment Performance of the Scheme

The following table shows the percentage investment return of the Scheme and the benchmark investment return for the last three years:

Year ended 30 June	**Investment Performance per annum**		
	2008 %	**2007** %	**2006** %
Investment (loss)/return	***(0.5)***	13.5	12.1
Benchmark (loss)/return	***(1.5)***	12.7	11.7

Source: WorkCover New South Wales Annual Report.

Based on the above table, the Scheme has outperformed the benchmark each year. The loss incurred in 2008 was due to the poor performance of investment markets.

The Scheme's investments are held in the Workers Compensation Insurance Fund (the Insurance Fund). The Insurance Fund was established in July 2005 to achieve positive investment results and ensure long-term viability of the workers compensation system. The Insurance Fund is managed by the Workers Compensation Nominal Insurer. The Workers Compensation Insurance Fund Investment Board (the Board) established under the *Workers Compensation Legislation Amendment Act 2004* is responsible for determining the investment policies of the Fund.

The Workers Compensation Nominal Insurer outsources the management of investments to specialist investment managers.

OTHER INFORMATION

Potential Net Asset Deficiency

There is a significant risk the Scheme will enter a net asset deficiency position in 2009. The continuing poor performance of investment markets, changes in the discount rate due to changes in market interest rates, to be applied to the Scheme's liabilities, and the general economic downturn will all have an adverse impact on the Scheme's financial position.

For example at 30 June 2008, the Scheme had net assets of $625 million. For the four months to 31 October 2008, the Scheme's investments recorded an unrealised loss of $732 million. This represents a 6.5 per cent loss in this period.

An actuarial valuation of outstanding claims at 31 December 2008 is currently in progress.

Scheme Financial Position

A summary of the Scheme's and the former Scheme Statutory Funds' positions follow:

Year ended 30 June	2008 $m	2007 $m	2006 $m	2005* $m
Underwriting profit	***352***	33	2,110	31
Other (expense)/income	***(539)***	694	(45)	324
(DEFICIT)/SURPLUS	***(187)***	727	2,065	355
Net assets/(liabilities)	***625***	812	85	(1,998)
Assets to liabilities ratio (%)	***104***	107	101	80

* The balances relate to the former Scheme Statutory Funds.

The Scheme aims to maintain an assets to liabilities ratio of greater than 100 per cent.

The Scheme's net asset position decreased by $187 million for the year ended 30 June 2008 compared to an increase of $727 million in 2007. The main reason for this change was the decline in investment returns of $1.3 billion.

Transfer of Uninsured Liability and Indemnity Scheme (ULIS) to the Scheme

The assets, rights and liabilities for ULIS transferred from the WorkCover Authority to the Scheme on 1 July 2007, in accordance with the Workers Compensation Amendment (Insurance Reform-Transitional) Regulation 2007.

The WorkCover Authority Board determined that the liability for the new ULIS should be assessed on the same basis as the Scheme's other outstanding claims liabilities (i.e. including a risk margin). As a result, assets totalling $83.7 million were transferred to the Scheme, representing the central estimate of the ULIS net outstanding claims liability of $67.5 million at 30 June 2007, plus a risk margin of $16.2 million.

Workers Compensation Legislation Amendment (Financial Provisions) Act 2008

The Scheme provides funding towards the operations of the WorkCover Authority of New South Wales (the Authority). The *Workers Compensation Legislation Amendment (Financial Provisions) Act 2008* introduced a new funding model for the Authority from 1 July 2008. The Authority will continue to be mostly funded by the Scheme but under a new model whereby the Authority's annual funding needs will be determined in advance and approved by the Minister. Under the previous model the Authority received a fixed percentage of the Scheme's premium income.

As part of the transition to the new funding model, the Authority determined that $84.0 million of surplus funds would be returned to the Scheme. The Scheme received $48.0 million from the Authority during 2007-08 and a further $36.0 million in November 2008.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2008 $m	2007 $m
REVENUE		
Net earned premiums	***2,440***	2,520
Investment income	***(60)***	1,262
Other income	***148***	26
TOTAL REVENUE	***2,528***	3,808
Net claims incurred	***2,088***	2,487
Management fees	***320***	327
Statutory levies	***183***	173
Other expenses	***124***	94
TOTAL EXPENSES	***2,715***	3,081
(DEFICIT)/SURPLUS	***(187)***	727

Net earned premiums were impacted by reductions in premium rates.

Due to the significant underperformance of financial markets, investment income decreased by $1.3 billion. The decrease was largely a combination of the decrease in realised investment gains of $384 million and unrealised investment losses of $940 million compared to unrealised gains of $37.9 million in 2007.

The decrease in net claims incurred of $399 million was mainly due to adjustments to actuarial assumptions underlying the outstanding claim valuation in 2007.

Abridged Balance Sheet

At 30 June	2008 $m	2007 $m
Investments	***13,114***	11,018
Other	***1,498***	1,852
TOTAL ASSETS	***14,612***	12,870
Outstanding claims	***10,486***	9,859
Other	***3,501***	2,199
TOTAL LIABILITIES	***13,987***	12,058
NET ASSETS	***625***	812

In 2008, investments increased by $2.1 billion. This was mainly due to purchases of investments and increases in derivative positions.

Outstanding claims increased by $627 million of which $526 million related to increases for weekly benefits and medical related costs of claims prior to 2001. The liability was also increased by the transfer of the Uninsured Liabilities Scheme to the Scheme.

Investments

At 30 June	2008 $m	2007 $m
Indexed and interest bearing securities	***7,013***	4,759
Australian equities	***536***	1,864
International equities	***629***	713
Unit trusts	***2,988***	3,250
Derivative assets	***1,948***	*432*
TOTAL INVESTMENTS	***13,114***	11,018
Derivative liabilities	***(1,963)***	(372)
NET INVESTMENTS	***11,151***	10,646

In December 2007 the Insurance Fund reduced exposure to equities by two per cent in favour of a cash allocation. Cash was funded equally from Australian and International equities. In addition, Australian equity exposure was reduced in favour of International equities on the advice of the asset consultants to the Insurance Fund.

SCHEME ACTIVITIES

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

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

The WorkCover Authority does not control, but does act, for the Nominal Insurer. The legislation also established the Workers Compensation Insurance Fund Investment Board to determine investment policies for Insurance Fund assets. The Investment Board reports to the Minister on the investment performance of the Insurance Fund.

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

Minister for Health

Health Overview

Department of Health

Area Health Services:

Greater Southern

Greater Western

Hunter New England

North Coast

Northern Sydney and Central Coast

South Eastern Sydney and Illawarra

Sydney South West

Sydney West

Other Health Services:

Cancer Institute NSW

Health Administration Corporation

Justice Health

Royal Alexandra Hospital for Children

Refer to Appendix 1 for:

Dental Board of New South Wales

Pharmacy Board of New South Wales

Health Overview

THE HEALTH GROUP

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

Area Health Services (AHS)	Other Entities
Greater Southern (GSAHS)	Clinical Excellence Commission
Greater Western (GWAHS)	HealthQuest
Hunter New England (HNEAHS)	Justice Health
North Coast (NCAHS)	Royal Alexandra Hospital for Children (CHW)
Northern Sydney and Central Coast (NSCCAHS)	Health Administration Corporation (HAC) comprising:
South Eastern Sydney and Illawarra (SESIAHS)	- Ambulance Service of New South Wales
Sydney South West (SSWAHS)	- Health Support Services
Sydney West (SWAHS)	- Health Infrastructure
	- NSW Institute of Medical Education and Training (IMET)

AUDIT OPINION

The audits of the Department and its controlled entities' financial reports for the year ended 30 June 2008 resulted in unqualified Independent Auditor's Reports, other than for the Royal Alexandra Hospital for Children (CHW). An explanation for the qualification is included under the CHW's individual comment elsewhere in this Report.

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

KEY ISSUES

Late Receipt of Financial Report (Repeat Issue)

> We recommend both the Department and its controlled entities review and significantly improve year-end reporting processes to enable the consolidated entity to meet its statutory reporting timetable. Improvements should include quality control processes and more timely consideration and resolution of accounting and related issues for dissemination to the controlled entities. The Department needs to take decisive action to remedy the continuing unsatisfactory situation. Appropriate accountabilities should be included in staff performance agreements for Departmental and controlled entities' staff.

The Department provided us with its consolidated financial report on 4 September 2008, significantly later than the statutory deadline of 30 July 2008. This represents a breach of Section 45D of the *Public Finance and Audit Act 1983*. The Department has advised the main reasons for the delay this year were:

- controlled entities not meeting the required reporting deadlines
- late resolution of technical issues relating to accounting for Privately Financed Projects
- difficulties collecting controlled entities' inputs to comply with new financial reporting disclosures, particularly financial instruments
- clarification of the accounting treatment of various grants credited to the Department, e.g. Commonwealth grants
- clarification of reporting requirements under the Charitable Fundraising legislation
- revision of controlled entities' disclosures.

Although the financial report was received on 4 September, the need to obtain additional information contributed significantly to the delay in finalising the audits for the Department and its controlled entities.

From our perspective, the Department and its controlled entities need to significantly improve year-end processes for preparing their financial reports. The timely completion of the financial reporting process has been a significant problem for a number of years and has adversely impacted the audit process. The Department needs to review, and significantly enhance its year-end reporting procedures, improve quality control processes, and develop appropriate accountabilities for Departmental and controlled entity officers who do not meet agreed obligations and timetables.

Budget to Actual Comparison

> We recommend the Department significantly improve its budget monitoring processes to ensure potentially large overruns are identified sooner and appropriate corrective action is taken.

The consolidated entity budgeted for a $13.4 million surplus, but the actual result for the year was a $380 million deficit, a variance of $393 million. The Department's financial report disclosed that this unfavourable result was mainly attributable to:

- Area Health Service expenditure exceeding budgeted allocation by $149 million
- adjustments of $242 million for leap year costs; capital expenditure; utilisation of inventory; leave adjustments; superannuation; depreciation; loss on disposal of assets and impairments; standardisation of practices through the transition to Health Support Services; and St Vincent's Hospital BioHub expenditures.

Revised expenditure projections for the consolidated entity for 2007-08 included in The Treasury's Budget Papers for 2008-09 failed to reflect the material deterioration in the actual result at 30 June 2008. Although revised projections were prepared at 8 June 2008, it was not until after 30 June 2008 that the extent of the deterioration became known. The deficit expected at 8 June 2008 increased by $320 million at 30 June 2008.

The Department needs to enhance its budget monitoring procedures to identify potential overruns early in order to take corrective action so its results align more closely with forecasts. The Department and The Treasury engaged a consultant to review this area in detail including:

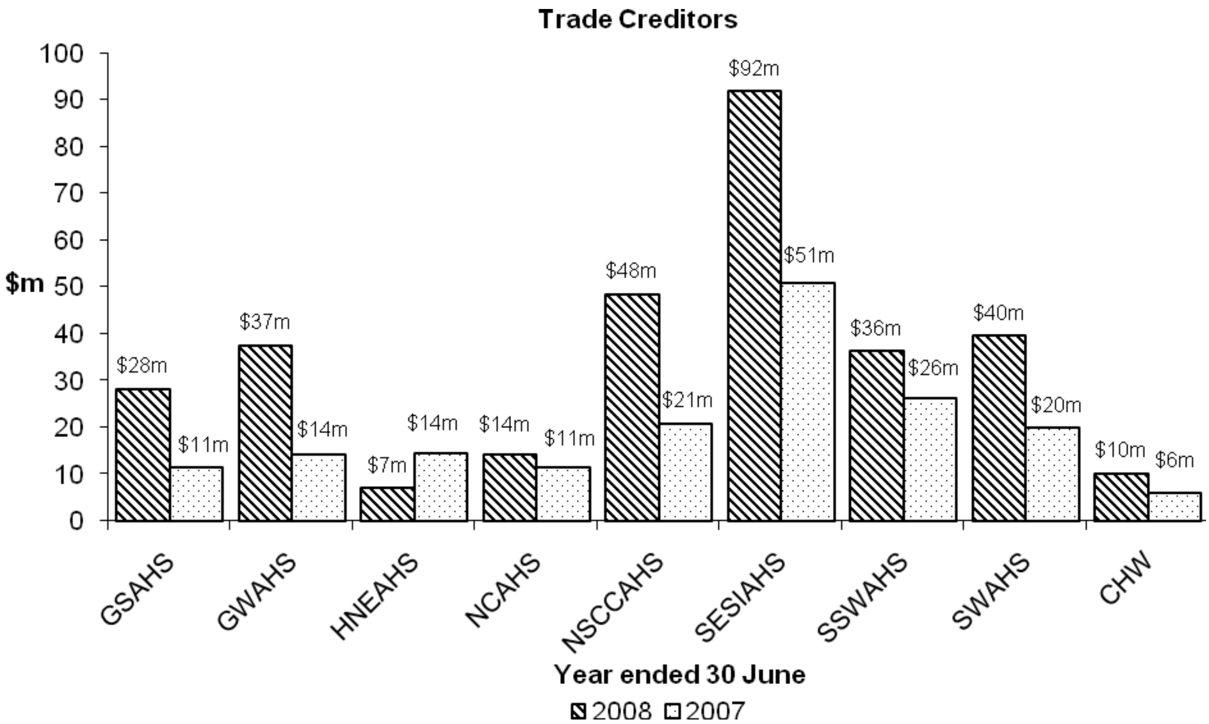
- performing a hindsight review to identify the causes of unfavourable net cost of service results against budget and determine whether changes introduced in 2008-09 are likely to reduce the likelihood of repeating these unfavourable results
- reviewing and identifying where improvement is possible in current and proposed practices for budget setting
- reviewing information flows from Area Health Services to the Department and from the Department to The Treasury to form a view on whether such flows are sufficiently appropriate and accurate to enable the Department and The Treasury to discharge their statutory and governance responsibilities.

The consultant's report was completed in December 2008 but has not been made public. This report is a Cabinet document and access for our review has not been given.

Creditor Levels

We recommend that the Department ensure Area Health Services pay their creditors within agreed payment terms and follow up disputed invoices in a timely manner. To resolve this issue, the Department and Area Health Services should improve their budget formulating and monitoring processes, and take steps to improve cash management. To compensate creditors for slow payment the Minister and the Treasurer should consider requiring Area Health Services to comply with clause 15 of the Public Finance and Audit Regulation 2005 which allows interest to be paid to creditors when payment terms are not met.

Total trade creditors amounted to $312 million at 30 June 2008 ($174 million in 2006-07) for all Area Health Services and CHW. Creditors for each Service and CHW for the years ended 30 June 2008 and 2007 are shown in the following graph:



In all but two Area Health Services total creditors have increased significantly in comparison to the prior year. North Coast Area Health Service increased marginally, while the Hunter New England Area Health Service recorded a decrease.

The Department requires creditors to be paid within contract terms and it monitors performance against a benchmark target of 45 days. The performance statistics are for general trade creditors and do not include visiting medical officers or other government agencies. According to information provided by the Department, only Sydney South West and Hunter New England, achieved this target for 2007-08, and all eight Area Health Services achieved this target in 2006-07 and 2005-06.

Last year, the Department advised there were no general creditors older than 45 days at 30 June 2007. This year, at 30 June 2008, general creditors over 45 days totalled $75.1 million (excluding the CHW). The largest of these were South Eastern Sydney and Illawarra Area Health Service at $24.3 million, and Greater Western Area Health Service at $20.9 million.

A review of creditors' ageing across the Area Health Services shows that in 2006-07 general creditors were mainly current (0-30 days) or in dispute/on hold. In 2007-08, however, the ageing had deteriorated, with a higher portion now being over 60 days and 90 days. More detailed commentary regarding the ageing of creditors has been made in the individual Area Health Service comments elsewhere in this Report.

For several Area Health Services, where the value of disputed creditors was available, we found this value made up a significant proportion of total creditors. At 30 June 2008, the largest of these was South Eastern Sydney and Illawarra Area Health Service, with disputed creditors at a value of $27.8 million.

Our testing across the Area Health Services found that in some cases invoices were placed 'on hold' or 'in dispute' simply because the Services did not have enough funds to pay them. We also found that one Area Health Service delayed PAYG payments to the Australian Taxation Office to manage outstanding creditor balances.

There were various reasons why creditors were not paid within agreed payment terms. Delays may have been due to a lack of available funds, inadequate cash management and/or processing systems. The Department and Area Health Services need to urgently identify, agree the reasons and implement required improvements to ensure payment terms are met in the future.

Working Capital

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

In recent years, the consolidated entity has consistently operated well below this level. This means that at any point in time, the consolidated current assets of the Department, such as cash and receivables, are not sufficient to meet its current liabilities. The situation is worse when current assets whose use is restricted by externally imposed conditions is taken into account as these assets are unavailable for general working capital purposes.

While a working capital ratio of 100 per cent is desirable, the consolidated entity is able to operate at a lower ratio due to continuous cash contributions from the Government. However, the consolidated entity needs sufficient working capital to avoid operational problems including the ability to pay creditors within agreed payment terms. The Department depends on appropriations from government to meet its expenditure needs.

The working capital position for the past four years, based on the Department's consolidated financial report, is shown below:

At 30 June	2008	2007	2006	2005
Current assets ($m)	***1,333***	1,307	1,238	1,149
Current liabilities* ($m)	***2,220***	1,830	1,743	1,505
Working capital deficit($m)	***887***	523	505	356
Working capital (%)	***60.0***	71.4	71.0	76.3
Number of times current liabilities exceed current assets	***1.7***	1.4	1.4	1.3

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

Asset Management (Repeat Issue)

> We recommend the Department, in conjunction with the Area Health Services, commission independent experts to assist in the review of the useful life of its assets, particularly critical plant and equipment. Where the Area Health Services continue to use fully depreciated plant and equipment, they should ensure the use of those assets does not compromise the efficient and effective operation of their hospitals.

Last year we recommended the Department, in conjunction with the Area Health Services, review the appropriateness of continued use of fully depreciated plant and equipment. In response, the Department advised that it would:

- develop a medical equipment strategic framework, and introduce future strategies including continued development of the HAC Rental Facility, which involves the Department purchasing equipment and leasing it to the Area Health Services
- provide funding to the Area Health Services in 2008-09 for the specific purpose of replacing obsolete plant and equipment
- review 2008-09 priorities with Health Support Services to identify state wide procurement opportunities
- provide the Area Health Services with instructions for reviewing fully depreciated assets
- plan the implementation of the Health Asset Management and Maintenance System, which will assist Area Health Services in the effective management and maintenance of their facilities, biomedical equipment and associated services.

Because some of the above actions are of a longer term nature, we will review progress in implementation during the 2008-09 audit.

At 30 June 2008, the original cost of fully depreciated plant and equipment for the Area Health Services (including CHW but excluding Greater Southern, for which information was not available) totalled $650 million. This represents 22 per cent of the total cost of plant and equipment. Some Area Health Services have performed internal reviews, and found:

- some assets were no longer held by the Area Health Services and had to be written off
- a significant number of fully depreciated assets were still being used to provide services.

Three Area Health Services have not as yet undertaken a review.

Although internal reviews are useful, the Department should engage independent experts to review the Area Health Services' fully depreciated plant and equipment to ensure continued use of such assets does not compromise the efficient and effective operation of hospitals. The review may highlight potential risks arising from the continued use of these assets.

More detailed comments on fully depreciated assets are included in individual Area Health Service comments in this Report.

Internal Audit of Triage Benchmarking Information

During the year, the Department engaged a contractor to undertake an internal audit of Emergency Department Triage Key Performance Indicators. This review was conducted at 11 selected hospitals for the period 1 January 2007 to 31 December 2007. The final report was released in November 2008.

The review examined the methods adopted to capture emergency department triage data, determine the accuracy of this data, ensure consistency in processing the data and reporting it to the Department.

The review concluded:

- the methods adopted to capture emergency department triage information do vary between hospitals, including recording of patient times of arrival, triage and attendance by medical officers
- although patient emergency department presentations were largely documented in accordance with the Department's Data Definitions (e.g. appropriately classified according to triage scale), there were limitations in record keeping, meaning the review was not able to verify that these data definitions were always reflected in the manual records
- processing of information for recording the triaging of patients is not approached consistently
- the value of triage reports is limited as emergency department activities and performance are not consistently and accurately captured and recorded
- these reports do not focus on other relevant areas such as quality of care and outcomes
- access controls to systems used for recording emergency department data at the hospital level were poor, primarily due to limitations in the old system
- the new FirstNet system being implemented appears to address many of these limitations.

The contractor recommended the Department standardise the methods of capturing information used in key performance indicators. They also recommended the Department issue further guidance on some data definitions such as 'First Seen Time' to ensure consistency in reporting. Further recommendations include improving audit trails, standardising the Data Manager job description and skill set required, and ensuring there is an appropriate internal audit program for regularly evaluating the effectiveness of data collection systems.

Non-compliance with Treasurer's Directions (Repeat Issue)

> We recommend the Department finalise its review of the applicability of Treasurer's Directions to Area Health Services.

We have previously reported instances of apparent non-compliance with the Public Finance and Audit Regulation 2005, Treasurer's Directions and annual reporting legislation. The Department believes Treasurer's Directions do not apply to Area Health Services, and undertook to obtain legal advice to clarify the matter. The Department has been considering this matter for a number of years and has still not resolved the issue. Regardless of any legal advice relating to the Treasurer's Directions we are of the view that the Directions should be applied as a matter of good practice.

PERFORMANCE INFORMATION

The Department provided the following information on the financial and operational performance of Area Health Services for the year ended 30 June 2008.

While the Department has established overall benchmarks, it also enters into performance agreements with individual Area Health Services. These include targets that may vary from the benchmark. The Department reviews and evaluates the performance of Area Health Services against these targets.

	Area Health Service					
	Greater Southern		Greater Western		Hunter New England	
	2008	2007	2008	2007	2008	2007
Abridged Consolidated Operating Statements (Year ended 30 June) - $million						
Employee related	***429.1***	391.1	***391.3***	361.4	***905.0***	840.0
Other expenses	***422.5***	391.4	***343.1***	304.1	***694.0***	585.8
Total expenses	***851.6***	782.5	***734.4***	665.5	***1,599.0***	1,425.8
Total revenues	***119.1***	127.2	***89.2***	83.9	***249.9***	227.9
Other (losses)/gains	***(4.0)***	(1.2)	***(0.2)***	(0.8)	***(1.9)***	10.4
Net cost of services	***736.5***	656.5	***645.4***	582.4	***1,351.0***	1,187.5
Government contributions	***747.2***	671.8	***622.4***	609.8	***1,244.0***	1,152.3
Surplus/(deficit)	***10.7***	15.3	***(23.0)***	27.4	***(107.0)***	(35.2)
Abridged Consolidated Balance Sheets (at 30 June) - $million						
Total assets	***591.1***	552.9	***544.0***	466.1	***1,183.9***	1,071.8
Total liabilities	***204.4***	176.3	***213.1***	156.0	***444.9***	336.9
Net assets	***386.7***	376.6	***330.9***	310.1	***739.0***	734.9
Performance Indicators - unaudited						
Average available beds (June)	***2,009***	2,017	***1,910***	1,881	***3,195***	3,140
Bed occupancy (%) (June)	***71.0***	71.8	***71.9***	73.8	***75.8***	81.9
Average length of stay (days)	***2.8***	2.9	***3.1***	3.2	***3.8***	3.8
Staff numbers (FTE) at 30 June	**5,122**	5,003	**4,927**	4,866	***10,939***	10,679
Emergency triage treatment categories (a)						
T1 (%)	***100***	100	***100***	100	***100***	100
T2 (%)	***86***	89	***80***	85	***84***	90
T3 (%)	***80***	82	***77***	75	***76***	78
T4 (%)	***76***	75	***83***	80	***80***	79
T5 (%)	***89***	90	***91***	93	***94***	94
Emergency admission performance (b)	***87***	88	***83***	86	***85***	86
Elective surgery categories (c)						
Category 1 (%)	***93***	97	***95***	94	***86***	90
Category 2 (%)	***80***	78	***73***	81	***76***	74
Category 3 (%)	***91***	97	***90***	86	***96***	97

Key: Unless otherwise indicated all data is based on statistics provided by the Department of Health.
(a) T1 Immediately life threatening – treatment required within two minutes - benchmark = 100 per cent.
T2 Imminently life threatening – treatment required within 10 minutes - benchmark = 80 per cent.
T3 Potentially life threatening – treatment required within 30 minutes - benchmark = 75 per cent.
T4 Potentially serious – treatment required within one hour - benchmark = 70 per cent.
T5 Less urgent – treatment required within two hours - benchmark = 70 per cent.
(b) Percentage of patients transferred to an inpatient bed within eight hours of treatment – target = 80 per cent.
(c) Category 1 Admission recommended wtihin 30 days
Category 2 Admission recommended within 90 days
Category 3 Admission recommended within 365 days

	Area Health Service					
	North Coast		Northern Sydney and Central Coast		South Eastern Sydney and Illawarra	
	2008	2007	2008	2007	2008	2007
Abridged Consolidated Operating Statements (Year ended 30 June) - $million						
Employee related	***519.5***	472.0	***1,034.2***	969.5	***1,232.0***	1,172.5
Other expenses	***411.9***	371.5	***623.4***	588.8	***964.7***	922.3
Total expenses	***931.4***	843.5	***1,657.6***	1,558.3	***2,196.7***	2,094.8
Total revenues	***138.9***	129.8	***324.2***	308.1	***530.6***	503.4
Other (losses)/gains	***(1.1)***	(0.9)	***(2.8)***	(2.7)	***(2.4)***	(0.5)
Net cost of services	***793.6***	714.6	***1,336.2***	1,252.9	***1,668.5***	1,591.9
Government contributions	***753.4***	724.2	***1,319.7***	1,265.0	***1,603.2***	1,537.0
Surplus/(deficit)	***(40.2)***	9.6	***(16.5)***	12.1	***(65.3)***	(54.9)
Abridged Consolidated Balance Sheets (at 30 June) - $million						
Total assets	***704.5***	644.7	***1,542.2***	1,347.8	***1,643.3***	1,611.1
Total liabilities	***211.7***	177.6	***462.4***	362.7	***571.7***	522.2
Net assets	***492.8***	467.1	***1,079.8***	985.1	***1,071.6***	1,088.9
Performance Indicators - unaudited						
Average available beds (June)	***1,587***	1,634	***2,771***	2,816	***3,505***	3,484
Bed occupancy (%) (June)	***85.4***	90.0	***87.9***	88.2	***90.9***	95.1
Average length of stay (days)	***3.4***	3.3	***4.3***	4.1	***3.7***	3.6
Staff numbers (FTE) at 30 June	***6,515***	6,062	***12,153***	11,981	***14,699***	14,314
Emergency triage treatment categories (a)						
T1 (%)	***100***	100	***100***	100	**100**	100
T2 (%)	***83***	87	***78***	81	**93**	91
T3 (%)	***65***	69	***71***	70	**76**	72
T4 (%)	***67***	69	***72***	71	**78**	74
T5 (%)	***88***	89	***88***	87	**91**	87
Emergency admission performance (b)	***77***	78	***72***	70	**76**	79
Elective surgery categories (c)						
Category 1 (%)	***86***	82	***99***	92	**92**	89
Category 2 (%)	***75***	71	***80***	72	**75**	67
Category 3 (%)	***90***	94	***97***	94	**93**	97

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

(a) T1 Immediately life threatening – treatment required within two minutes - benchmark = 100 per cent.
T2 Imminently life threatening – treatment required within 10 minutes - benchmark = 80 per cent.
T3 Potentially life threatening – treatment required within 30 minutes - benchmark = 75 per cent.
T4 Potentially serious – treatment required within one hour - benchmark = 70 per cent.
T5 Less urgent – treatment required within two hours - benchmark = 70 per cent.

(b) Percentage of patients transferred to an inpatient bed within eight hours of treatment – target = 80 per cent.

(c) Category 1 Admission recommended wtihin 30 days
Category 2 Admission recommended within 90 days
Category 3 Admission recommended within 365 days

	Area Health Service					
	Sydney South West		Sydney West		Total	
	2008	2007	2008	2007	2008	2007
Abridged Consolidated Operating Statements (Year ended 30 June) - $million						
Employee related	***1,449.7***	1,363.6	***1,116.9***	1,052.7	***7,077.7***	6,622.8
Other expenses	***944.7***	911.9	***715.5***	715.4	***5,119.8***	4,791.2
Total expenses	***2,394.4***	2,275.5	***1,832.4***	1,768.1	***12,197.5***	11,414.0
Total revenues	***498.5***	478.4	***313.9***	309.6	***2,264.3***	2,168.3
Other (losses)/gains	***(5.5)***	(3.2)	***(3.7)***	2.4	***(21.6)***	3.5
Net cost of services	***1,901.4***	1,800.3	***1,522.2***	1,456.1	***9,954.8***	9,242.2
Government contributions	***1,840.2***	1,804.5	***1,508.6***	1,417.2	***9,638.7***	9,181.8
Surplus/(deficit)	***(61.2)***	4.2	***(13.6)***	(38.9)	***(316.1)***	(60.4)
Abridged Consolidated Balance Sheets (at 30 June) - $million						
Total assets	***1,922.6***	1,916.6	***1,685.8***	1,611.6	***9,817.4***	9,222.6
Total liabilities	***623.7***	561.0	***509.0***	435.2	***3,240.9***	2,727.9
Net assets	***1,298.9***	1,355.6	***1,176.8***	1,176.4	***6,576.5***	6,494.7
Performance Indicators - unaudited						
Average available beds (June)	***3,985***	3,974	***2,946***	2,969	***21,908***	21,915
Bed occupancy (%) (June)	***88.9***	92.3	***87.7***	73.6	***85.1(d)***	86.2(d)
Average length of stay (days)	***3.8***	3.8	***3.7***	3.7	***3.7(e)***	3.6(e)
Staff numbers (FTE) at 30 June	***17,501***	17,117	***13,396***	13,346	***85,252***	83,368
Emergency triage treatment categories (a)						
T1 (%)	***100***	100	***100***	100	***100(d)***	100(d)
T2 (%)	***80***	89	***78***	86	***83(d)***	87(d)
T3 (%)	***62***	69	***67***	63	***70(d)***	71(d)
T4 (%)	***73***	75	***70***	67	***75(d)***	74(d)
T5 (%)	***90***	91	***89***	85	***90(d)***	89(d)
Emergency admission performance (b)	***75***	76	***75***	78	***77(d)***	78(d)
Elective surgery categories (c)						
Category 1 (%)	***94***	84	***95***	92	***93(d)***	89(d)
Category 2 (%)	***81***	81	***88***	81	***79(d)***	75(d)
Category 3 (%)	***98***	99	***96***	97	***95(d)***	96(d)

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

(a) T1 Immediately life threatening – treatment required within two minutes - benchmark = 100 per cent.
T2 Imminently life threatening – treatment required within 10 minutes - benchmark = 80 per cent.
T3 Potentially life threatening – treatment required within 30 minutes - benchmark = 75 per cent.
T4 Potentially serious – treatment required within one hour - benchmark = 70 per cent.
T5 Less urgent – treatment required within two hours - benchmark = 70 per cent.

(b) Percentage of patients transferred to an inpatient bed within eight hours of treatment – target = 80 per cent.

(c) Category 1 Admission recommended wtihin 30 days
Category 2 Admission recommended within 90 days
Category 3 Admission recommended within 365 days

(d) Statistics include CHW.

(e) Statistics include CHW and Justice Health.

Financial Performance

The two key indicators used by the Department to monitor the financial performance of Area Health Services are net cost of services (adjusted to exclude special purpose and specific project funds) and general creditor levels. The Department advised that only Sydney South West achieved both benchmarks in 2008 (Greater Southern, South Eastern Sydney and Illawarra and Sydney South West in 2007). The general creditors benchmark was achieved by only two Area Health Services in 2008 (all Area Health Services achieved this benchmark in 2007). Achievement of creditors' benchmarks is discussed in detail under Key Issues earlier in this report.

Net Cost of Services

The adjusted net cost of services for seven (five in 2007) of the eight Area Health Services were higher than the budget approved by the Department. The over-runs ranged from $1.1 million for South Eastern Sydney Illawarra to $45.9 million for Northern Sydney and Central Coast. The Department's analysis identified that Northern Sydney and Central Coast's unfavourable result was mainly due to the carry over of 2006-07 problems; failure to align staffing numbers to approved budget levels; provision of 2007-08 repayable interest bearing cash advances; internal efficiency savings shortfall; and growth initiatives fully expended, despite not making efficiency savings.

Other Area Health Services with significant unfavourable results were Greater Western and North Coast, with over-runs of $31.8 million and $25.3 million respectively. For these Area Health Services the Department advised they had not been able to link activity related costs to the approved budget, and to deliver the savings required. The Department advised that some elements of these results are difficult to control (e.g. use of locums in remote communities). The Department advised it will continue to closely monitor all Area Health Services' financial performances during 2008-09. The results of the consultant's review, previously referred to, will influence strategies to improve performance.

Area Health Service	Budget 2008 $m	Actual 2008 $m	(Over)/Under Budget $m
Greater Southern	719.1	736.5	(17.4)
Greater Western	613.6	645.4	(31.8)
Hunter New England	1,342.2	1,351.0	(8.8)
North Coast	768.3	793.6	(25.3)
Northern Sydney Central Coast	1,290.3	1,336.2	(45.9)
South Eastern Sydney and Illawarra	1,667.4	1,668.5	(1.1)
Sydney South West	1,912.5	1,901.4	11.1
Sydney West	1,510.4	1,522.2	(11.8)

Operational Performance and Activity Levels

The Department also uses other indicators to monitor operational performance and activity levels. These indicators include bed occupancy rates, average length of stay and the time taken to treat and admit emergency department patients.

Bed Occupancy Rate

The bed occupancy rate is the percentage of available beds that are occupied. It measures the use of hospital resources by inpatients and is based on major facilities.

The bed occupancy rate ranged from a high of 90.9 per cent (South Eastern Sydney and Illawarra) to a low of 71.0 per cent (Greater Southern). It also indicates that the metropolitan bed occupancy rate is significantly higher than most rural areas.

Average Length of Stay

The State wide average length of stay for acute separations in acute hospitals of 3.7 days was slightly higher than the previous year's 3.6 days. Generally, metropolitan areas registered a slightly higher average length of stay than rural areas.

Average Available Beds

The average number of available beds has remained almost constant across the majority of Area Health Services, with the number of available beds in June being 21,908 (21,915 in 2007).

Emergency Department Patients

- ***Triage***

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

The Department sets triage targets that align with those recommended by the Australasian College of Emergency Medicine (ACEM).

Critical care triage categories T1 to T3 relate to life threatening situations (see previous table for explanations of T1 to T3). All Area Health Services met the T1 benchmark. Two Area Health Services did not meet the T2 benchmark and four Area Health Services did not meet the other life threatening category (T3) in 2008. The following table indicates how many of the eight Area Health Services achieved the individual triage benchmarks.

Triage Category	Target %	2008	2007
Triage Category 1	100	***8***	8
Triage Category 2	80	***6***	8
Triage Category 3	75	***4***	3
Triage Category 4	70	***7***	6
Triage Category 5	70	***8***	8

- ***Emergency Admission Performance***

Emergency Admission Performance measures the ability to move patients from the emergency department to an inpatient bed. It is expressed as a percentage of patients admitted to an inpatient bed within eight hours of first being seen by a doctor or nurse.

Metropolitan Area Health Services typically record a lower emergency admission performance than rural services. Northern Sydney and Central Coast, Sydney West and Sydney South West recorded the lowest emergency admission performance (72 per cent, 75 per cent and 75 per cent respectively). The highest were Greater Southern, Hunter New England and Greater Western (87 per cent, 85 per cent and 83 per cent respectively).

Elective Surgery Waiting Times

Elective Surgery is defined by the Department as non-emergency procedures generally performed in an operating theatre, by a surgeon, under some form of anaesthesia. Three categories are used to measure performance.

- Category One admissions are desirable within 30 days, as the condition has the potential to deteriorate quickly to the point that it may become an emergency.
- Category Two admissions should be made within 90 days for conditions that cause some pain, dysfunction or disability, but are not likely to deteriorate quickly or become an emergency.
- Category Three admissions are desirable within 365 days for conditions that cause minimal or no pain, dysfunction or disability, and are unlikely to deteriorate quickly or become an emergency.

Category One and Category Two have both improved during 2007-08. The Department advised that 93 per cent of patients in the most urgent category were admitted within the target of 30 days (89 per cent in 2007). Category Two patients admitted within the target of 90 days were 79 per cent (75 per cent). Northern Sydney Central Coast Area Health Service reported the best performance in Category One with 99 per cent, compared with the lowest percentage achieved by North Coast and Hunter New England at 86 per cent. For Category Two, Sydney West had the best percentage at 88 per cent compared to 73 per cent achieved by Greater Western. For Category Three, Sydney South West had the highest percentage of admissions within the recommended 12 month timeframe with 98 per cent, compared to North Coast and Greater Western who achieved the lowest at 90 per cent.

There was a significant increase in the median waiting times for Category Three patients, who waited an average of 136 days in the April to June 2008 quarter (111 days for April to June 2007). The median waiting time for Category One patients was ten days for the April to June 2008 quarter (11). Category Two patients waited an average of 52 days (52).

The number of patients on the surgical ready-for-care list has increased from 56,630 as at 30 June 2007 to 58,173 as at 30 June 2008. However, the Department advised that the number of surgical urgent overdue patients in Category One decreased to 30 at 30 June 2008 (117 at 30 June 2007). Similarly, the Category Two overdue waiting list has decreased to 2,083 at 30 June 2008 (4,572 at 30 June 2007).

At 30 June	No of patients on surgical waiting list		Number overdue	
	2008	2007	2008	2007
Surgical Waiting List				
Category One	***2,141***	2,297	***30***	117
Category Two	***12,849***	16,005	***2,083***	4,572
Category Three	***43,183***	38,328	***58***	60
Total	***58,173***	56,630	***2,171***	4,749

Interstate Comparisons

The following information, based on 2006-07 statistics compares performance indicators for public acute hospitals for New South Wales with other jurisdictions. Each jurisdiction has different complexities, salary structures and accounting mechanisms. The data should be considered in this context.

2006-07 Statistics		NSW*	National
Average available beds per 1,000 population		***2.9***	***2.7***
Average length of stay (including day surgery)		***3.5***	***3.3***
Emergency department waiting times by Triage category (percentage of patients treated within benchmark time)	T1	***100***	***99***
	T2	***86***	***76***
	T3	***67***	***63***
	T4	***70***	***63***
	T5	***86***	***86***

Source: Australian Institute of Health and Welfare (AIHW) - Australian Hospital Statistics 2006-07.
* These statistics differ from the Department's statistics, partly because they are based on a selection of hospitals only.

The AIHW continues to maintain that 'the concept of an available bed is also becoming less important, particularly in the light of increasing same-day hospitalisations and the provision of hospital-in-the-home care'. AIHW also believes that different case mixes in hospitals affect the comparability of bed numbers.

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

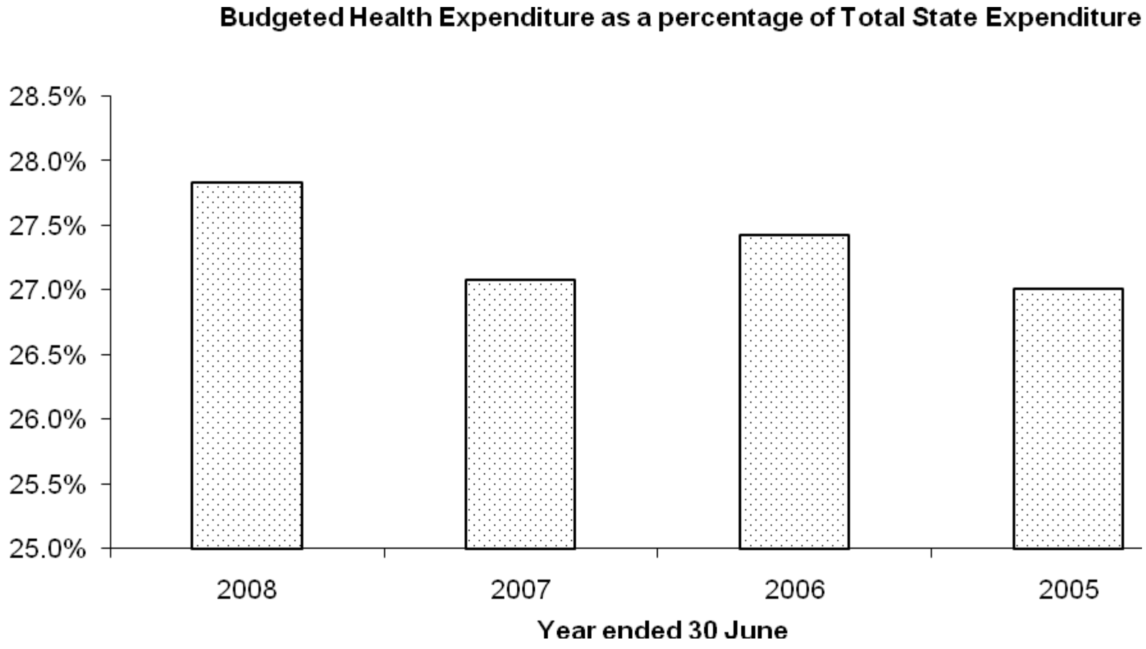
The New South Wales average length of stay decreased to 3.5 days (4.0), while the national average also decreased to 3.3 days (3.7).

New South Wales triage performance is equal to or better than the national average in all of the five categories. Significant improvement has been made particularly in category T3, with New South Wales now comparing favourably to the national average (New South Wales was marginally behind the national average for category T3, in 2007).

New South Wales Budgeted Health Expenditure - State and Federal

The budgeted expenditure for the New South Wales Department of Health has increased steadily over the past five years from $10.3 billion in 2004-05 to $12.7 billion in 2007-08. As a percentage of total budgeted New South Wales State spending, New South Wales Health expenditure increased from 27.0 per cent in 2004-05 to 27.8 per cent in 2007-08.

The following graph illustrates New South Wales Health expenditure as a percentage of total State expenditure. The percentages are based on revised budget estimates for the year.



Source: New South Wales Budget Papers.

A review of Federal Budget Papers showed there was a slight reduction in the New South Wales proportion of the total Federal recurrent Health budget in 2007-08 to 33 per cent ($3.5 billion), compared with 34 per cent in previous years.

Contract Staff

> We recommend the Department review its policies for the use of contractors. The Department needs to determine the appropriate level of contract staff it requires and should regularly review this requirement and monitor compliance.

We intended to comment on the number of contractors used by the Department compared to established staffing positions. We initially requested this information for the Department and its controlled entities. However, as the information was difficult to obtain, we agreed to limit our review for the current year to the Department parent entity.

At the time of finalising this report the Department had not been able to provide the information for the parent entity. It advised the information is not readily available and that it will examine the possibility of providing it in 2008-09.

OTHER INFORMATION

Trust Funds

> We recommend the Department, in conjunction with the Area Health Services, undertake a full review of all special purpose and trust funds to confirm their intended purpose. Where appropriate, approvals should be sought to move funds into the general purpose funds account for recurrent expenditure.

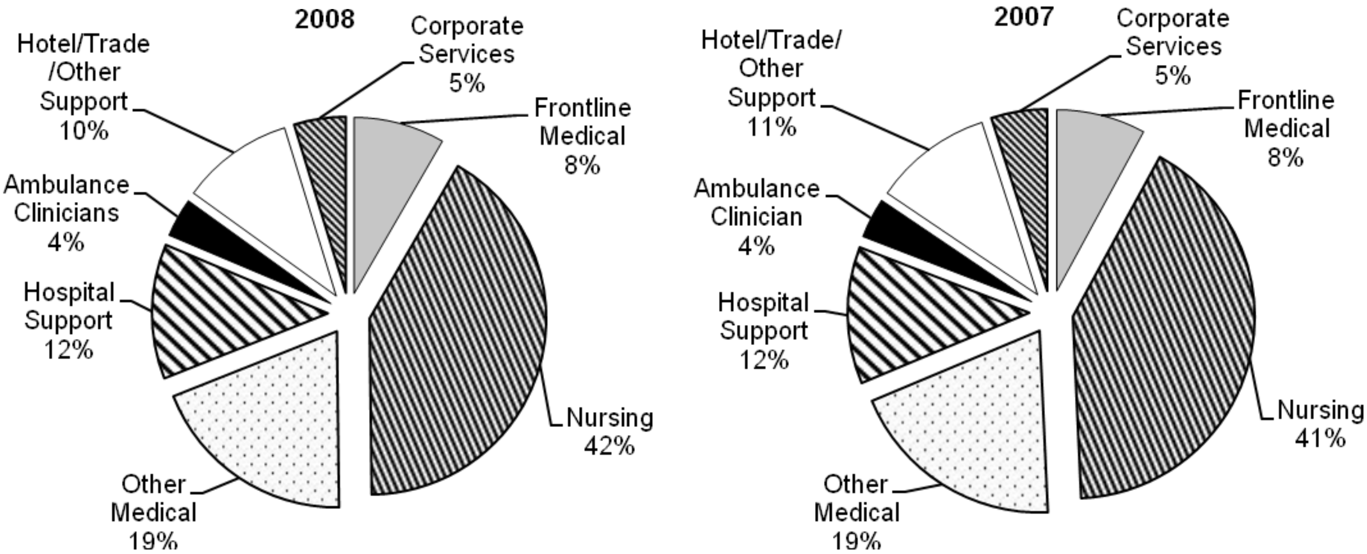
We reviewed Area Health Service special purpose and trust funds and found some had been established a number of years ago. The nature and purpose of some of these funds was now not readily apparent. We understand restrictions are imposed on these funds and they can only be used for the specific purpose allocated.

Other findings from our review of these trust funds are included in individual Area Health Service comments.

Staffing Categories

The following charts show the proportion of full-time equivalent staff employed by the consolidated entity, at June 2008 and June 2007. Front line clinical staff (nursing, medical, other medical and ambulance) comprise 73 per cent of total staff (72 per cent in 2006-07), the balance being administrative and other support services. The charts do not include visiting medical officers and contractors.

NSW Department of Health, Health Support Services, Ambulance Service and Health Services Staff by Category and Year



Source: NSW Department of Health
Notes:

1. 'Frontline Medical' comprises staff specialists and junior medical officers, i.e. doctors
2. 'Nursing' comprises registered nurses, enrolled nurses and midwives.
3. 'Other Medical Related' includes dental technicians, perfusionists, dialysis technicians, medical technologist, biomedical engineers, hospital scientist, cardiac technologist, audiologists, pharmacists, social workers, radiographers, podiatrists, dental assistants, dental officers, therapists, hygienists, health education officers, interpreters, hospital scientists and cardiac technicians.
4. 'Corporate Services' includes hospital executive, IT, human resources and finance staff.
5. 'Hospital Support Workers' includes ward clerks, public health officers, patient enquiries and other clinical support staff.
6. 'Hotel/Trade/Other Support Services' includes food services, linen services, cleaning, security, trade workers, gardeners/grounds management and other staff not identified elsewhere.

The Garling report referred to later in this comment makes a number of recommendations in relation to staffing.

New Bathurst Base Hospital

Greater Western Area Health Service constructed a new Bathurst Base Hospital with 149 beds, a ten bed mental health unit and emergency department that opened in January 2008. The project cost was $106 million (budget $100 million). A number of construction and operational issues have been identified since opening the hospital. We understand the estimated rectification cost of these issues is still to be quantified. Greater Western Area Health Service has advised that the rectification work is anticipated to be completed in 2009.

Orange Base Hospital Redevelopment Project

In 2007-08 Greater Western Area Health Service, in conjunction with the Department, engaged a private sector entity under a Public Private Partnership project to finance, design and construct the new Orange Base Hospital and health facilities. The developer expects to complete the work in stages with full service commencement in 2011. The private sector entity will also refurbish buildings, provide facilities management and deliver ancillary non-clinical services until December 2035. It commenced provision of facilities maintenance and non-clinical support services in April 2008 and November 2008 respectively.

Royal North Shore Redevelopment Project

On 28 October 2008, the Government entered into a $721 million public private partnership project with InfraShore, which will consolidate 53 outdated buildings into modern purpose built facilities for acute hospital care and community health.

Work is expected to commence in mid-2009, with the completion of the community health building expected in the first quarter of 2011. The new main property building is scheduled for completion by the end of 2012.

Liverpool Hospital Redevelopment

Work is underway on the $390 million redevelopment of Liverpool Hospital, and completion is scheduled for 2011. The redevelopment will significantly increase the capacity of the hospital to cater for increasing demand from a growing population.

Special Commission of Inquiry into Acute Care Services in New South Wales Public Hospitals

The New South Wales Governor appointed Mr Peter Garling SC to undertake a special commission of inquiry into acute care services in New South Wales Public Hospitals. Mr Garling issued his final report on 27 November 2008. This report included 139 recommendations for improvement in areas such as emergency departments, surgery, doctors, nurses, workplace reform, communication, patient safety, funding and administration and management.

The Department is currently considering the implications of the Report.

PUBLIC HEALTH SECTOR ACTIVITIES

The Department advises the Government on the strategic direction, policy and planning of the State's health system. It also monitors and evaluates health activities.

The *Health Administration Act 1982* empowers the Department's Director-General as a Corporation Sole (Health Administration Corporation) to enter into various legal contracts such as the purchase, sale or lease of property. This Act also enables the Director-General to determine that the Health Administration Corporation (HAC) may exercise any of the Director-General's functions. These functions include the provision of ambulance services to the New South Wales community and the provision of health support services to the public health system.

Area Health Services are Public Health Organisations constituted under the *Health Services Act 1997*. The Services are subject to the control and direction of the Director-General. They provide health services for the residents of New South Wales within their respective geographical areas.

Justice Health, Royal Alexandra Hospital for Children, Clinical Excellence Commission and HealthQuest are Statutory Health Corporations, which are also Public Health Organisations constituted under the *Health Services Act 1997*. These corporations are subject to the control and direction of the Minister and the Director-General.

The Ambulance Service of New South Wales was previously constituted under the *Ambulance Services Act 1990*. In March 2006 the *Ambulance Services Act 1990* was repealed and the Director-General of Health became directly responsible for the provision of ambulance services under the *Health Services Act 1997*. The Director-General subsequently determined that the operation of the Ambulance Service would be part of HAC.

The Director-General also established other units to provide various services to the public health sector as part of HAC. These include:

- Health Support Services (HSS), formed on 24 April 2007 from the merger of the HealthTechnology and HealthSupport business units. HSS provides financial, payroll, linen, food and other health support services
- NSW Institute of Medical Education and Training established 1 September 2005 to provide educational support to the health sector
- Health Infrastructure, established 1 July 2007 to provide a broad range of asset services in connection with public health organisations.

Department of Health

AUDIT OPINION

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

A listing of the entities the Department controls is included later in this comment under the 'Controlled Entities' section. Separate comment is included in this Volume for each of the controlled entities other than Clinical Excellence Commission and HealthQuest. Comment on certain aspects of the consolidated entity's financial and operating performance is included in the Health Overview section earlier in this Report.

OTHER INFORMATION

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

FINANCIAL INFORMATION

Abridged Consolidated Operating Statements

Year ended 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Employee related	***7,959,424***	7,394,328	***121,938***	118,063
Grants and subsidies	***1,026,945***	855,498	***10,404,775***	9,861,469
Other expenses	***4,131,013***	3,790,356	***494,903***	439,476
TOTAL EXPENSES	***13,117,382***	12,040,182	***11,021,616***	10,419,008
TOTAL REVENUE	***1,869,982***	1,701,621	***212,017***	219,171
Other (losses)/gains	***(50,853)***	(12,985)	***7,735***	123
NET COST OF SERVICES	***11,298,253***	10,351,546	***10,817,334***	10,199,960
Add government contributions	***10,918,259***	10,333,390	***10,763,082***	10,230,108
(DEFICIT)/SURPLUS	***(379,994)***	(18,156)	***(54,252)***	30,148

The increase in employee related expenses is largely due to higher award rates and employee entitlements.

The increase in other expenses largely reflects higher costs for drugs associated with vaccination programs, other medical supplies, maintenance expenses and visiting medical officers.

Government contributions increased by $569 million. This is largely in response to the increasing demand for, and rising costs of the New South Wales health care system. Government contributions included Commonwealth assistance of $3.6 billion ($3.3 billion in 2006-07), the major component being the $3.1 billion ($2.9 billion) paid under the Australian Health Care Agreement.

For the parent entity, the increase in grants and subsidies primarily comprises an increase of $458 million to controlled entities (mainly the Area Health Services).

Abridged Consolidated Balance Sheets

At 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current assets	***1,332,673***	1,307,288	***266,494***	300,579
Non-current assets	***9,716,154***	9,141,479	***188,252***	184,553
TOTAL ASSETS	***11,048,827***	10,448,767	***454,746***	485,132
Current liabilities	***3,316,607***	2,840,066	***159,073***	134,358
Non-current liabilities	***242,485***	168,072	***2,395***	3,244
TOTAL LIABILITIES	***3,559,092***	3,008,138	***161,468***	137,602
NET ASSETS	***7,489,735***	7,440,629	***293,278***	347,530

The increase in non-current assets of $575 million is largely the result of a reassessment of the fair value of land, buildings and infrastructure systems.

The increase in current liabilities is largely due to a significant increase in creditors of $178 million (commentary on this is included under key issues in the Health Overview).

Abridged Program Information

The table below details the consolidated entity’s net cost of services by program:

Year ended 30 June	2008			2007
	Revenues $’000	Expenses $’000	Net Cost of Services $’000	Net Cost of Services $’000
Overnight acute inpatient services	***775,067***	***5,315,085***	***4,540,018***	4,205,298
Outpatient services	***149,722***	***1,324,324***	***1,174,602***	1,154,491
Rehabilitation and extended care services	***195,330***	***1,007,766***	***812,436***	763,609
Primary and community based services	***102,175***	***988,714***	***886,539***	814,082
Aboriginal health services	***5,128***	***57,237***	***52,109***	42,228
Emergency services	***146,029***	***1,423,829***	***1,277,800***	1,147,506
Same day acute inpatient services	***177,283***	***864,943***	***687,660***	627,778
Mental health services	***66,860***	***1,038,521***	***971,661***	892,709
Population health services	***68,009***	***558,040***	***490,031***	351,583
Teaching and research	***184,379***	***589,776***	***405,397***	352,262
Total all programs	***1,869,982***	***13,168,235***	***11,298,253***	10,351,546

Program Statement

All controlled entities within New South Wales Health are required to measure expenses and revenues in accordance with a standard methodology developed by the Department. This is to ensure consistency in reporting. The Department requires the use of the most current activity data in apportioning overheads over the ten program areas.

DEPARTMENT ACTIVITIES

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

CONTROLLED ENTITIES

Separate comment is included in this volume for each of the following controlled entities:

Area Health Services (AHS)	Other Entities
Greater Southern	Justice Health
Greater Western	Royal Alexandra Hospital for Children
Hunter New England	Health Administration Corporation comprising:
North Coast	- Ambulance Service of New South Wales
Northern Sydney and Central Coast	- Health Support Services
South Eastern Sydney and Illawarra	- NSW Institute of Medical Education and Training (IMET)
Sydney South West	
Sydney West	- Health Infrastructure

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

Entity Name	Website
HealthQuest	www.healthquest.gov.au
HealthQuest Special Purpose Service Entity	*
Clinical Excellence Commission	www.cec.health.nsw.gov.au
- Clinical Excellence Commission Special Purpose Service Entity	*

* These entities do not have websites

Greater Southern Area Health Service

AUDIT OPINION

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

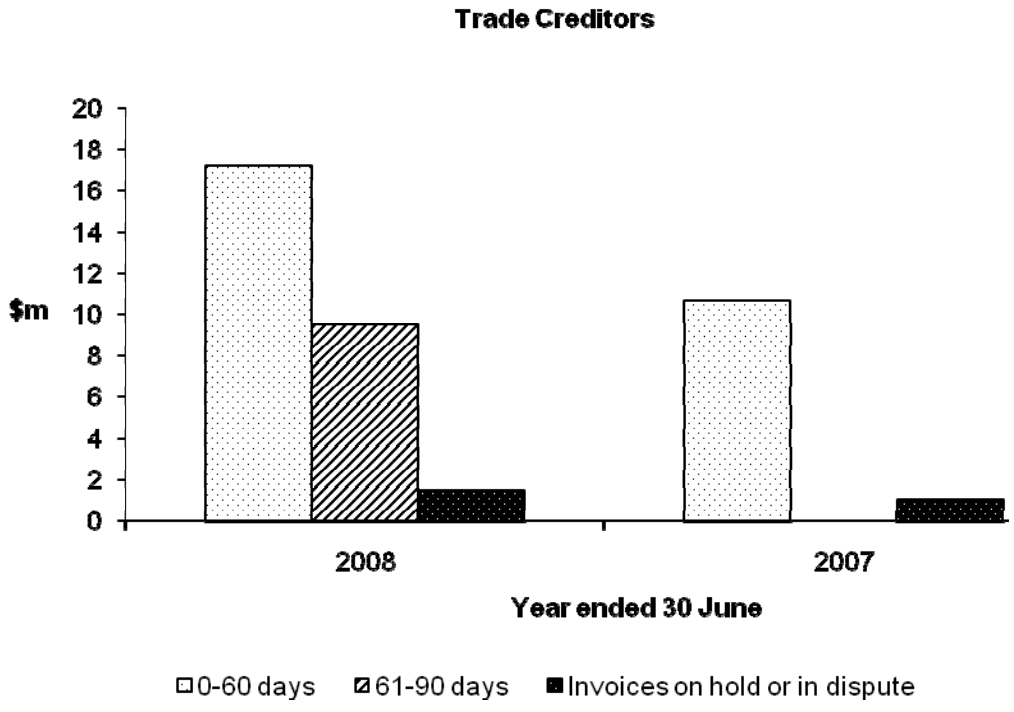
Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Payment of Creditor Invoices

> We recommend the Service pay its creditors within agreed payment terms and follow up disputed invoices in a timely manner. To resolve this issue, the Service, in consultation with the Department of Health (the Department) should improve its budget formulating and monitoring processes and take steps to improve its cash management.

The following chart shows the ageing of trade creditors for the past two years and the amounts on hold or in dispute:



Creditors (excluding accruals) increased significantly in the last few months of the year and over the prior year from $11.5 million in 2007 to $28.2 million. This was representative of the extreme cashflow pressures experienced by the Service and included delaying PAYG payments to the Australian Taxation Office to manage cash flows.

Working capital ratio is a measure of an entity's liquidity and its ability to meet short term debt obligations. It is calculated by dividing current assets by current liabilities. A working capital ratio of 100 per cent or more is generally considered desirable to ensure an entity can meet its debts when they fall due. In recent years, the Service has consistently operated well below this level and its working capital position deteriorated markedly over the last year. The situation is worse when current assets whose use is restricted by externally imposed conditions is taken into account as these assets are unavailable for working capital purposes. The Service depends on contributions from the Department to meet its expenditure needs.

The working capital positions for the last four years based on the Service's financial reports are shown below.

At 30 June	2008	2007	2006	2005
Current assets ('000)	***27,890***	32,447	29,840	27,414
Current liabilities* ('000)	***128,907***	101,935	92,097	79,100
Working capital deficit ('000)	***101,017***	69,488	62,257	51,686
Working capital (%)	***21.6***	31.8	32.4	34.7
Number of times current liabilities exceed current assets	***4.6***	3.1	3.1	2.9

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

While a working capital ratio of 100 per cent is desirable, the Service is able to operate at a lower ratio due to continuous cash contributions from the Department. However, the Service needs sufficient working capital to avoid operational problems including its ability to pay creditors within agreed payment terms.

PERFORMANCE INFORMATION

Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.

The average length of stay in acute hospitals in the Greater Southern area was 2.8 days (2.9 days in 2007). This was the lowest in the State.

The Service's bed occupancy rate was 71.0 per cent (71.8 per cent). It remains the lowest in the State.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in all five triage categories, as it did in 2007.

The Service's emergency admission performance of 87 per cent bettered the Department's benchmark of 80 per cent and was the highest in the State.

OTHER INFORMATION

Compliance with the *Charitable Fundraising Act 1991*

We found controls relating to charitable fundraising activities had not been consistently applied across all hospitals within the Service. As a result, some hospitals of the Service did not have sufficient controls and/or record keeping procedures to ensure compliance with requirements of the *Charitable Fundraising Act 1991* and the Charitable Fundraising Regulation 2003.

Internal Controls

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

FINANCIAL INFORMATION

Abridged Operating Statements

Year ended 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Employee related	***429,151***	391,060	--	--
Personnel services	--	--	***429,151***	391,060
Visiting medical officers	***54,816***	54,445	***54,816***	54,445
Other expenses	***367,637***	337,034	***367,637***	337,034
TOTAL EXPENSES	***851,604***	782,539	***851,604***	782,539
TOTAL REVENUE	***119,132***	127,187	***128,389***	137,241
Other losses	*4,073*	1,163	***4,073***	1,163
NET COST OF SERVICES	***736,545***	656,515	***727,288***	646,461
Total government contributions	***747,236***	671,762	***737,979***	661,708
SURPLUS	***10,691***	15,247	***10,691***	15,247

Other expenses increased mainly due to higher interstate patient outflows and hospital ambulance transport costs. The decrease in total revenue was mainly a result of lower interstate patient inflows and patient fees.

The capital allocation, included in Government Contributions, increased largely due to the redevelopment of hospitals, including Queanbeyan Hospital.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current assets	***27,890***	32,447	***27,890***	32,447
Non-current assets	***563,250***	520,461	***563,250***	520,461
TOTAL ASSETS	***591,140***	552,908	***591,140***	552,908
Current liabilities	***190,174***	158,406	***190,174***	158,406
Non-current liabilities	***14,229***	17,912	***14,229***	17,912
TOTAL LIABILITIES	***204,403***	176,318	***204,403***	176,318
NET ASSETS	***386,737***	376,590	***386,737***	376,590

The increase in non-current assets was mainly due to the increased level of capital works during the year, including the redevelopment of hospitals in Queanbeyan, $28.0 million; Junee, $7.0 million; Berrigan, $5.0 million; Batlow, $9.5 million; and Bombala, $6.7 million.

Current liabilities increased mainly due an increase in accounts payable and higher employee related provisions.

Abridged Consolidated Program Information

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

Year ended 30 June	2008			2007
	Revenues $'000	Expenses $'000	Net Cost of Services $'000	Net Cost of Services $'000
Overnight acute inpatient services	*88,331*	*469,964*	*381,633*	321,681
Emergency services	*2,923*	*46,597*	*43,674*	75,536
Rehabilitation and extended care services	*7,055*	*68,370*	*61,315*	66,924
Same day acute inpatient services	*18,337*	*92,238*	*73,901*	49,827
Primary and community based services	*1,489*	*79,934*	*78,445*	42,630
Other	*997*	*98,574*	*97,577*	99,917
Total all programs	*119,132*	*855,677*	*736,545*	656,515

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of the Greater Southern area through the following hospitals:

- Albury Base Hospital
- Barham Koondrook Health Service
- Batemans Bay District Hospital
- Batlow Adelong Health Service
- Bega District Hospital
- Berrigan Health Service
- Bombala Hospital
- Boorowa Hospital
- Bourke Street Health Service
- Braidwood Multi Purpose Service
- Coolamon Ganmain Health Service
- Cooma Hospital
- Cootamundra Hospital
- Corowa Health Service
- Crookwell Hospital
- Culcairn Health Service
- Delegate Multi Purpose Service
- Deniliquin District Hospital
- Finley Hospital
- Goulburn Hospital
- Griffith Base Hospital
- Gundagai District Hospital
- Hay Hospital and Health Service

- Henty District Hospital
- Hillston District Hospital
- Holbrook District Hospital
- Jerilderie Health Service
- Junee Health Service
- Leeton District Hospital
- Lockhart Hospital
- Moruya District Hospital
- Murrumburrah-Harden Hospital
- Narrandera District Hospital
- Pambula District Hospital
- Queanbeyan District Health Services
- Temora and District Hospital
- Tocumwal Hospital
- Tumbarumba Health Service
- Tumut District Hospital
- Urana Health Service
- Wagga Wagga Base Hospital
- Wyalong Health Service
- Yass District Hospital
- Young District Hospital

The Service also incorporates and manages the operating activities of various community health services, and is associated with several affiliated health organisations.

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

CONTROLLED ENTITY

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

Entity Name
Greater Southern Area Health Service Special Purpose Service Entity

Greater Western Area Health Service

AUDIT OPINION

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

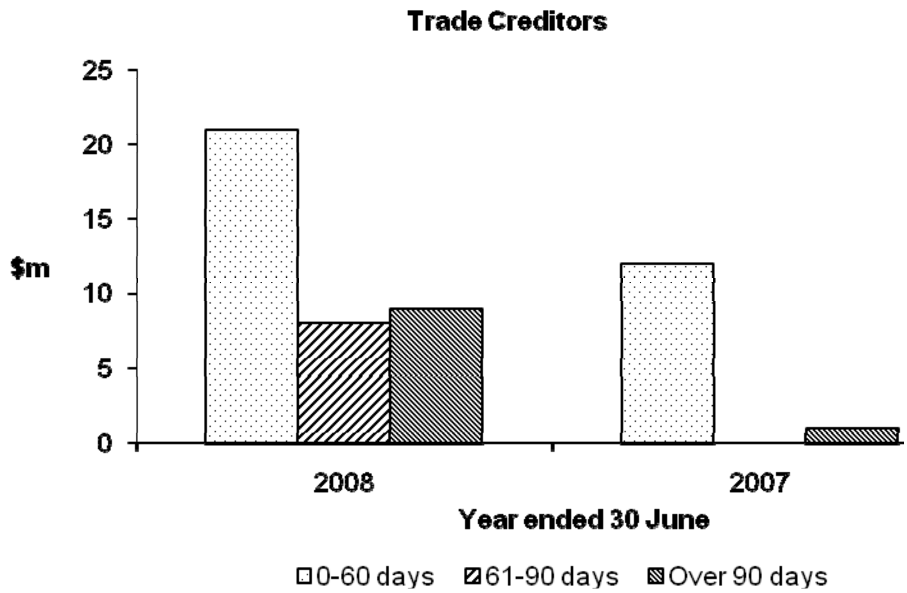
Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Payment of Creditor Invoices

> We recommend the Service pay its creditors within agreed payment terms and follow up disputed invoices in a timely manner. To resolve this issue, the Service, in consultation with the Department of Health (the Department), should improve its budget formulating and monitoring processes and take steps to improve its cash management.

The following chart shows the ageing of trade creditors for the past two years and the amounts on hold or in dispute:



Creditors increased significantly in the last few months of the year and over the prior year from $14.0 million in 2007 to $37.4 million. This reflected the extreme cash flow pressures experienced by the Service.

Working capital ratio is a measure of an entity's liquidity and its ability to meet short term debt obligations. It is calculated by dividing current assets by current liabilities. A working capital ratio of 100 per cent or more is generally considered desirable to ensure an entity can meet its debts when they fall due. In recent years, the Service has consistently operated well below this level. The situation is worse when current assets whose use is restricted by externally imposed conditions is taken into account, as these assets are unavailable for general working capital purposes. The Service depends on contributions from the Department to meet its expenditure needs.

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

At 30 June	2008	2007	2006	2005
Current assets ($'000)	***33,038***	19,841	19,966	27,576
Current liabilities* ($'000)	***150,470***	93,625	81,643	67,664
Working capital deficit ($'000)	***117,432***	73,784	61,677	40,088
Working capital (%)	***22.0***	21.2	24.5	40.8
Number of times current liabilities exceed current assets	***4.6***	4.7	4.1	2.5

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

While a working capital ratio of 100 per cent is desirable, the Service is able to operate at a lower ratio due to continuous cash contributions from the Department. However, the Service needs sufficient working capital to avoid operational problems including its ability to pay creditors within agreed payment terms.

Asset Management

> We recommend the Service, in conjunction with the Department, commission independent experts to assist in the review of the useful life of its assets, particularly critical plant and equipment. Where the Service continues to use fully depreciated plant and equipment, it should ensure use of those assets does not compromise the efficient and effective operation of its hospitals.

Last year we recommended the Department, in conjunction with the Area Health Service, review the appropriateness of continued use of fully depreciated plant and equipment. At 30 June 2008, fully depreciated plant and equipment at original cost totalled $28.2 million, which represented 36.0 per cent of the total cost of plant and equipment ($26.3 million and 37.2 per cent respectively in 2007).

The Service did not review these assets during 2007-08.

PERFORMANCE INFORMATION

Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.

The average length of stay in acute hospitals in the Greater Western area was 3.1 days (3.2 days in 2007). This is lower than the State average of 3.7 days and is the second lowest in the State.

The Service's bed occupancy rate reduced to 71.9 per cent (73.8 per cent). This is lower than the State average of 85.1 per cent.

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

The Service's emergency admission performance of 83 per cent bettered the Department's benchmark of 80 per cent and was among the highest in the State.

OTHER INFORMATION

New Bathurst Base Hospital

The Service constructed a new Bathurst Base Hospital with 149 beds, a ten bed mental health unit and emergency department that opened in January 2008. The project cost was $106 million (budget $100 million). A number of construction and operational issues have been identified since opening the hospital. The Service is in the process of determining the total rectification cost of these issues that are expected to be completed in early 2009.

New Orange Hospital

In 2007-08, the Service, in conjunction with the Department, engaged a private sector entity under a Public Private Partnership project to finance, design and construct the new Orange hospital and health facilities. The developer expects to complete the work in stages with full service commencement in 2011.

The private sector entity will also refurbish buildings, provide facilities management and deliver ancillary non-clinical services until December 2035. It commenced provision of facilities maintenance and non-clinical support services in April 2008 and November 2008 respectively.

Internal Controls

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

FINANCIAL INFORMATION

Abridged Operating Statements

Year ended 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Employee related	***391,357***	361,432	--	--
Personnel services	--	--	***391,357***	361,432
Visiting medical officers	***53,613***	45,347	**53,613**	45,347
Other expenses	***289,489***	258,771	***289,489***	258,771
TOTAL EXPENSES	***734,459***	665,550	***734,459***	665,550
TOTAL REVENUE	***89,241***	83,888	***97,347***	91,516
Other losses	***219***	784	***219***	784
NET COST OF SERVICES	***645,437***	582,446	***637,331***	574,818
Total government contributions	***622,444***	609,861	***614,338***	602,233
(DEFICIT)/SURPLUS	***(22,993)***	27,415	***(22,993)***	27,415

The increase in employee related expenses was due to the four per cent award increase from 1 July 2007 and a marginal increase in full time equivalent employees. The increase in visiting medical officers (VMOs) expense represents the increase in remuneration rate and higher usage of VMOs resulting from difficulties in attracting full-time specialists. The increase in other expenses was due to initial costs to rectify the Bathurst Base Hospital issues and non-clinical support services costs.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current assets	***33,038***	19,841	***33,038***	19,841
Non-current assets	***510,926***	446,284	***510,926***	446,284
TOTAL ASSETS	***543,964***	466,125	***543,964***	466,125
Current liabilities	***206,785***	149,909	***206,785***	149,909
Non-current liabilities	***6,310***	6,113	***6,310***	6,113
TOTAL LIABILITIES	***213,095***	156,022	***213,095***	156,022
NET ASSETS	***330,869***	310,103	***330,869***	310,103

Non-current assets rose mainly due to construction costs on completion of Bathurst Hospital. Current liabilities increased largely due to an increase in trade creditors and accruals of $53.7 million.

Abridged Consolidated Program Information

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

Year ended 30 June	2008			2007
	Revenues $'000	Expenses $'000	Net Cost of Services $'000	Net Cost of Services $'000
Overnight acute inpatient services	***39,621***	***304,836***	***265,215***	246,062
Outpatient services	***3,643***	***51,782***	***48,139***	45,810
Rehabilitation and extended care services	***24,845***	***95,460***	***70,615***	65,094
Primary and community based services	***8,970***	***61,439***	***52,469***	52,096
Aboriginal health services	***1,267***	***8,538***	***7,271***	6,042
Emergency services	***2,192***	***59,769***	***57,577***	42,690
Same day acute inpatient services	***3,342***	***58,096***	***54,754***	44,959
Mental health services	***852***	***70,892***	***70,040***	63,499
Population health services	***2,880***	***18,055***	***15,175***	12,901
Teaching and research	***1,629***	***5,811***	***4,182***	3,293
Total all programs	***89,241***	***734,678***	***645,437***	582,446

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of the Greater Western area through the following hospitals:

- Balranald District Hospital
- Baradine Hospital
- Bathurst Base Hospital
- Blayney Hospital
- Bloomfield Hospital
- Bourke District Hospital
- Brewarrina Hospital
- Broken Hill Base Hospital
- Canowindra Eugowra Hospital
- Cobar Hospital
- Collarenebri Hospital
- Condobolin Hospital
- Coolah Hospital
- Coonabarabran Hospital
- Coonamble Hospital
- Cowra Hospital
- Dubbo Base Hospital
- Dunedoo Hospital
- Forbes Hospital
- Gilgandra Hospital
- Goodooga Hospital
- Grenfell Hospital

- Gulargambone Hospital
- Gulgong Hospital
- Lake Cargelligo Hospital
- Lightening Ridge Hospital
- Lourdes Hospital
- Molong Hospital
- Mudgee Hospital
- Narromine Hospital
- Nyngan Hospital
- Oberon Hospital
- Orange Base Hospital
- Parkes Hospital
- Peak Hill Hospital
- Rylstone Hospital
- Tottenham Hospital
- Trangie Hospital
- Trundle Hospital
- Tullamore Hospital
- Walgett Hospital
- Warren Hospital
- Wellington Hospital
- Wentworth District Hospital
- Wilcannia Hospital.

The Service also incorporates and manages the operating activities of various community health services, and is associated with several affiliated health organisations.

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

CONTROLLED ENTITY

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

Entity Name
Greater Western Area Health Service Special Purpose Service Entity

Hunter New England Area Health Service

AUDIT OPINION

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

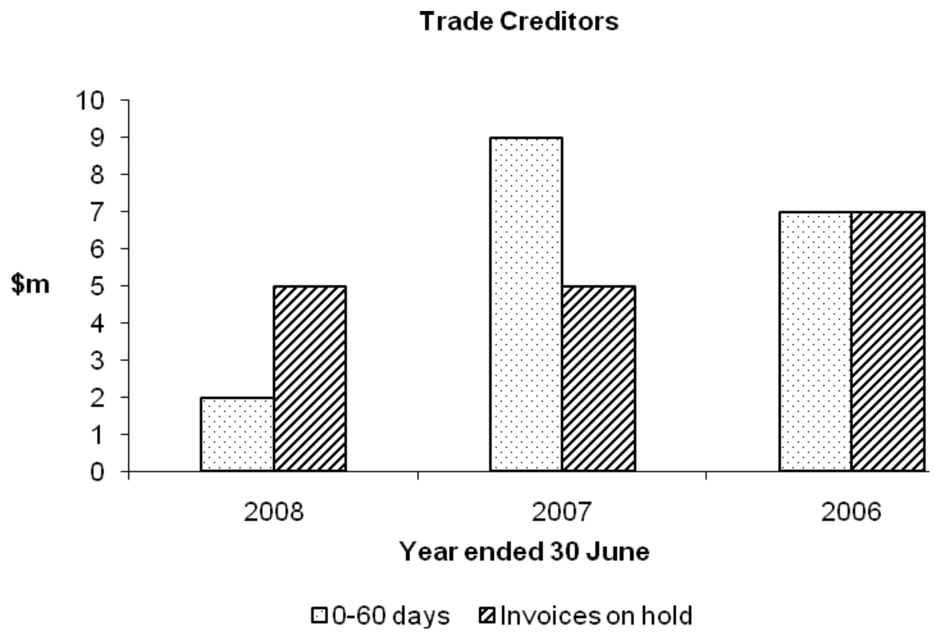
Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Payment of Creditors Invoices

> We recommend the Service pay its creditors within agreed payment terms and follow up disputed invoices in a timely manner. To resolve this issue, the Service, in consultation with the Department of Health (the Department) should improve its budget formulating and monitoring processes and take steps to improve its cash management.

The following chart shows the ageing of trade creditors for the past three years and the amounts on hold or in dispute:



In each of the past three years, the invoices on hold or in dispute have constituted a significant portion of total trade creditors.

Working capital ratio is a measure of an entity's liquidity and its ability to meet short term debt obligations. It is calculated by dividing current assets by current liabilities. A working capital ratio of 100 per cent or more is generally considered desirable to ensure an entity can meet its debts when they fall due. In recent years, the Service has consistently operated well below this level. The situation is worse when current assets whose use is restricted by externally imposed conditions is taken into account, as these assets are unavailable for general working capital purposes. The Service depends on contributions from the Department to meet its expenditure needs.

The working capital position for the last four years based on the Service's financial report is shown below.

At 30 June	2008	2007	2006	2005
Current assets ($'000)	***121,509***	117,240	110,142	114,327
Current liabilities* ($'000)	***217,883***	187,480	165,524	151,406
Working capital deficit ($'000)	***96,374***	70,240	55,382	37,079
Working capital (%)	***55.8***	62.5	66.5	75.5
Number of times current liabilities exceed current assets	***1.8***	1.6	1.5	1.3

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

While a working capital ratio of 100 per cent is desirable, the Service is able to operate at a lower ratio due to continuous cash contributions from the Department. However, the Service needs sufficient working capital to avoid operational problems including its ability to pay creditors within agreed payment terms.

Asset Management

We recommend the Service, in conjunction with the Department commission independent experts to assist in the review of the useful life of its assets, particularly critical plant and equipment. Where the Service continues to use fully depreciated plant and equipment, it should ensure use of those assets does not compromise the efficient and effective operation of its hospitals.

Last year we recommended the Department, in conjunction with the Area Health Service, review the appropriateness of continued use of fully depreciated plant and equipment. This year the Service conducted an internal review, targeting those assets with an original cost greater than $100,000, and looked at:

- whether the equipment was still in use
- whether use of the equipment posed a risk to either patient or staff safety
- reassessing the remaining useful life of the equipment.

The review resulted in the disposal of some fully depreciated assets. However, in the main these assets are still being used.

At 30 June 2008, fully depreciated plant and equipment at original cost totalled $56.7 million, which represented 28.2 per cent of the total cost of plant and equipment ($57.8 million and 29.2 per cent respectively in 2007).

PERFORMANCE INFORMATION

Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.

The average length of stay in acute hospitals in the Hunter New England area remained at 3.8 days (3.8 days in 2007), slightly higher than the State average of 3.7 days.

The Service's bed occupancy rate reduced to 75.8 per cent (81.9 per cent). This is significantly lower than the State average of 85.1 per cent.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in all five triage categories, as it did in 2007.

The Service's emergency admission performance of 85 per cent bettered the Department's benchmark of 80 per cent and was among the highest in the State.

OTHER INFORMATION

Calvary Mater Newcastle Hospital

During 2005-06, the Health Administration Corporation entered into a contract with a private sector provider for the financing, design, construction, commissioning and facilities management of a new Mater Hospital and a mental health facility. The developer will complete construction in three stages by 2009 and manage the facility until 2033.

Stage one was completed in January 2008. The Service transferred this to Calvary Mater Newcastle Hospital and recognised a grant expense of $71.3 million with a corresponding liability.

Internal Controls

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

FINANCIAL INFORMATION

Abridged Operating Statements

Year ended 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Employee related	***904,961***	839,976	--	--
Personnel services	--	--	***904,961***	839,976
Visiting medical officers	***67,130***	59,476	***67,130***	59,476
Other expenses	***626,906***	526,325	***626,906***	526,325
TOTAL EXPENSES	***1,598,997***	1,425,777	***1,598,997***	1,425,777
TOTAL REVENUE	***249,864***	227,932	***270,234***	246,075
Other (losses)/gains	***(1,900)***	10,411	***(1,900)***	10,411
NET COST OF SERVICES	***1,351,033***	1,187,434	***1,330,663***	1,169,291
Total government contributions	***1,244,040***	1,152,236	***1,223,670***	1,134,093
DEFICIT	***(106,993)***	(35,198)	***(106,993)***	(35,198)

The movement in the employee related expenses was due to the four per cent award increase from 1 July 2007 and a small rise in the number of temporary employees.

The increase in other expenses represents recognition of the grant expense on the transfer of the Mater Hospital mentioned earlier.

The increase in revenue was mainly due to higher grant revenue from the Department for capital and operating expense payments to the private sector provider of the Mater Hospital.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current assets	***121,509***	117,240	***121,509***	117,240
Non-current assets	***1,062,341***	954,543	***1,062,341***	954,543
TOTAL ASSETS	***1,183,850***	1,071,783	***1,183,850***	1,071,783
Current liabilities	***364,768***	325,792	***364,768***	325,792
Non-current liabilities	***80,123***	11,100	***80,123***	11,100
TOTAL LIABILITIES	***444,891***	336,892	***444,891***	336,892
NET ASSETS	***738,959***	734,891	***738,959***	734,891

The increase in non-current assets was largely due to the revaluation increase of property, plant and equipment of $111 million. The increase in non-current liabilities was due to recognition of a liability for the Mater Hospital.

Abridged Consolidated Program Information

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

Year ended 30 June	2008			2007
	Revenues $'000	Expenses $'000	Net Cost of Services $'000	Net Cost of Services $'000
Overnight acute inpatient services	*115,713*	*674,972*	*559,259*	484,284
Outpatient services	*19,671*	*185,966*	*166,295*	129,217
Rehabilitation and extended care services	*51,367*	*164,747*	*113,380*	117,750
Primary and community based services	*7,637*	*102,227*	*94,590*	91,381
Aboriginal health services	*415*	*6,503*	*6,088*	5,860
Emergency services	*13,904*	*138,431*	*124,527*	100,880
Same day acute inpatient services	*17,585*	*122,411*	*104,826*	93,722
Mental health services	*8,369*	*136,634*	*128,265*	118,638
Population health services	*6,813*	*20,575*	*13,762*	10,322
Teaching and research	*8,390*	*48,431*	*40,041*	35,380
Total all programs	*249,864*	*1,600,897*	*1,351,033*	1,187,434

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of the Hunter New England area through the following hospitals:

- Armidale Rural Referral Hospital
- Barraba Community Hospital
- Belmont District Health Services
- Bingara Community Hospital
- Boggabri Community Hospital
- Bulahdelah Community Hospital
- Calvary Mater Newcastle Hospital
- Cessnock District Health Services
- Creek Community Hospital
- Denman Community Hospital
- Dungog Community Hospital
- Emmaville-Vegetable Community Hospital
- Glen Innes District Health Services
- Gloucester District Health Services
- Gunnedah District Health Services
- Guyra Community Hospital
- Inverell District Health Services

- James Fletcher Hospital
- John Hunter Children's Hospital
- John Hunter Hospital
- Kurri Kurri District Health Services
- Maitland Rural Referral Hospital
- Manilla District Health Services
- Merriwa Community Hospital
- Moree District Health Services
- Morisset Hospital
- Murrurundi Community Hospital
- Muswellbrook District Health Services
- Narrabri District Health Services
- Nelson Bay Community Hospital
- Quirindi Community Hospital
- Royal Newcastle Centre
- Scone District Health Services
- Singleton District Health Services
- Tamworth Rural Referral Hospital
- Taree-Manning Rural Referral Hospital
- Tenterfield Community Hospital
- Tingha Community Hospital
- Walcha Community Hospital
- Warialda Community Hospital
- Wee Waa Community Hospital
- Werris Creek Community Hospital
- Wingham Community Hospital

The Service also incorporates and manages the operating activities of various community health services, and is associated with several affiliated health organisations.

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

CONTROLLED ENTITY

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

Entity Name
Hunter New England Area Health Service Special Purpose Service Entity

North Coast Area Health Service

AUDIT OPINION

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

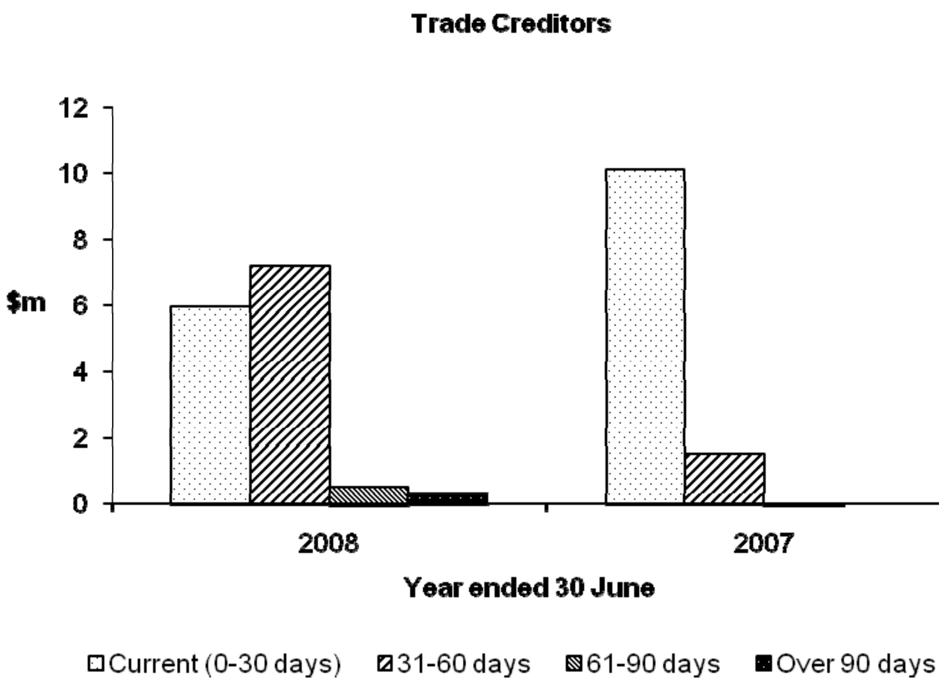
Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Payment of Creditor Invoices

We recommend the Service pay its creditors within agreed payment terms. To resolve this issue, the Service, in consultation with the Department of Health (the Department), should improve its budget formulating and monitoring processes and take steps to improve its cash management.

The following chart shows the ageing of trade creditors for the past two years:



Total trade creditors increased compared to the previous year. The proportion of creditors over 30 days has increased significantly as has the extent of creditors unpaid after 90 days.

Working capital ratio is a measure of an entity's liquidity and its ability to meet short term debt obligations. It is calculated by dividing current assets by current liabilities. A working capital ratio of 100 per cent or more is generally considered desirable to ensure an entity can meet its debts when they fall due. In recent years, the Service has consistently operated well below this level. The situation is worse when current assets whose use is restricted by externally imposed conditions is taken into account as these assets are unavailable for general working capital purposes. The Service depends on future contributions from the Department to meet its expenditure needs.

The working capital position has deteriorated markedly over the last four years, as shown below.

At 30 June	2008	2007	2006	2005
Current assets ($'000)	***33,203***	41,958	49,936	49,106
Current liabilities* ($'000)	***136,843***	110,630	101,865	91,696
Working capital deficit ($'000)	***103,640***	68,672	57,929	42,590
Working capital (%)	***24.3***	37.9	49.0	53.6
Number of times current liabilities exceed current assets	***4.1***	2.6	2.0	1.9

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

While a working capital ratio of 100 per cent is desirable, the Service is able to operate at a lower ratio due to continuous cash contributions from the Department. However, the Service needs sufficient working capital to avoid operational problems including its ability to pay creditors within agreed payment terms.

Asset Management

We recommend the Service, in conjunction with the Department, commission independent experts to assist in the review of the useful life of its assets, particularly critical plant and equipment. Where the Service continues to use fully depreciated plant and equipment, it should ensure use of those assets does not compromise the efficient and effective operation of its hospitals.

The Service believes the use of all its plant and equipment is appropriate from an efficiency and safety viewpoint. However, the Service has not formally reviewed fully depreciated plant and equipment, performed a stock take of those assets or reassessed their useful lives.

At 30 June 2008, fully depreciated plant and equipment at original cost totalled $24.3 million, which represented 31.9 per cent of the total cost of plant and equipment ($24.6 million and 31.8 per cent respectively in 2007).

PERFORMANCE INFORMATION

Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.

The average length of stay in acute hospitals in the North Coast area increased slightly to 3.4 days (3.3 days in 2007). It remains amongst the lowest in the State.

The Service's bed occupancy rate decreased to 85.4 per cent (90 per cent). This remains above the State average of 85.1 per cent.

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

The Service did not achieve its emergency admissions performance target of 80 per cent. There was a slight decrease from 78 per cent in 2007 to 77 per cent in 2008.

OTHER INFORMATION

Special Purpose and Trust Funds

> We recommend the Service review all special purpose and trust funds to confirm their intended purpose. Where appropriate, approvals should be sought to move funds into the general purpose funds account where they can be used for recurrent expenditure.

Transfers from special purpose and trust funds to the general fund account were made and subsequently reversed during the year, without appropriate consultation with network managers responsible for expending these funds.

In addition, special purpose and trust funds ledger accounts often lacked the necessary detail to indicate the purpose to which the money may be applied. Often, appropriate records to indicate the purpose of the various ledger accounts were not maintained. The Service has not reviewed these accounts to establish the ageing of some of the balances.

Internal Controls

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

FINANCIAL INFORMATION

Abridged Operating Statements

Year ended 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Employee related	***519,469***	471,964	--	--
Personnel services	--	--	***519,469***	471,964
Visiting medical officers	***77,941***	71,453	***77,941***	71,453
Other expenses	***334,013***	300,092	***334,013***	300,092
TOTAL EXPENSES	***931,423***	843,509	***931,423***	843,509
TOTAL REVENUE	***138,923***	129,824	***147,941***	138,856
Other losses	***1,141***	939	***1,141***	939
NET COST OF SERVICES	***793,641***	714,624	***784,623***	705,592
Total government contributions	***753,369***	724,219	***744,351***	715,187
(DEFICIT)/SURPLUS	***(40,272)***	9,595	***(40,272)***	9,595

Employee related expenses increased due to award increases, increases in staff numbers, and an actuarial adjustment for annual leave on-costs.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current assets	***33,203***	41,958	***33,203***	41,958
Non-current assets	***671,294***	602,754	***671,294***	602,754
TOTAL ASSETS	***704,497***	644,712	***704,497***	644,712
Current liabilities	***207,143***	172,149	***207,143***	172,149
Non-current liabilities	***4,566***	5,420	***4,566***	5,420
TOTAL LIABILITIES	***211,709***	177,569	***211,709***	177,569
NET ASSETS	***492,788***	467,143	***492,788***	467,143

Non-current assets increased due to an increase in land and buildings. Current liabilities increased mainly because of a higher level of accounts payable.

Abridged Consolidated Program Information

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

Year ended 30 June	2008			2007
	Revenues $'000	Expenses $'000	Net Cost of Services $'000	Net Cost of Services $'000
Overnight acute inpatient services	*76,747*	*435,726*	*358,979*	331,378
Same day acute inpatient services	*9,439*	*77,176*	*67,737*	68,268
Emergency services	*7,254*	*105,508*	*98,254*	85,727
Rehabilitation and extended care services	*11,704*	*67,264*	*55,560*	50,321
Primary and community based services	*12,953*	*78,658*	*65,705*	53,789
Other	*20,826*	*168,232*	*147,406*	125,141
Total all programs	***138,923***	***932,564***	***793,641***	714,624

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of the North Coast area through the following hospitals:

- Ballina District Hospital
- Bellinger River District Hospital
- Bonalbo Health Service
- Byron District Hospital
- Campbell Hospital (Coraki)
- Casino and District Memorial Hospital
- Coffs Harbour Health Campus
- Dorrigo Multi Purpose Service
- Grafton Base Hospital
- Kempsey District Hospital
- Kyogle Memorial Multi Purpose Service
- Lismore Base Hospital
- Macksville Health Campus
- Maclean District Hospital
- Mullumbimby and District War Memorial Hospital
- Murwillumbah District Hospital
- Nimbin Multi Purpose Service
- Port Macquarie Base Hospital
- The Tweed Hospital
- Urbenville Multi Purpose Service
- Wauchope District Memorial Hospital.

The Service also incorporates and manages the operating activities of various community health services and is associated with several affiliated health organisations.

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

CONTROLLED ENTITY

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

Entity Name
North Coast Area Health Service Special Purpose Service Entity

Northern Sydney and Central Coast Area Health Service

AUDIT OPINION

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

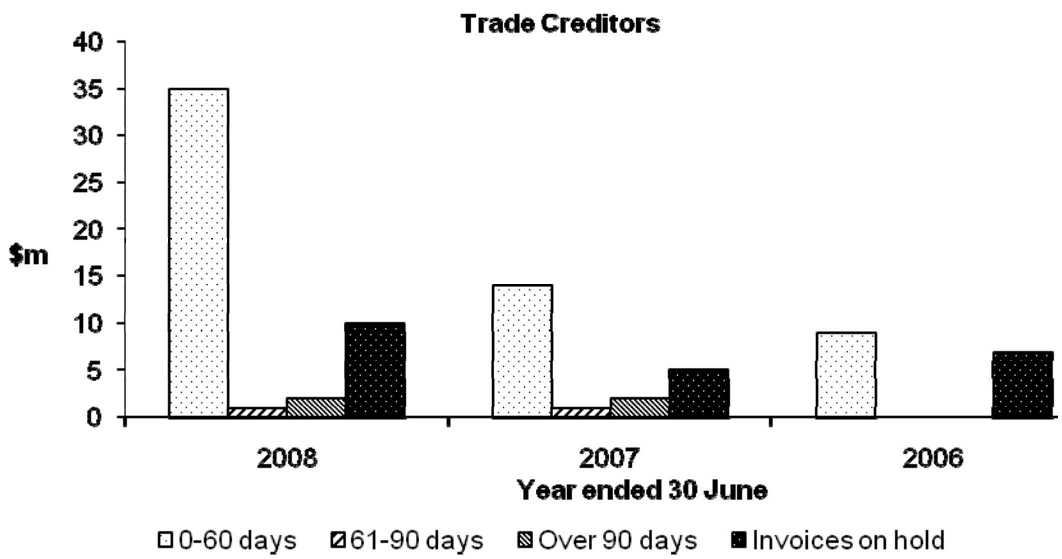
Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Payment of Creditor Invoices

> We recommend the Service pay its creditors within agreed payment terms and follow up disputed invoices in a timely manner. To resolve this issue, the Service, in consultation with the Department of Health (the Department) should improve its budget formulating and monitoring processes and take steps to improve its cash management.

The following chart shows the ageing of trade creditors for the past three years and the amounts on hold or in dispute:



Creditors (excluding accruals) increased significantly in the last few months of the year and over the prior year from $20.8 million in 2007 to $48.4 million.

The invoices on hold or in dispute constituted a significant portion of the total trade creditors at 30 June 2008. We reviewed a sample of these invoices and found that 67 per cent were more than six months old.

Working capital ratio is a measure of an entity's liquidity and its ability to meet short term debt obligations. It is calculated by dividing current assets by current liabilities. A working capital ratio of 100 per cent or more is generally considered desirable to ensure an entity can meet its debts when they fall due. In recent years, the Service has consistently operated well below this level. The situation is worse when current assets whose use is restricted by externally imposed conditions is taken into account as these assets are unavailable for general working capital purposes. The Service depends on contributions from the Department to meet its expenditure needs.

The working capital position for the last four years based on the Service's financial report is shown below.

At 30 June	2008	2007	2006	2005
Current assets ($'000)	***135,787***	135,144	153,992	141,896
Current liabilities* ($'000)	***279,050***	223,113	221,507	176,521
Working capital deficit ($'000)	***143,263***	87,969	67,515	34,625
Working capital ratio (%)	***48.7***	60.6	69.5	80.4
Number of times current liabilities exceed current assets	***2.1***	1.7	1.4	1.2

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

While a working capital ratio of 100 per cent is desirable, the Service is able to operate at a lower ratio due to continuous cash contributions from the Department. However, the Service needs sufficient working capital to avoid operational problems including its ability to pay creditors within agreed payment terms.

Asset Management

> We recommend the Service, in conjunction with the Department, commission independent experts to assist in the review of the useful life of its assets, particularly critical plant and equipment. Where the Service continues to use fully depreciated plant and equipment, it should ensure use of those assets does not compromise the efficient and effective operation of its hospitals.

Last year we recommended the Department, in conjunction with the Area Health Service, review the appropriateness of continued use of fully depreciated plant and equipment. This year the Service conducted an internal review, targeting those assets with an original cost greater than $100,000, and looked at whether the equipment was still in use.

As at 30 June 2008, fully depreciated plant and equipment at original cost totalled $83.6 million, which represented 38 per cent of the total cost of plant and equipment ($101 million and 51 per cent respectively in 2007).

PERFORMANCE INFORMATION

Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.

The average length of stay in acute hospitals in the Northern Sydney and Central Coast area in June was 4.3 days (4.1 days in 2007), the highest in the state.

The Service's bed occupancy rate reduced to 87.9 per cent (88.2 per cent). This was higher than the State average of 85.1 per cent.

The Service has met or exceeded the Department's benchmarks for timeliness in treating emergency patients in three of the five triage categories. However, the Service failed to meet two benchmarks including the requirement to treat 80 per cent of imminently life threatening patients within ten minutes.

The Service's emergency admission performance at 72 per cent was similar to last year's results of 70 per cent. This was less than its 80 per cent target.

OTHER INFORMATION

Compliance with the *Charitable Fundraising Act 1991*

We found controls relating to charitable fundraising activities had not been consistently applied across all hospitals within the Service. As a result, some hospitals of the Service did not have sufficient controls and/or record keeping procedures to ensure compliance with the requirements of the *Charitable Fundraising Act 1991* and the Charitable Fundraising Regulation 2003.

Trust Funds

> We recommend the Service review all special purpose and trust funds to confirm their intended purpose. Where appropriate, approvals should be sought to move funds into the general purpose funds account where they can then be used for recurrent expenditure.

Some of the Service's special purpose and trust funds were established a number of years ago. The nature of some funds and what they can be used for was not readily apparent.

The Service has 1,163 Special Purpose and Trust Accounts. While no accounts were overdrawn as at 30 June 2008, several were overdrawn during the year. The largest overdrawn monthly balance of $9.9 million occurred in November 2007. The overdrawn balances reflect a lack of controls over recording and reporting of expenditure of the Trust Accounts. In practice, the balances of some funds are being used to subsidise the over expenditure of other funds.

Staff Overtime

> We recommend the Service review overtime approval procedures and monitor overtime levels more closely to ensure overtime is controlled and managed effectively.

Overtime paid to staff in 2008 was $40.0 million ($36.2 million). The number of employees paid overtime is detailed below.

Year ended 30 June	Number of employees	
	2008	**2007**
Greater than $50,000	***79***	74
$20,000 to $50,000	***379***	332
$10,000 to $20,000	***613***	579
Under $10,000	***7,340***	7,273
Total number of employees receiving overtime	***8,411***	8,258

Internal Controls

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

FINANCIAL INFORMATION

Abridged Operating Statements

Year ended 30 June	Consolidated		Parent	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
Employee related	***1,034,244***	969,498	**--**	--
Personnel services	**--**	--	***1,034,244***	969,498
Visiting medical officers	***57,629***	49,363	***57,629***	49,363
Other expenses	***565,790***	539,453	***565,790***	539,453
TOTAL EXPENSES	***1,657,663***	1,558,314	***1,657,663***	1,558,314
TOTAL REVENUE	***324,220***	308,059	***344,227***	326,676
Other losses	***2,767***	2,613	***2,767***	2,613
NET COST OF SERVICES	***1,336,210***	1,252,868	***1,316,203***	1,234,251
Total government contributions	***1,319,751***	1,264,955	***1,299,744***	1,246,338
(DEFICIT)/SURPLUS	***(16,459)***	12,087	***(16,459)***	12,087

Employee related expenses rose due to a four per cent award increase and higher staff levels. Other expenses increased mainly due to higher inter area patient outflows and increased expenditure on medical and surgical supplies.

The increase in revenue reflects a rise in inter area patient inflows, grants and contributions.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current assets	***135,787***	135,144	***135,787***	135,144
Non-current assets	***1,406,382***	1,212,673	***1,406,382***	1,212,673
TOTAL ASSETS	***1,542,169***	1,347,817	***1,542,169***	1,347,817
Current liabilities	***405,796***	344,762	***405,796***	344,762
Non-current liabilities	***56,613***	17,983	***56,613***	17,983
TOTAL LIABILITIES	***462,409***	362,745	***462,409***	362,745
NET ASSETS	***1,079,760***	985,072	***1,079,760***	985,072

The increase in non-current assets is mainly due to a revaluation increase in property, plant and equipment. The increase in current liabilities reflects the increase in trade creditors. Non-current liabilities increased due to an increase in borrowings from the Department and prepaid rent from the University of Sydney towards the construction of the Royal North Shore Research and Education Building.

Abridged Consolidated Program Information

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

Year ended 30 June	2008			2007
	Revenues $'000	Expenses $'000	Net Cost of Services $'000	Net Cost of Services $'000
Overnight acute inpatient services	***202,875***	***836,622***	***633,747***	613,072
Outpatient services	***18,749***	***134,405***	***115,656***	97,795
Rehabilitation and extended care services	***21,976***	***136,194***	***114,218***	111,977
Primary and community based services	***8,744***	***115,036***	***106,292***	94,184
Aboriginal health services	***40***	***940***	***900***	809
Emergency services	***15,448***	***110,303***	***94,855***	85,283
Same day acute inpatient services	***23,220***	***79,191***	***55,971***	50,506
Mental health services	***3,819***	***152,556***	***148,737***	140,314
Population health services	***9,292***	***22,840***	***13,548***	13,650
Teaching and research	***20,057***	***72,343***	***52,286***	45,278
Total all programs	***324,220***	***1,660,430***	***1,336,210***	1,252,868

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of Northern Sydney and the Central Coast through the following hospitals:

- Gosford Hospital
- Hornsby Ku-ring-gai Hospital
- Long Jetty Hospital
- Macquarie Hospital
- Manly Hospital
- Mona Vale Hospital
- Royal North Shore Hospital
- Ryde Hospital
- Woy Woy Hospital
- Wyong Hospital.

The Service also incorporates and manages the operating activities of various community health services, and is associated with several affiliated health organisations.

For further information on the Service's activities, refer to www.nsccahs.health.nsw.gov.au.

CONTROLLED ENTITY

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

Entity Name
Northern Sydney and Central Coast Area Health Service Special Purpose Service Entity

South Eastern Sydney and Illawarra Area Health Service

AUDIT OPINION

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

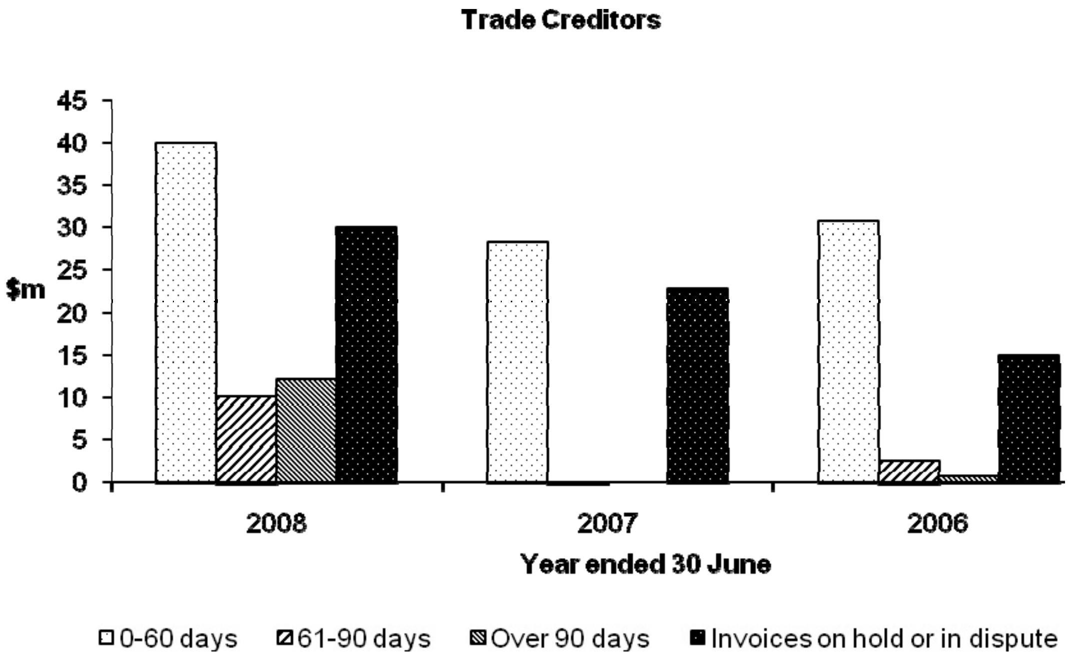
Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Payment of Creditor Invoices

> We recommend the Service pay its creditors within agreed payment terms and follow up disputed invoices in a timely manner. To resolve this issue, the Service, in consultation with the Department of Health (the Department), should improve its budget formulating and monitoring processes and take steps to improve its cash management.

The following chart shows ageing of trade creditors for the past three years, and amounts on hold or in dispute.



Total trade creditors increased significantly at the end of 2008 after being relatively stable in the prior two years.

In each of the past three years, amounts on hold or in dispute have constituted a significant portion of total trade creditors. We reviewed a sample of these invoices at 30 June 2008 and found some were more than two years old. In addition, in some instances we could not find a valid reason for the invoices being placed 'on hold'.

Working capital ratio is a measure of an entity's liquidity and its ability to meet short term debt obligations. It is calculated by dividing current assets by current liabilities. A working capital ratio of 100 per cent or more is generally considered desirable to ensure an entity can meet its debts when they fall due. In recent years, the Service has consistently operated well below this level. The situation is worse when current assets whose use is restricted by externally imposed conditions is taken into account as these assets are unavailable for general working capital purposes. The Service depends upon contributions from the Department to meet its expenditure needs.

The working capital position for the last four years based on the Service's financial report is shown below.

At 30 June	2008	2007	2006	2005
Current assets ($'000)	***174,768***	166,948	171,144	164,115
Current liabilities* ($'000)	***366,809***	320,084	312,141	263,573
Working capital deficit ($'000)	***192,041***	153,136	140,997	99,458
Working capital (%)	***47.6***	52.2	54.8	62.3
Number of times current liabilities exceed current assets	***2.1***	1.9	1.8	1.6

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

While a working capital ratio of 100 per cent is desirable, the Service is able to operate at a lower ratio due to continuous cash contributions from the Department. However, the Service needs sufficient working capital to avoid operational problems including its ability to pay creditors within agreed payment terms.

Asset Management

We recommend the Service, in conjunction with the Department, commission independent experts to assist in the review of the useful life of its assets, particularly critical plant and equipment. Where the Service continues to use fully depreciated plant and equipment, it should ensure use of those assets does not compromise the efficient and effective operation of its hospitals.

Last year we recommended the Department, in conjunction with the Area Health Services, review the appropriateness of continued use of fully depreciated plant and equipment. This year the Service conducted an internal review, targeting those assets with an original cost greater than $100,000, and looked at:

- whether the equipment was still in use
- whether use of the equipment posed a risk to either patient or staff safety
- reassessing the remaining useful life of the equipment.

The review resulted in the disposal of some fully depreciated assets. However, in the main these assets are still being used.

At 30 June 2008 fully depreciated plant and equipment at original cost totalled $73.2 million, which represented 34 per cent of the total cost of plant and equipment ($56.7 million and 22.5 per cent respectively in 2007).

PERFORMANCE INFORMATION

Comparative performance data on all Area Health Services appears in the ‘Health Overview’ section earlier in this Volume.

The average length of stay in acute hospitals in the South Eastern Sydney and Illawarra areas increased to 3.7 days (3.6 days in 2007) and is equal to the State average.

The Service’s bed occupancy rate reduced to 90.9 per cent (95.1 per cent). It is the highest in the State and well above the State average of 85.1 per cent.

The Service met or exceeded the Department’s benchmarks for timeliness in treating emergency patients in all of the five triage categories (four triage categories in 2007).

The Service’s emergency admission performance reduced to 76 per cent (79 per cent). This was less than its 80 per cent target.

OTHER INFORMATION

Compliance with the *Charitable Fundraising Act 1991*

We found controls relating to charitable fundraising activities had not been consistently applied across all hospitals within the Service. As a result, some hospitals of the Service did not have sufficient controls and/or record keeping procedures to ensure compliance with requirements of the *Charitable Fundraising Act 1991* and the Charitable Fundraising Regulation 2003.

Trust Funds

> We recommend the Service review all special purpose and trust funds to confirm their intended purpose. Where appropriate, approvals should be sought to move funds into the general purpose funds account where they can then be used for recurrent expenditure.

The Service was unable to provide supporting documentation and authorising signatures for all withdrawals made from the special purpose and trust funds. Although the amounts we tested were not material in value, the Service needs to ensure supporting documentation is maintained for all transactions involving withdrawals from such funds.

Some of the Service’s special purpose and trust funds were established a number of years ago. The nature of some funds and what they can be used for was not readily apparent.

Internal Controls

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

FINANCIAL INFORMATION

Abridged Operating Statements

Year ended 30 June	Consolidated		Parent	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
Employee related	***1,231,965***	1,172,469	--	--
Personnel services	--	--	**1,231,965**	1,172,469
Visiting medical officers	***67,005***	60,577	**67,005**	60,577
Other expenses	***897,744***	861,710	**897,744**	861,710
TOTAL EXPENSES	***2,196,714***	2,094,756	**2,196,714**	2,094,756
TOTAL REVENUE	***530,561***	503,412	**554,613**	522,669
Other losses	***(2,416)***	(516)	**(2,416)**	(516)
NET COST OF SERVICES	***1,668,569***	1,591,860	**1,644,517**	1,572,603
Total government contributions	***1,603,247***	1,537,019	**1,579,195**	1,517,762
DEFICIT	***(65,322)***	(54,841)	**(65,322)**	(54,841)

Other expenses increased due to increased expenditure on grants and subsidies, medical and surgical supplies, drug supplies and repairs and maintenance.

The increase in revenue reflects a general rise in activity, an increase in patient fees and infrastructure fees, and a donation to the Service of three properties during the year.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
Current assets	***174,768***	166,948	***174,768***	166,948
Non-current assets	***1,468,545***	1,444,231	***1,468,545***	1,444,231
TOTAL ASSETS	***1,643,313***	1,611,179	***1,643,313***	1,611,179
Current liabilities	***542,395***	478,210	***542,395***	478,210
Non-current liabilities	***29,304***	44,000	***29,304***	44,000
TOTAL LIABILITIES	***571,699***	522,210	***571,699***	522,210
NET ASSETS	***1,071,614***	1,088,969	***1,071,614***	1,088,969

The increase in current liabilities is mainly due to a significant increase in trade creditors.

Abridged Consolidated Program Information

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

Year ended 30 June	2008			2007
	Revenues $'000	Expenses $'000	Net Cost of Services $'000	Net Cost of Services $'000
Overnight acute inpatient services	***344,617***	***985,535***	***640,918***	614,031
Outpatient services	***25,858***	***294,759***	***268,901***	264,624
Emergency services	***26,028***	***173,647***	***147,619***	141,003
Mental health services	***2,556***	***127,217***	***124,661***	114,409
Primary and community based services	***11,739***	***133,936***	***122,197***	118,062
Other	***119,768***	***484,041***	***364,273***	339,731
Total all programs	***530,561***	***2,199,130***	***1,668,569***	1,591,860

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of the South Eastern Sydney and Illawarra area through the following hospitals:

- Bulli District Hospital
- Coledale District Hospital
- David Berry Hospital
- Garrawarra Centre
- Gower Wilson Memorial Hospital
- Kiama Hospital and Community Health Service
- Milton Ulladulla Hospital
- Port Kembla Hospital
- Prince of Wales Hospital and Community Health Services
- Royal Hospital for Women
- Shellharbour Hospital
- Shoalhaven District Memorial Hospital
- St George Hospital and Community Health Services
- Sutherland Hospital and Community Health Services
- Sydney Children's Hospital and Community Health Services
- Sydney Hospital and Sydney Eye Hospital
- Wollongong Hospital.

The Service also incorporates and manages the operating activities of various community health services, and is associated with several affiliated health organisations.

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

CONTROLLED ENTITY

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

Entity Name
South Eastern Sydney and Illawarra Area Health Service Special Purpose Service Entity

Sydney South West Area Health Service

AUDIT OPINION

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

The audits of the Service's controlled entities' financial reports for the year ended 30 June 2008 resulted in unqualified Independent Auditor's Reports with one exception.

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

ANZAC Health and Medical Research Foundation Trust Fund

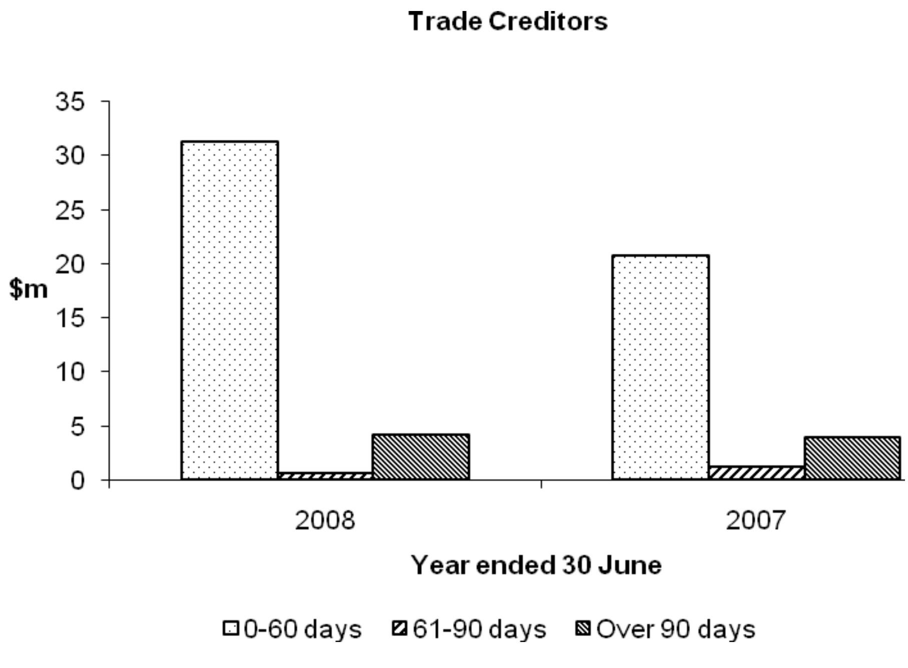
As is common for entities that have donations and fundraising as sources of revenue, it is impractical for the Trust Fund to maintain an effective system of internal control over such revenue it receives until its entry in the financial reports. This means that the audit evidence available regarding revenue from these sources is limited and our audit procedures with respect to such revenue is restricted to the amounts recorded in the financial records. This is a common issue across similar entities reliant upon discretionary revenue streams and does not represent a shortcoming by the Trust Fund's management.

KEY ISSUES

Trade Creditors

> We recommend the Service continue to closely monitor the level of creditors to ensure prompt payment and achievement of targets.

The Service's total creditors increased from $41.6 million in 2007 to $50.5 million in 2008. Trade creditors is the largest component of this balance. The following chart shows aging of trade creditors over the past two years.



Included in trade creditors are $13.0 million of invoices on hold/in dispute ($12.6 million 2007). The Department of Health (the Department) advises that the Service met its target for payment of creditors.

Working capital ratio is a measure of liquidity. A working capital ratio of 100 per cent is generally desirable to ensure an entity can meet its debts as and when they fall due.

In recent years, the Service has consistently operated well below this level. The situation is worse when current assets whose use is restricted by externally imposed conditions is taken into account as these assets are unavailable for working capital purposes.

The Service is dependent upon contributions from the Department in order to meet its expenditure needs.

The working capital position based upon the Service's financial reports is shown below.

At 30 June	2008	2007	2006	2005
Current assets ('000)	***268,011***	242,989	204,087	219,220
Current liabilities* ('000)	***400,045***	348,554	335,746	294,137
Working capital deficit ('000)	***132,034***	105,565	131,659	74,917
Working capital (%)	***67.0***	69.7	60.8	74.5
Number of times current liabilities exceed current assets	***1.5***	1.4	1.6	1.3

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

While a working capital ratio of 100 per cent is desirable, the Service is able to operate at a lower ratio due to continuous contributions from the Department. However, the Service needs sufficient working capital to avoid operational problems including its ability to pay creditors within agreed payment terms.

Asset Management

We recommend the Service, in conjunction with the Department, commission experts to assist in the review of the useful life of its assets, particularly critical plant and equipment. Where the Service continues to use fully depreciated plant and equipment, it should ensure use of those assets does not compromise the efficient and effective operation of its hospitals.

Last year we recommended the Department, in conjunction with the Area Health Services, review the appropriateness of continued use of fully depreciated plant and equipment.

The Service's biomedical engineers assure the safety of equipment used on patients. The Service has a policy for conducting regular AS3551 inspections of equipment. Australian Standard AS3551 'A Technical Management Program for Medical Devices' requires that certain devices used in medical practices be tested at least once every 12 months.

In addition, the Service conducted a stocktake of all medical equipment with a cost of $250,000 during the 2008 financial year. Any items not located were disposed of. The Service advises that a stocktake of other medical equipment is planned for the 2009 financial year.

As at 30 June 2008 fully depreciated plant and equipment totalled $230 million, of which approximately half is medical equipment. The $230 million represents 49.9 per cent of the total cost of plant and equipment at 30 June 2008.

PERFORMANCE INFORMATION

(Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.)

The average length of stay in acute hospitals in the Sydney South West Area was 3.8 days (3.8 days in 2007) and remains among the highest in the State.

The Service's bed occupancy rate was 88.9 per cent (92.3 per cent). This is higher than the State average of 85.1 per cent.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in four of the five triage categories. This is consistent with 2007.

The Service's emergency admission performance reduced slightly from 76 per cent in 2007 to 75 per cent. This is lower than the target of 80 per cent and was the second lowest in the State.

OTHER INFORMATION

Major Capital Projects

Work is underway on the $390 million Stage 2 redevelopment of Liverpool Hospital and completion is scheduled for 2011. The Service advises that the redevelopment will significantly increase the capacity of Liverpool Hospital to cater for increasing demand from a growing population.

This project is being managed by Health Infrastructure Services.

Internal Controls

We identified opportunities to improve internal control and reported them to management.

FINANCIAL INFORMATION

Abridged Consolidated Operating Statements

Year ended 30 June	Consolidated		Parent	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
Employee related	***1,449,670***	1,363,594	**--**	--
Personnel services	**--**	--	***1,446,676***	1,360,745
Visiting medical officers	***84,816***	77,628	***84,816***	77,628
Drug, medical and surgical supplies	***240,575***	223,187	***240,331***	223,029
Other expenses	***619,319***	611,140	***616,847***	609,102
TOTAL EXPENSES	***2,394,380***	2,275,549	***2,388,670***	2,270,504
TOTAL REVENUE	***498,521***	478,408	***517,819***	496,830
Other losses	***5,506***	3,159	***5,506***	3,159
NET COST OF SERVICES	***1,901,365***	1,800,300	***1,876,357***	1,776,833
Add government contributions				
NSW Health Department recurrent allocations	***1,783,296***	1,747,751	***1,783,296***	1,747,751
NSW Health Department capital allocations	***31,432***	31,658	***31,432***	31,658
Acceptance by the Crown Entity of employee benefits	***25,449***	25,113	**--**	--
Total government contributions	***1,840,177***	1,804,522	***1,814,728***	1,779,409
(DEFICIT)/SURPLUS	***(61,188)***	4,222	***(61,629)***	2,576

The increase in employee related expenses was largely due to the four per cent award rate increase and increases in staff numbers. The increase in visiting medical officers expense is also largely due to an increase in the remuneration rate.

Abridged Consolidated Balance Sheets

At 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current assets	***268,011***	242,989	***253,945***	229,823
Non-current assets	***1,654,630***	1,673,637	***1,648,763***	1,667,415
TOTAL ASSETS	***1,922,641***	1,916,626	***1,902,708***	1,897,238
Current liabilities	***595,232***	531,320	***594,291***	530,434
Non-current liabilities	***28,521***	29,680	***28,478***	29,620
TOTAL LIABILITIES	***623,753***	561,000	***622,769***	560,054
NET ASSETS	***1,298,888***	1,355,626	***1,279,939***	1,337,184

Current liabilities increased largely due to an increase in trade creditors, accruals and employee entitlement liability.

Abridged Consolidated Program Information

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

Year ended 30 June	2008			2007
	Revenues $'000	Expenses $'000	Net Cost of Services $'000	Net Cost of Services $'000
Overnight acute inpatient services	***336,471***	***1,173,169***	***836,698***	759,892
Outpatient services	***22,666***	***281,321***	***258,655***	266,816
Mental health services	***2,970***	***157,890***	***154,920***	164,292
Primary and community based services	***7,379***	***157,699***	***150,320***	147,381
Emergency services	***17,536***	***153,259***	***135,723***	124,179
Rehabilitation and extended care services	***26,126***	***160,450***	***134,324***	124,535
Same day acute inpatient services	***47,993***	***181,002***	***133,009***	117,204
Research	***32,640***	***101,645***	***69,005***	66,163
Population health services	***4,722***	***32,110***	***27,388***	27,923
Aboriginal health services	***18***	***1,341***	***1,323***	1,915
Total all programs	***498,521***	***2,399,886***	***1,901,365***	1,800,300

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of the Sydney South West area through the following hospitals:

- Balmain Hospital
- Bankstown Hospital
- Bowral and District Hospital
- Camden Hospital
- Campbelltown Hospital
- Canterbury Hospital
- Concord Repatriation General Hospital
- Fairfield Hospital
- Liverpool Hospital
- Royal Prince Alfred Hospital
- Sydney Dental Hospital.

The Service operated Rozelle Hospital until 30 April 2008 after which the hospital service moved to Concord Centre for Mental Health within Concord Repatriation General Hospital.

The Service also incorporates and manages the operating activities of various community health services, and is associated with several affiliated health organisations.

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

CONTROLLED ENTITIES

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

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

Entity Name	Website
ANZAC Health and Medical Research Foundation and ANZAC Health and Medical Research Foundation Trust Fund	www.anzac.edu.au
Ingham Health Research Institute	*
Sydney South West Area Health Service Special Purpose Service Entity	www.sswahs.nsw.gov.au

* This entity does not have a website.

Sydney West Area Health Service

AUDIT OPINION

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

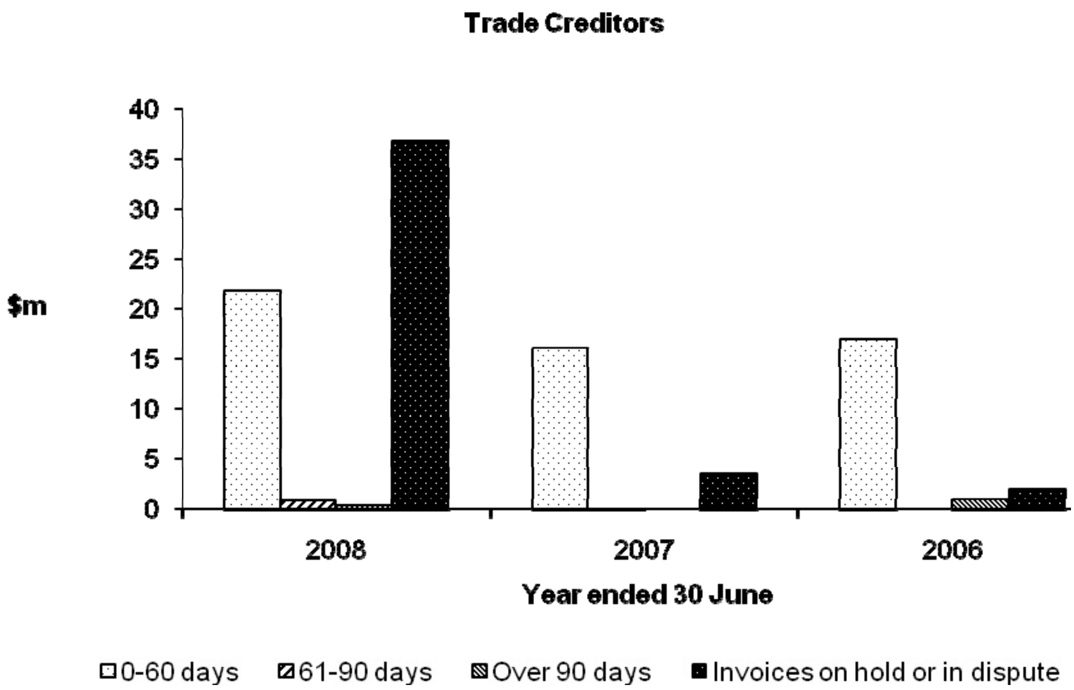
Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Payment of Creditor Invoices

> We recommend the Service pay its creditors within agreed payment terms and follow up disputed invoices in a timely manner. To resolve this issue, the Service, in consultation with the Department of Health (the Department) should improve its budget formulating and monitoring processes and take steps to improve its cash management.

The following chart shows the ageing of trade creditors for the past three years and the amounts on hold or in dispute:



Creditors increased significantly in the last few months of the year and over the prior year from \$19.8 million in 2007 to \$39.6 million. This reflected the extreme cash flow pressures experienced by the Service.

Working capital ratio is a measure of an entity's liquidity and its ability to meet short term debt obligations. It is calculated by dividing current assets by current liabilities. A working capital ratio of 100 per cent or more is generally considered desirable to ensure an entity can meet its debts when they fall due. In recent years, the Service has consistently operated well below this level. The situation is worse when current assets whose use is restricted by externally imposed conditions is taken into account as these assets are unavailable for general working capital purposes. The Service depends on contributions from the Department to meet its expenditure needs.

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

At 30 June	2008	2007	2006	2005
Current assets ($'000)	***213,013***	213,814	222,236	231,160
Current liabilities* ($'000)	***302,761***	238,755	221,882	178,466
Working capital deficit ($'000)	***89,748***	24,941	354	52,694
Working capital (%)	***70.4***	89.6	100.2	129.5
Number of times current liabilities exceed current assets	***1.4***	1.1	1.0	0.8

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

While a working capital ratio of 100 per cent is desirable, the Service is able to operate at a lower ratio due to continuous cash contributions from the department. However, the Service needs sufficient working capital to avoid operational problems including its ability to pay creditors within agreed payment terms.

Asset Management

We recommend the Service, in conjunction with the Department, commission independent experts to assist in the review of the useful life of its assets, particularly critical plant and equipment. Where the Service continues to use fully depreciated plant and equipment, it should ensure use of those assets does not compromise the efficient and effective operation of its hospitals.

Last year we recommended the Department, in conjunction with the Area Health Services, review the appropriateness of continued use of fully depreciated plant and equipment. This year the Service conducted an internal review, targeting those assets with an original cost greater than $100,000, and looked at:

- whether the equipment was still in use
- whether the use of the equipment posed a risk to either patient or staff safety
- reassessing the remaining useful life of the equipment.

The review resulted in the disposal of some fully depreciated assets. However, in the main these assets are still being used.

At 30 June 2008, fully depreciated plant and equipment at original cost totalled $76.6 million, which represented 35 per cent of the total cost of plant and equipment ($144 million and 47.8 per cent respectively in 2007).

PERFORMANCE INFORMATION

Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.

The average length of stay in acute hospitals in the Sydney West area was 3.7 days (3.7 days in 2007) and is equal to the State average.

The Service's bed occupancy rate increased significantly to 87.7 per cent (73.6 per cent). This was above the State average of 85.1 per cent.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in three of the five triage categories. However, the Service failed to meet two benchmarks including the requirement to treat 80 per cent of imminently life threatening patients within ten minutes.

The Service's emergency admission performance reduced to 75 per cent (78 per cent). This was less than its 80 per cent target.

OTHER INFORMATION

Compliance with the *Charitable Fundraising Act 1991*

We found controls relating to charitable fundraising had not been consistently applied across all hospitals within the Service. As a result, some hospitals of the Service did not have sufficient controls and/or record keeping procedures to ensure compliance with the requirements of the *Charitable Fundraising Act 1991* and the Charitable Fundraising Regulation 2003.

Trust Funds

> We recommend the Service review all special purpose and trust funds to confirm their intended purpose. Where appropriate, approvals should be sought to move funds into the general purpose funds account where they can be used for recurrent expenditure.

Some of the Service's special purpose and trust funds were established a number of years ago. The nature of some funds and what they can be used for was not readily apparent.

The Service has in total 781 Special Purpose and Trust Accounts of which 27 were overdrawn to the extent of $438,000. The overdrawn balances reflect a lack of controls over recording and reporting of expenditure from the trust funds. In practice, the balances of some funds are being used to subsidise over expenditure by other funds.

Staff Overtime

> We recommend the Service review overtime approval procedures and monitor overtime levels more closely to ensure overtime is controlled and managed effectively.

Overtime paid to staff in 2008 was $43.9 million ($42.9 million). The number of employees paid overtime is detailed below.

Year ended 30 June	Number of employees	
	2008	2007
Greater than $50,000	***47***	44
$20,000 to $50,000	***258***	231
$10,000 to $20,000	***684***	614
Under $10,000	***17,210***	19,512
Total number of employees receiving overtime	***18,199***	20,401

Internal Controls

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

FINANCIAL INFORMATION

Abridged Operating Statements

Year ended 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Employee related	***1,116,948***	1,052,686	**--**	--
Personnel services	**--**	--	***1,116,948***	1,052,686
Visiting medical officers	***47,577***	40,705	***47,577***	40,705
Other expenses	***667,919***	674,731	***667,919***	676,731
TOTAL EXPENSES	***1,832,444***	1,768,122	***1,832,444***	1,768,122
TOTAL REVENUE	***313,941***	309,555	***336,618***	329,178
Other (losses)/gains	***(3,722)***	2,458	***(3,722)***	2,458
NET COST OF SERVICES	***1,522,225***	1,456,109	***1,499,548***	1,436,486
Total government contributions	***1,508,594***	1,417,204	***1,485,917***	1,397,581
DEFICIT	***(13,631)***	(38,905)	***(13,631)***	(38,905)

The movement in the employee related expenses reflects the four per cent award increase from 1 July 2007.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current assets	***213,013***	213,814	***213,013***	213,814
Non-current assets	***1,472,754***	1,397,835	***1,472,754***	1,397,835
TOTAL ASSETS	***1,685,767***	1,611,649	***1,685,767***	1,611,649
Current liabilities	***456,293***	379,933	***456,293***	379,933
Non-current liabilities	***52,705***	55,317	***52,705***	55,317
TOTAL LIABILITIES	***508,998***	435,250	***508,998***	435,250
NET ASSETS	***1,176,769***	1,176,399	***1,176,769***	1,176,399

Non-current assets increased mainly due to construction of the new Auburn hospital. The increase in current liabilities reflects the rising creditor balances.

Abridged Consolidated Program Information

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

Year ended 30 June	2008			2007
	Revenues $'000	Expenses $'000	Net Cost of Services $'000	Net Cost of Services $'000
Overnight acute inpatient services	***177,915***	***808,981***	***631,066***	609,010
Outpatient services	***8,933***	***150,064***	***141,131***	137,663
Rehabilitation and extended care services	***17,761***	***145,467***	***127,706***	119,204
Primary and community based services	***8,515***	***165,445***	***156,930***	150,582
Aboriginal health services	***48***	***2,058***	***2,010***	1,667
Emergency services	***10,473***	***123,601***	***113,128***	114,311
Same day acute inpatient services	***13,588***	***134,821***	***121,233***	113,820
Mental health services	***6,923***	***132,758***	***125,835***	122,104
Population health services	***6,335***	***70,845***	***64,510***	62,915
Teaching and research	***63,450***	***102,126***	***38,676***	24,833
Total all programs	***313,941***	***1,836,166***	***1,522,225***	1,456,109

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of Western Sydney, including the localities of Parramatta up to the Blue Mountains through the following hospitals:

- Auburn Hospital
- Blacktown Hospital
- Blue Mountains District ANZAC Memorial Hospital
- Cumberland Hospital
- Lithgow Integrate District Hospital
- Mt Druitt Hospital
- Nepean Hospital
- Portland Tabulam Health Centre
- Springwood Hospital
- Westmead Hospital.

The Service also incorporates and manages the operating activities of various community health services and is associated with several affiliated health organisations.

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

CONTROLLED ENTITY

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

Entity Name
Sydney West Area Health Service Special Purpose Service Entity

Cancer Institute NSW

AUDIT OPINION

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

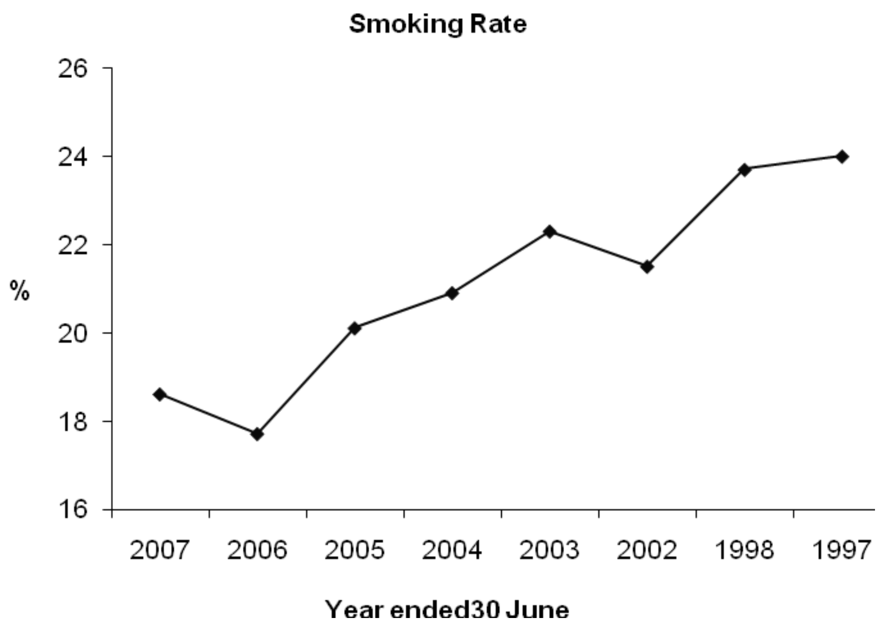
Unless otherwise stated, the following commentary relates to the consolidated entity.

PERFORMANCE INFORMATION

The Institute provided the following information regarding its performance.

Smoking Rates

One of the strategies implemented by the Institute in preventing cancer is to contribute to the decrease in smoking rates through anti smoking campaigns. Smoking patterns over the past ten years for persons aged 16 years and over in New South Wales, as provided by Department of Health survey 2007, were:



OTHER INFORMATION

Internal Controls

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

FINANCIAL INFORMATION

Abridged Income Statements

Year ended 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
REVENUE				
Grants from New South Wales Health	***134,622***	134,158	***134,622***	134,158
Other	***4,117***	3,774	***4,117***	3,717
TOTAL REVENUE	***138,739***	137,932	***138,739***	137,875
EXPENSES				
Grants to New South Wales Area Health Services	***56,810***	63,351	***56,810***	63,351
Research grants to hospitals and institutions	***24,902***	24,861	***24,902***	24,861
Prevention campaigns and advertising	***17,517***	18,092	***17,517***	18,092
Other	***36,656***	28,676	***36,656***	28,619
TOTAL EXPENSES	***135,885***	134,980	***135,885***	134,923
Surplus	***2,854***	2,952	***2,854***	2,952

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current assets	***40,936***	37,947	***40,936***	37,626
Non-current assets	***1,706***	2,199	***1,706***	2,199
TOTAL ASSETS	***42,642***	40,146	***42,642***	39,825
Current liabilities	***13,899***	14,257	***13,942***	13,979
Non-current liabilities	***306***	306	***263***	263
TOTAL LIABILITIES	***14,205***	14,563	***14,205***	14,242
NET ASSETS	***28,437***	25,583	***28,437***	25,583

The current assets rose due to $3.3 million cash generated from operating activities.

INSTITUTE ACTIVITIES

The Institute was established by the *Cancer Institute (NSW) Act 2003*. Its principal objectives are to increase the survival rate for cancer patients; reduce the incidence of cancer in the community; improve the quality of life of cancer patients and their carers; and to operate as a source of expertise on cancer control for the government, health service providers, medical researchers and the general community.

CONTROLLED ENTITY

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

Entity Name
Cancer Institute Division

Health Administration Corporation

AUDIT OPINION

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

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

KEY ISSUES

Late Receipt of Financial Report

> We recommend the Corporation improve its reporting processes and quality controls to ensure its financial report is finalised within the statutory timeframe.

The Corporation has again not met its statutory timeframe for submission of its financial report for audit. We received the financial reports of the Corporation and its controlled entity on 14 August 2008, two weeks later than the statutory requirement of 30 July 2008. The delay was mainly due to late or poor quality inputs from the business units of the Corporation. The Corporation should strengthen its year-end reporting processes and quality controls to ensure that statutory timeframes are met.

Documentation of Policies and Procedures (Repeat Issue)

> We recommend the Health Support Services transaction centres within the Corporation finalise the development and documentation of their policies and procedures, and implement appropriate training to ensure staff understand their roles and responsibilities.

Last year we reported a lack of formally documented policies and procedures for the Health Support Services (HSS) transaction centre. During this year's audit we found that some staff at Transaction Centre One were not aware that high level policies and procedures had been developed.

We acknowledge that progress is being made in developing and documenting detailed policies and procedures, but recommend this be finalised as soon as possible to ensure the policies and procedures and related internal controls are adopted and applied uniformly for all HSS customers. This should reduce the additional time and effort currently being spent by HSS and customer staff in following up requests for information and rectifying errors. Without effective operating procedures and controls in place, efficiency and effectiveness savings expected from the central service provider model may not be realised.

HSS has advised it has recruited quality managers to: facilitate the review and standardisation of procedures; educate managers; and facilitate continuous control monitoring of the efficiency and effectiveness of business lines to ensure savings are realised.

In the absence of an effective and efficiently functioning model, our audit procedures for Area Health Services and the Corporation are adversely impacted, resulting in significant delays to finalising the audits of the financial reports and additional audit costs.

Finalisation of Service Partnership Agreements (Repeat Issue)

> We recommend:
>
> - HSS finalise Service Partnership Agreements (SPAs) with Area Health Services as early as possible
> - the Corporation consider including in the SPAs conditions and circumstances that constitute infringements of customer or HSS responsibilities, as well as appropriate recourse measures for customers and HSS.

A number of SPAs with Area Health Services were not finalised before year-end. SPAs should be finalised as early as possible for new customers to ensure accountabilities and responsibilities are clearly defined and understood.

During the year, a customer sought significant compensation from HSS for a perceived lack of service. This claim is strongly disputed by HSS, and has yet to be resolved. To assist in resolving disputes, SPAs should include actions that constitute an infringement of customer or HSS responsibilities, together with appropriate recourse measures.

Actuarial Assessment of Ambulance Death and Disability Fund

> We recommend the Corporation obtain an actuarial assessment of the Ambulance Service Death and Disability Fund during 2008-09.

The 'Ambulance Service Death and Disability Award' was established in February 2008. Under the Award, claims by ambulance officers for death and total permanent disability for the period November 2006 to February 2008, as well as partial permanent disability, are managed through special purpose and trust fund moneys within the Ambulance Service of New South Wales. No actuarial assessment of claim liabilities was performed by the Ambulance Service during the year.

The Corporation's actuary advised that:

- there was insufficient claims history at 30 June 2008 to determine any reliable valuation of outstanding claims
- in the absence of sufficient claims history, the last actuarial report given for funding purposes provides the best estimate of the likely claims.

Liabilities of schemes for compensation can vary significantly over time. We recommend that the Corporation revisit this issue with their actuary in 2008-09.

Overpayment of Salaries and Wages

> We recommend HSS develop a central control mechanism to effectively monitor and report overpayments to customer staff.

Overpayments to customer staff have not been adequately monitored and reported. We understand from one customer that their level of overpayments was significant. HSS has also advised that the overpayments for another customer for 2007-08 were within the SPA key performance indicator of less than 0.1 per cent (being $265,496 of overpayments against total salary and wages payments of $282 million). As we were not provided with an overpayments report for all customers during the year, we were unable to determine whether overpayments across other HSS customers were significant or were being properly managed.

HSS has since provided us with further information on overpayments, which we will review during 2008-09.

OTHER INFORMATION

Control Deficiencies Identified at HSS

A number of control deficiencies were identified at the HSS transaction centres, and were reported to management in an interim management letter. These included:

- some bank reconciliations are not being completed in a timely manner and there is no evidence of review of bank reconciliations
- lack of controls to ensure all customer transaction processing requests are processed, resulting in a risk that customer transactions are incomplete
- untimely completion of payroll clearing account reconciliations
- no evidence HSS payroll staff check customer payroll master file changes have been processed and reviewed. HSS has advised that this is an employee service unit function which it only provided to one Area Health Service during 2007-08
- final termination payments not being made in a timely manner to terminated customer employees
- lack of consistent procedures for processing of fixed asset disposals
- sundry debtor reconciliations not being performed during the year.

Some confusion existed between HSS and its customers as to who has responsibility for certain functions. For example, it was unclear whether HSS or the customer should be performing some of the account reconciliations at Transaction Centre One. This was exacerbated by the lack of documented policies and procedures referred to previously.

We were also advised that the reason for a number of these deficiencies was a lack of HSS resources at the time. These positions have now mostly been filled.

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

FINANCIAL INFORMATION

Abridged Consolidated Operating Statements

Year ended 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Employee related	***443,923***	371,866	**--**	--
Personnel services	**--**	--	***443,923***	371,866
Other expenses	***295,291***	229,326	***295,291***	229,326
TOTAL EXPENSES	***739,214***	601,192	***739,214***	601,192
TOTAL REVENUE	***324,126***	242,812	***335,132***	253,298
Other losses	***(20,204)***	(16,134)	***(20,204)***	(16,134)
NET COST OF SERVICES	***435,292***	374,514	***424,286***	364,028
Government contributions	***435,108***	388,695	***424,102***	378,209
(DEFICIT)/SURPLUS	***(184)***	14,181	***(184)***	14,181

The increase in expenses, revenues and government contributions is mainly due to the transfer of more customer entities and operations to HSS during the year.

Abridged Consolidated Balance Sheets

At 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current assets	***121,909***	90,302	***121,909***	90,302
Non-current assets	***364,525***	351,877	***364,525***	351,877
TOTAL ASSETS	***486,434***	442,179	***486,434***	442,179
Current liabilities	***217,037***	185,081	***217,037***	185,081
Non-current liabilities	***11,295***	6,855	***11,295***	6,855
TOTAL LIABILITIES	***228,332***	191,936	***228,332***	191,936
NET ASSETS	***258,102***	250,243	***258,102***	250,243

Current assets increased mainly due to of an increase in investments of $22.4 million and higher receivables resulting from a general increase in shared service operations.

Non-current assets increased mainly because of an increase in intangibles associated with the Corporation's Human Resource Information System (HRIS) project and the final stages of clinical systems development.

Current and non-current liabilities increased as a result of the transfer of staff to HSS for its expanding operations and an increase in accounts payable of $18.8 million.

Abridged Consolidated Program Information

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

Year ended 30 June	2008			2007
	Revenues $'000	Expenses $'000	Net Cost of Services $'000	Net Cost of Services $'000
Primary and community based services	***20,069***	***25,342***	***5,273***	1,800
Aboriginal health services	***218***	***303***	***85***	61
Same day acute inpatient services	***10,259***	***13,856***	***3,597***	2,602
Rehabilitation and extended care services	***16,551***	***15,572***	***(979)***	2,273
Teaching and research	***2,158***	***15,166***	***13,008***	10,837
Outpatient services	***17,616***	***23,605***	***5,989***	4,416
Overnight acute inpatient services	***69,781***	***95,081***	***25,300***	16,674
Mental health services	***13,933***	***18,693***	***4,760***	2,987
Population health services	***1,129***	***1,820***	***691***	503
Emergency services	***172,412***	***549,980***	***377,568***	332,361
Total all programs	***324,126***	***759,418***	***435,292***	374,514

The following table provides a summary of financial information for 2007-08 by business units (inter-entity transactions have not been eliminated):

Year ended 30 June	Ambulance Services		Other business units*	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Expenses	***523,532***	451,943	***219,370***	153,993
Revenue	***157,599***	127,944	***170,224***	119,612
Net cost of services	***383,911***	336,367	***51,372***	38,147
Government contributions	***366,000***	337,631	***69,108***	51,064
(Deficit)/surplus	***(17,911)***	1,264	***17,736***	12,917
Total assets	***249,222***	243,511	***237,718***	197,315
Total liabilities	***145,745***	130,222	***83,094***	60,361
Net assets	***103,477***	113,289	***154,624***	136,954

* Ambulance Services is reported separately as it is the largest Corporation unit, and provides an individual service to the health sector. Other business units comprise HSS (incorporating the former HealthSupport and HealthTechnology), Health Infrastructure, and the NSW Institute of Medical Education and Training. They provide shared services to Area Health Services.

CORPORATION ACTIVITIES

Health Administration Corporation consists of a number of units established under the Public Health System Support Division, in accordance with the provisions of the *Health Services Act 1997*. These units are as follows:

- Health Support Services (HSS), formed on 24 April 2007 from the merger of the HealthTechnology and HealthSupport business units. HSS provides financial, payroll, linen, food and other support services to the health sector, as well as information support
- NSW Institute of Medical Education and Training, established 1 September 2005 to provide educational support to the health sector
- Ambulance Service of New South Wales, transferred to Health Administration Corporation on 17 March 2006 after the *Ambulance Service Act 1990* was repealed
- Health Infrastructure, established 1 July 2007 to provide a broad range of asset services in connection with public health organisations.

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

CONTROLLED ENTITY

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

Entity Name
Health Administration Corporation Special Purpose Service Entity

Justice Health

AUDIT OPINION

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

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

KEY ISSUES

Working Capital

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

In recent years, Justice Health has consistently operated well below this level. The situation is worse when current assets whose use is restricted by externally imposed conditions is taken into account, as these assets are unavailable for general working capital purposes. Justice Health depends on contributions from the Department of Health (the Department) to meet its expenditure needs.

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

At 30 June	2008	2007	2006	2005
Current assets ($'000)	***6,522***	4,390	5,133	5,115
Current liabilities* ($'000)	***14,332***	12,829	10,800	10,121
Working capital deficit ($'000)	***7,810***	8,439	5,667	5,006
Working capital ratio (%)	***45.5***	34.2	47.5	50.5
Number of times current liabilities exceed current assets	***2.2***	2.9	2.1	2.0

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

While a working capital ratio of 100 per cent is desirable, Justice Health is able to operate at a lower ratio due to continuous cash contributions from the Department. However, Justice Health needs sufficient working capital to avoid operational problems including its ability to pay creditors within agreed payment terms.

Financial Report and Supporting Work Papers

> We recommend Justice Health improve its quality control procedures over preparation of its financial report to ensure reporting timeframes are achieved.

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

PERFORMANCE INFORMATION

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

Year ended 30 June	2008	2007
Total non-admitted patients (occasions of service)	***3,615,883***	3,439,460
Mental health inpatient (bed days)	***49,882***	48,135
Screened for mental health problems (number of patients)	***14,746***	17,000
Received comprehensive mental assessments (number of patients)	***1,900***	2,272
Vaccinated against Hepatitis B (number of patients)	***3,468***	3,166
Vaccinated against seasonal influenza (number of patients)	***5,075***	3,878
Released from custody on maintenance pharmacotherapy (number of patients)	***2,245***	2,135

OTHER INFORMATION

Prison and New Forensic Hospitals

The Forensic and Prison Hospitals project is a Public Private Partnership project with a private sector provider for the financing, design, construction and commissioning of an 85 bed prison hospital and a 135 bed high security forensic hospital. The provider will maintain the hospitals until July 2034.

The Prison Hospital where Justice Health provides clinical services for the inmates was opened in July 2008.

The new Forensic Hospital focuses on mentally ill patients within the criminal justice system as well as certain civil community patients and was completed in December 2008.

Internal Controls

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

FINANCIAL INFORMATION

Abridged Operating Statements

Year ended 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Employee related	***79,791***	71,368	**--**	--
Personnel services	**--**	--	***79,791***	71,368
Other expenses	***22,492***	21,423	***22,492***	21,423
TOTAL EXPENSES	***102,283***	92,791	***102,283***	92,791
TOTAL REVENUE	***2,469***	1,319	***4,298***	2,309
Other losses	***55***	91	***55***	91
NET COST OF SERVICES	***99,869***	91,563	***98,040***	90,573
Total government contributions	***99,896***	90,379	***98,067***	89,389
SURPLUS/(DEFICIT)	***27***	(1,184)	***27***	(1,184)

Employee related expenses rose due to a four per cent award increase and higher staff levels needed to meet increased patient related activities.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current assets	***6,522***	4,390	***6,522***	4,390
Non-current assets	***10,658***	9,397	***10,658***	9,397
TOTAL ASSETS	***17,180***	13,787	***17,180***	13,787
Current liabilities	***23,862***	20,434	***23,862***	20,434
Non-current liabilities	***441***	503	***441***	503
TOTAL LIABILITIES	***24,303***	20,937	***24,303***	20,937
NET LIABILITIES	***7,123***	7,150	***7,123***	7,150

In view of the net liabilities position of Justice Health, the Department has provided assurances that it will help ensure Justice Health can pay its liabilities when they fall due.

Abridged Consolidated Program Information

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

Year ended 30 June	2008			2007
	Revenue $'000	Expenses $'000	Net Cost of Services $'000	Net Cost of Services $'000
Outpatient services	*2,469*	*53,774*	*51,305*	47,444
Mental health services	--	*31,919*	*31,919*	28,914
Primary and community based services	--	*11,083*	*11,083*	10,053
Overnight acute inpatient services	--	*1,395*	*1,395*	1,275
Population health services	--	*2,562*	*2,562*	2,316
Teaching and research	--	*774*	*774*	804
Aboriginal health services	--	*831*	*831*	757
Total all programs	*2,469*	*102,338*	*99,869*	91,563

JUSTICE HEALTH ACTIVITIES

Justice Health is responsible for providing health care in adult correctional and juvenile detention facilities, courts, police cells and the community.

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

CONTROLLED ENTITY

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

Entity Name
Justice Health Special Purpose Service Entity

Royal Alexandra Hospital for Children

AUDIT OPINION

The audits of the Hospital and its controlled entity's financial reports for the year ended 30 June 2008 resulted in a qualified Independent Auditor's Report for the Hospital, and an unqualified Independent Auditor's Report for the controlled entity. It is impractical for the Hospital to maintain an effective system of internal controls over fundraising revenue and voluntary donations it receives until their initial entry in the financial records. Accordingly, we were unable to express an opinion as to whether all fundraising revenue and voluntary donations received by the Hospital were recorded.

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

KEY ISSUES

Processing of Transactions

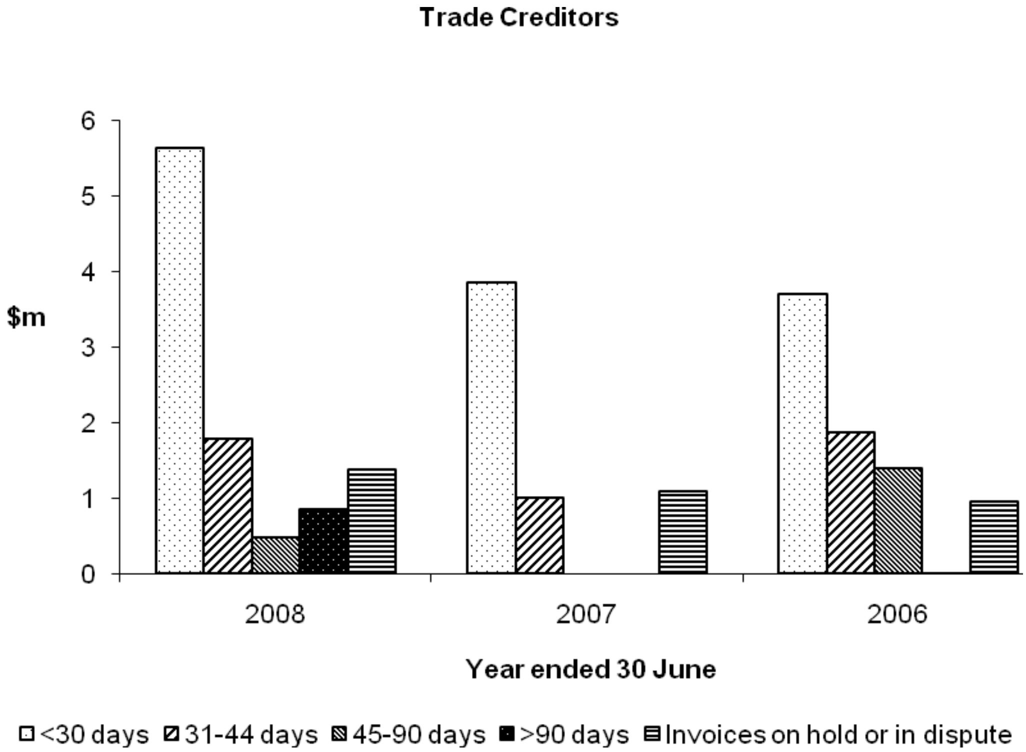
> We recommend the Hospital liaise with the Department of Health (the Department) and Health Support Services (HSS) to resolve the problems it has encountered in its service partnership agreement with HSS. We recommend the responsibilities and accountabilities under the agreement be clearly defined and accepted by both parties.

The processing of financial transactions and payroll was transferred to HSS in 2007. The Hospital continues to have concerns about the level of service it receives from HSS, which it believes contributed to it incurring substantial additional costs. HSS has a differing view on this matter. We believe the Hospital and HSS need to work in a more cooperative manner to resolve these important issues, and include clearly defined responsibilities and accountabilities in the service partnership agreement.

Payment of Creditors

> We recommend the Hospital pay its creditors within agreed payment terms and follow up disputed invoices in a timely manner. To resolve this issue, the Hospital, in consultation with the Department, should improve its budget formulating and monitoring processes and take steps to improve its cash management.

The following chart shows total trade creditors for the last three years; ageing of creditors; and amounts on hold or in dispute.



Total trade creditors have significantly increased since the previous year. The Hospital advised this has been mainly due to an increase in capital creditors for the Emergency Medical Unit upgrade and the purchase of radiology equipment. The Hospital attributes the ageing increase to intra health creditors.

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

In recent years, the Hospital has consistently been in a positive working capital position. However, the situation is negative when current assets, whose use is restricted by externally imposed conditions, is taken into account as these assets are unavailable for working capital purposes. The Hospital depends on contributions from the Department to meet its expenditure needs.

The working capital position for the last four years based on the Hospital's financial report is shown below.

At 30 June	2008	2007	2006	2005
Current assets ($'000)	***56,814***	56,606	53,757	48,373
Current liabilities* ($'000)	***57,313***	52,103	51,998	41,987
Working (deficit)/capital ($'000)	***(499)***	4,503	1,759	6,836
Working capital (%)	***99.1***	108.6	103.4	115.2
Number of times current assets exceed current liabilities	***1.0***	1.1	1.0	1.2

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

While a working capital ratio of 100 per cent is desirable, the Hospital is able to operate at a lower ratio due to continuous cash contributions from the Department. However, the Hospital needs sufficient working capital to avoid operational problems including its ability to pay creditors within agreed payment terms.

Asset Management

> We recommend the Hospital, in conjunction with the Department, commission independent experts to assist in the review of the useful life of its assets, particularly critical plant and equipment. Where the Hospital continues to use fully depreciated plant and equipment, it should ensure use of those assets does not compromise the efficient and effective operation of the Hospital.

Last year we recommended the Department, in conjunction with the Hospital, review the appropriateness of continued use of fully depreciated plant and equipment. This year the Hospital conducted an internal review.

The review was conducted by internal audit and included discussions with clinicians and department heads. It identified a number of issues including:

- a significant number of items of fully depreciated plant and equipment were still in use. We recommend the useful lives of these assets should be reassessed, and
- assets recorded in the fixed asset register with a cost value of $36.6 million were either obsolete and not used or had been disposed of or replaced. During 2007-08 $27.3 million of these assets were written off, to ensure that the cost and accumulated depreciation of assets was accurately recorded. The remaining $15.3 million will be written off in 2008-09.

The Hospital advised that although many of these assets could have continued to be used, and could have provided future economic benefits to the Hospital, they were of such an age that replacement was the preferred option. Hospital management has advised us that it may be more appropriate for an independent review to be conducted by technically qualified experts, to determine the appropriateness of continuing to use the fully depreciated assets.

At 30 June 2008, fully depreciated plant and equipment at original cost totalled $72.2 million, which represented 61 per cent of total plant and equipment.

PERFORMANCE INFORMATION

Treatment of Patients

The average length of stay in the Hospital for 2008 increased to 3.4 days (3.2 days in 2007).

The bed occupancy rate for the Hospital was 91 per cent (85.3 per cent), well above the State average of 85.1 per cent.

The Hospital met or exceeded benchmarks for timeliness in treating the two most urgent triage categories of emergency patients in 2008 (T1 and T2), as well as the less urgent cases T5 category benchmark. The Hospital was below the benchmark for the remaining triage categories (T3 and T4). The Hospital’s emergency admission performance was 80 per cent, which equalled the State target.

OTHER INFORMATION

Provision for Impairment of Disputed Receivables

> We recommend the Hospital review the collectability of all debts and recognise a provision for impairment where necessary. Further, the Hospital should resolve a disputed significant amount owing by another health entity.

The Hospital did not initially include an impairment provision for a disputed debt owed by another government agency totalling $1.2 million, where we concluded the likelihood of receiving payment was doubtful. The Hospital subsequently recognised an impairment charge of $550,000 in relation to the disputed amount.

Internal Controls

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

FINANCIAL INFORMATION

Abridged Operating Statements

Year ended 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Employee related	***218,053***	204,621	--	--
Personnel services	--	--	***218,053***	204,621
Visiting medical officers	***4,913***	4,652	***4,913***	4,652
Other expenses	***90,811***	89,015	***90,811***	89,015
TOTAL EXPENSES	***313,777***	298,288	***313,777***	298,288
TOTAL REVENUE	***216,992***	208,138	***220,936***	210,810
Other losses	***1,906***	334	***1,906***	334
NET COST OF SERVICES	***98,691***	90,484	***94,747***	87,812
Total government contributions	**78,855**	85,244	**74,911**	82,572
DEFICIT	***19,836***	5,240	***19,836***	5,240

Employee related expenses increased because of an increase in the number of employees and an annual award wage increase.

Total revenue increased predominantly because of an increase in inter-area patient flows. Inter-area patient flows are revenues recognised for the treatment of patients who reside in other Health Service areas. These flows have increased as a result of a rise in the number of patients treated and an increase in the associated costs.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current assets	***56,814***	56,606	***56,814***	56,606
Non-current assets	***398,367***	381,601	***398,367***	381,601
TOTAL ASSETS	***455,181***	438,207	***455,181***	438,207
Current liabilities	***90,412***	82,897	***90,412***	82,897
Non-current liabilities	***4,631***	4,203	***4,631***	4,203
TOTAL LIABILITIES	***95,043***	87,100	***95,043***	87,100
NET ASSETS	***360,138***	351,107	***360,138***	351,107

Non-current assets increased by $16.8 million as a result of a reassessment of the fair value of property, plant and equipment in line with indexation advice provided by the Department of Lands.

Abridged Consolidated Program Information

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

Year ended 30 June	2008			2007
	Revenues $'000	Expenses $'000	Net Cost of Services $'000	Net Cost Of Services $'000
Primary and community based services	***2,796***	***6,579***	***3,783***	3,737
Aboriginal health services	***95***	***142***	***47***	16
Outpatient services	***13,400***	***65,628***	***52,228***	49,749
Emergency services	***12,978***	***15,831***	***2,853***	3,377
Overnight acute inpatient services	***129,166***	***142,508***	***13,342***	22,975
Same day acute inpatient services	***25,733***	***10,815***	***(14,918)***	(11,622)
Mental health services	***230***	***9,837***	***9,607***	8,872
Rehabilitation and extended care services	***3,217***	***6,362***	***3,145***	2,628
Population health services	***3,830***	***9,262***	***5,432***	4,385
Teaching and research	***25,547***	***48,719***	***23,172***	6,367
Total all programs	***216,992***	***315,683***	***98,691***	90,484

The net cost of services for teaching and research increased significantly as a result of a change in allocation methodology and an increase in the number of research activities undertaken in areas including allergy and immunology, burns, cardiac surgery and neurogenetic research.

HOSPITAL ACTIVITIES

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

CONTROLLED ENTITIES

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

Entity Name
Royal Alexandra Hospital for Children Special Purpose Service Entity

Minister for Mineral Resources

Mine Subsidence Board

Mine Subsidence Board

AUDIT OPINION

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

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 Board's finances:

Year ended 30 June	**2008 $'000**	**2007 $'000**
Revenue	***22,430***	11,076
Expenditure	***27,150***	11,941
Net gains	***470***	166
Deficit	***4,250***	699
Net assets (at 30 June)	***38,830***	43,080

The increase in expenditure was mainly due to a rise of $14.7 million from subsidence claims. The rise in claims subsequently led to an increase of $12.0 million required from colliery contributions.

BOARD ACTIVITIES

The Board's main objective is to provide compensation payments for damage caused by mine subsidence on land anywhere within the State following coal or shale prospecting, or extracting coal or shale.

The Board is established under the *Mine Subsidence Compensation Act 1961*. It is subject to the control and direction of the Minister for Mineral Resources.

For further information on the Board, refer to www.minesub.nsw.gov.au.

Minister for Primary Industries

Department of Primary Industries

Forestry Commission of New South Wales (trading as Forests NSW)

Refer to Appendix 1 for:

Belgenny Farm Agricultural Heritage Centre Trust

Department of Primary Industries

AUDIT OPINION

The audit of the financial reports of the Department and its controlled entity, the Forestry Commission of New South Wales (the Commission), for the year ended 30 June 2008 resulted in qualified Independent Auditor's Reports.

The Commission made various assumptions relating to the valuation of native forests. We were unable to confirm the assumptions used were statistically reliable. The auditor's report for 2007 was similarly qualified.

The Independent Auditor's Report also drew attention to the Commission's deferred tax liability. The Commission intends to obtain a private ruling from the Australian Taxation Office over the deductibility of plantation establishment costs for biological assets. Until the outcome of this matter is known there is uncertainty over the deferred tax liability recorded in the financial report.

PERFORMANCE INFORMATION

> We recommend the Department's 2008-09 Annual Report clearly disclose actual performance against significant key performance indicator (KPI) targets.

The Department's 2007-08 Annual Report disclosed its actual results against the prior two years, but not against the 2008 targets which made it impossible to assess how the Department performed against those targets.

The following table shows how the Department performed against key targets over the last three years.

Strong Economic Performance of Primary Industries

Year ended 30 June		Actual	Target	Actual	
	Units	2008	2008	2007	2006
i) Value of primary industries production	$m	***23,432***	***22,632***	20,317	20,575
ii) Mining royalties collected	$m	***573***	***520***	513	503
iii) Capital expenditure (mining)	$m	***2,200***	***2,000***	1,700	1,760
iv) Value of targeted primary industries exports:					
- Coal	$m	***8,200***	***7,700***	6,200	6,700
- Agriculture	$m	***5,064***	***5,064***	5,281	5,401

Appropriate access to and wise management of natural resources

Year ended 30 June	Units	Actual 2008	Target 2008	Actual 2007	Actual 2006
i) Mines operating to agreed operation plans and subsidence plans	%	***97***	***97***	95	95
ii) Primary/target and secondary fish species harvested at biologically sustainable levels	%	***>90***	***>90***	>90	96
iii) Landholders/ fishers adopting at least one DPI sustainability innovation	%	***30***	***30***	25	na
iv) Cotton yield per megalitre of water supplied	Bales	***1.09***	***1.09***	1.06	1.03
v) Reduction in net emissions from primary industries	%	***3***	***3***	2	na

na: not applicable

Safe, Healthy and Biosecure Industries

Year ended 30 June	Units	Actual 2008	Target 2008	Actual 2007	Actual 2006
i) Compliance with National Animal Health performance standards	%	***97***	***97***	95	95
ii) Major innovations in pest and disease control	no	***30***	***30***	26	26
iii) Fatal injury frequency rate in the mining industry					
- Coal five year average		***0.04***	***0.04***	0.04	0.04
- Non- coal five year average		***0.04***	***0.04***	0.06	0.04

The most significant fluctuation was in the value of royalty collection. This increased by 17.2 per cent in 2008 due to the exploration and mining boom.

OTHER INFORMATION

Improving Efficiency of Irrigation Water Use on Farms

The Department aims to foster profitable and sustainable development of primary industries. One way it works to achieve this is by assisting agricultural industries use water more efficiently and productively. In November 2007, the Audit Office tabled a report in parliament entitled 'Improving Efficiency of Irrigation Water Use on Farms'. This report made the following recommendations, which have subsequently been acted upon by the Department:

Recommendation	Department Comment
The Department to work closely with agencies with which it shares responsibilities to ensure that its water use efficiency activities contribute to State Plan goals.	The Department retains membership of the Natural Resources and Environment CEOs Cluster, where programs and policies to develop State Plan goals are agreed. During the reporting year the Department worked as a member of interagency committees to develop the \$77.0 million Hawkesbury-Nepean Water project including \$20.0 million for farm water use efficiency programs, and the \$708 million sustaining the Basin program to implement Murray-Darling Basin reforms. The Department has received an in-principle allocation of \$300 million for improving farm irrigation efficiency through infrastructure, training and extension subject to Commonwealth due diligence processes.
The Department and its key stakeholders maintain close relationships to ensure they identify opportunities for new technologies and practices with the highest potential benefit. The Department to further develop the transparency of its Research and Development (R&D) selection principles to demonstrate that projects and activities are funded in accordance with the mix of industry and public benefits they will generate.	The Department continues to maintain close involvement with key research organisations including the Cooperative Research Centre for Irrigation Futures and maintains a significant farm network to ensure opportunities for new technologies and practices are identified. During the reporting year, the Department implemented a Project Approval Process including a Framework for Investment (efficiency, appropriateness and effectiveness) to assess costs and beneficiaries. The Department invested in a project and portfolio management software (Clarity) to improve the transparency of R&D investments and reporting. This will result in improved R&D selection by improving strategic decision-making and minimise errors and help in ensuring that activities are funded in accordance with the mix of industry and public benefits they will generate.

Recommendation	Department Comment
The Department should negotiate with The Treasury regarding resources it will require to meet its commitments to the State Plan, the future demands of the Commonwealth (including the National Water Initiative) and the effects of climate change. In doing so it should review best practice models in other jurisdictions for assisting and encouraging growers to adopt improvements.	The Department has participated with the Departments of Water and Energy, Environment and Climate Change, The Treasury, and Department of Premier and Cabinet in the development of the Cabinet endorsed State Priority Project 'Sustaining the Basin' project ($708 million) and the Hawkesbury-Nepean Water project ($77.0 million) to attract Commonwealth funding in water use efficiency and water recovery projects. The Department is reviewing best practice adoption models with other jurisdictions (Victoria, Queensland and South Australia) as an element of the business planning to secure Commonwealth funding for the sustaining the Basin project.

Improving Internal Controls

We identified opportunities to improve internal controls, which have been discussed and reported to the Department. These focus on:

- administered Crown assets and liabilities
- effectiveness of the Accounts Receivable cycle
- correction of depreciation rates
- validity of the Vendor Master File.

Mine Safety Levy

The *Mine Safety (Cost Recovery) Act 2005* provides for the funding of regulatory activities relative to mine safety. Mine safety levy revenue totalled $17.0 million ($18.7 million in 2007). Expenditure totalled $15.8 million ($16.7 million), predominantly on employee related expenses $13.4 million ($12.3 million).

Drought Relief

The following table shows a comparative analysis of drought transport claims paid.

Drought Transport Subsidies	Number of Claims			Claim Amounts Paid		
	2008	2007	2006	2008 $'000	2007 $'000	2006 $'000
Agistment	***3,434***	2,577	2,803	***4,614***	3,228	3,381
Bee food	--	14	2	--	35	1
Fodder	***8,228***	17,481	8,480	***10,307***	21,627	9,204
Slaughter/sale	***5,029***	6,193	2,661	***3,250***	3,413	1,497
Stock water	***990***	2,020	505	***834***	1,693	513
Domestic water	***1,021***	2,170	334	***269***	568	98
Total	***18,702***	30,455	14,785	***19,274***	30,564	14,694

The significant reduction in claims is attributable to the general improvement in the drought situation and a minimal number of backlog of claims remaining to be processed at June 2008.

FINANCIAL INFORMATION

Abridged Consolidated Operating Statements

Year ended 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Employee related	***344,588***	307,001	***308,069***	266,569
Grants and subsidies	***55,856***	57,764	***65,665***	67,321
Other expenses	***343,023***	298,915	***180,341***	166,056
TOTAL EXPENSES	***743,467***	663,680	***554,075***	499,946
Grants and contributions	***108,980***	80,698	***102,341***	74,488
Other revenue	***350,839***	320,273	***125,992***	117,123
TOTAL REVENUE	***459,819***	400,971	***228,333***	191,611
Other gains/(losses)	***77,239***	(183,887)	***1,681***	59
NET COST OF SERVICES	***206,409***	446,596	***324,061***	308,276
Government contributions	***306,821***	291,326	***306,821***	291,326
SURPLUS /(DEFICIT) BEFORE TAX	***100,412***	(155,270)	***(17,240)***	(16,950)
Income tax equivalent (expense)/benefit	***(37,279)***	39,965	--	--
SURPLUS/(DEFICIT)	***63,133***	(115,305)	***(17,240)***	(16,950)

The increase in employee related expenses resulted from the Equine Influenza epidemic and a four per cent pay rise during the year. The Equine Influenza epidemic also contributed to the increase in other expenses.

Grants and contributions predominantly comprises Commonwealth government grants of $46.7 million ($2.5 million), the increase being attributable to significant funding for the Equine Influenza outbreak. Other revenue includes royalties from the sale of timber products of $139 million ($128 million), sale of goods and services of $187 million ($172 million) and investment revenue of $144 million ($135 million).

Other losses/gains included a market value increment for plantations and native forests of $80.0 million (decrement of $173 million).

Abridged Consolidated Balance Sheets

At 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current assets	***159,148***	158,657	***83,894***	94,615
Non-current assets	***3,004,988***	2,915,125	***302,444***	310,684
TOTAL ASSETS	***3,164,136***	3,073,782	***386,338***	405,299
Current liabilities	***155,368***	185,828	***81,709***	72,428
Non-current liabilities	***735,829***	668,636	***29,331***	34,658
TOTAL LIABILITIES	***891,197***	854,464	***111,040***	107,086
NET ASSETS	***2,272,939***	2,219,318	***275,298***	298,213

The significant increase in non-current assets is mainly due to the change in the total net value of native forests and plantation assets of $1.5 billion ($1.4 billion).

Non-current liabilities include NSW Treasury Corporation borrowings of $178 million ($150 million), and deferred tax liability of $544 million ($513 million).

ADMINISTERED ACTIVITIES

The Department administers certain activities on behalf of the Crown Entity, including the collection of royalties. Mineral royalties and fees collected in 2008 totalled $573 million ($513 million).

DEPARTMENT ACTIVITIES

The Department of Primary Industries supports the development of profitable primary industries that enhance the New South Wales economy through the sustainable use of natural resources. The Department's vision is to build vibrant communities through:

- strong economic performance of primary industries
- appropriate access to and wise management of natural resources
- safe, healthy and biosecure industries
- a stronger voice for primary industries
- excellence in people, innovation and service delivery.

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

CONTROLLED ENTITY

The Forestry Commission of New South Wales as a controlled entity is reported separately within this volume.

Forestry Commission of New South Wales (trading as Forests NSW)

AUDIT OPINION

The audit of the Commission's consolidated financial report for the year ended 30 June 2008 resulted in a qualified Independent Auditor's Report. The qualification related to the valuation of biological assets.

The Commission made various assumptions relating to the valuation of native forests. We were unable to confirm the assumptions used were statistically reliable. The auditor's report for 2007 was similarly qualified.

The Independent Auditor's Report also drew attention to the Commission's deferred tax liability. The Commission intends to obtain a private ruling from the Australian Taxation Office over the deductibility of plantation establishment costs for biological assets. Until the outcome of this matter is known there is uncertainty over the deferred tax liability recorded in the financial report.

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

KEY ISSUES

Native Forest Valuation (Repeat Issue)

We recommend the Commission review and modify its valuation model for native forests.

The present valuation model for native forests incorporates the use of statistical sampling. The nature of native forests creates practical difficulties in obtaining the necessary precision to confirm the reliability of valuation results. These difficulties arise from the variability of the species and shape of the trees; restrictions on logging due to legal, environmental and other factors; variations in the quality and nature of the products resulting from the harvest; and difficulties in estimation of the total estate based on sample measurements. We note that considerable effort has gone into review of the valuation model during the year including input from expert forest valuation consultants.

The Commission advised it is continuing its review of the valuation model in 2008-09. At 30 June 2008, native forests were valued at $333 million.

Softwood Plantation Valuation

Last year we recommended the Commission continue reviewing and validating its valuation model for softwood plantations. This was satisfactorily completed this year. We believe an annual validation of the model is essential to ensure its relevance and integrity are maintained.

Compliance with Regional Forest Agreements

As reported in our 2007 Report, the Commission is a party to the Regional Forest Agreements (RFA) under the *Forestry and National Park Estate Act 1998* for the Eden, Upper and Lower North East Regions and Southern Region. These agreements are 20-year plans to achieve a balance between conservation and sustainable management of the Commission's native forests. The intentions include:

- reducing uncertainty in the forest industry and avoiding duplication of government processes for land use decision making
- providing long-term solutions that meet the requirements of government, the community and industry, while also being consistent with the principles of ecologically sustainable development
- the equitable balance of competing objectives and coordinating the policies and activities of government.

The RFAs are underpinned by the Forest Resource and Management Evaluation System (FRAMES), a forest inventory system that provides information about timber available for harvest. In addition to calculating the sustainable harvest under the RFAs, this system determines the value of forests and plantations for reporting purposes.

Last year we noted some areas of non compliance with RFA milestones. The Commission advised that it is addressing areas of non compliance.

PERFORMANCE ISSUES

Financial Performance as a Government Trading Enterprise

The Productivity Commission's *Financial Performance of Government Trading Enterprises 2004-05 to 2006-07* provides information on the financial performance of the Commission and the Australian forestry industry. The report states only two of the six forestry Government Trading Enterprises (GTEs) in Australia achieved a return that exceeded the risk-free benchmark return on assets. The Productivity Commission suggests the remaining forestry GTEs including Forests NSW, are not operating on a commercially viable basis. We note, however, that the different GTEs manage different types of forests and value their forest assets in significantly different ways.

The risk free rate of return on a ten-year Australian Government bond was 5.8 per cent (2006-07). The Commission's return on assets in 2006-07 was three per cent.

The following table compares the Commission's performance indicators with the whole of sector performance.

Performance Indicators	Commission			Whole of Forestry Sector		
	2007	2006	2005	2007	2006	2005
Return on assets (%)	***3.0***	7.5	3.8	***2.4***	8.5	5.2
Return on total equity (%)	***3.2***	3.1	0.6	***0.5***	2.4	1.2
Debt to equity (%)	***15.6***	19.4	19.7	***22.0***	24.0	20.0
Current ratio (%)	***67.1***	64.0	49.9	***133.7***	126.5	86.7
Dividend to equity ratio (%)	***1.8***	3.4	3.9	***3.5***	4.3	4.2

Source : Productivity Commission - Financial Performance of Government Trading Enterprises 2004-05 to 2006-07.

OTHER INFORMATION

New South Wales Greenhouse Abatement Certificates (NGACs)

The Commission started trading in the NGACs market in 2005. The Commission advised that the spot market prices in the New South Wales scheme have been volatile and few or no reliable trends have been observed. Forecasting price and volume movements over time has been difficult as the market is immature. Carbon security prices in other countries are currently higher than in Australia, which has lead to expectations of increased prices on domestic markets in the longer term.

As at June 2008, the Commission held one million certificates and the annual sales of NGACs generated $133,000. This is well below sales of NGACs for 2007 of $9.6 million. The Commission advised the reasons for this significant fall include:

- changed market conditions - the announcement of the Federal Carbon Pollution Reduction Scheme has created significant uncertainty about the future of the New South Wales Green House Gas Scheme
- market price and demand – demand is low and the market has a significant supply of unsold NGACS
- a reluctance by the Commission to sell its carbon securities at low prices given the obligation for it to maintain plantations linked to these carbon securities for 100 years.

In its Statement of Business Intent 2008, the Commission stated it will investigate possible options to participate in various carbon trading schemes, as well as direct and voluntary market sales opportunities. These efforts will be consistent with a defined carbon marketing strategy to identify increased revenues and offset the New South Wales scheme market volatilities.

Softwood Plantation Residue (Repeat Issue)

When softwood plantations are harvested by the Commission, the harvested trees are sold as sawlogs or pulp depending on availability of markets. Residue from harvesting operations is not used, but piled in windrows and burnt before an area is replanted. The Commission advised that until the residue is burnt, it provides environmental and silvicultural values including reduced erosion, improved soil conditions and better growth of the next crop. Management confirmed the residue is not used because:

- there is currently a limited market for residue
- the logs do not meet saw mill specifications
- the logs contain internal rot, knots or are fire damaged.

The Commission is not able to accurately quantify the extent of residue as it does not conduct formal surveys after a harvest.

As one of its business development initiatives, the Commission has finalised plans for a feasibility study into the collection and processing of residue from the harvesting of softwood plantations in the Macquarie Region. A two-year timeframe to complete the study is proposed. A two-stage tender was run from April to October 2008, and a contract has been issued to the successful proponent. We also note that the residue in the Monaro Region was successfully tendered to the third party customers and 75 per cent of the residue in the Hume Region is under a long term supply contract to a customer.

Financial Performance

The following table shows the Commission's performance over the last three years and its financial targets per its 2008 Statement of Business Intent:

Year ended 30 June	Actual	Target	Actual	
	2008 $'000	2008 $'000	2007 $'000	2006 $'000
Profit/(loss) before tax	***117,651***	***40,916***	(138,320)	11,420
Dividend provided	***1,000***	***16,000***	16,000	26,332
Income tax expense/(credit)	***37,279***	***(9,177)***	(39,965)	8,584

The Commission's financial performance was significantly affected by a fair value increment of $80.0 million for biological assets in 2008 ($173 million in 2007). This also resulted in the dividend provided and income tax expense being significantly different to target.

Other Control Issues

We have identified areas where opportunities exist to improve internal controls. These areas have been discussed and reported to the Commission.

FINANCIAL INFORMATION

Abridged Income Statements

Year ended 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Sale of timber and related activities	***252,848***	223,621	***252,848***	223,621
Other	***40,947***	46,929	***40,947***	46,929
TOTAL REVENUE	***293,795***	270,550	***293,795***	270,550
Contract harvest and haulage	***113,038***	94,306	***113,038***	94,306
Employee related	***83,525***	73,863	***83,525***	73,863
Change in fair value (increment)/decrement biological assets	***(79,959)***	172,641	***(79,959)***	172,641
Other	***59,540***	68,060	***59,540***	68,060
TOTAL EXPENSES	***176,144***	408,870	***176,144***	408,870
PROFIT/(LOSS) BEFORE TAX	***117,651***	(138,320)	***117,651***	(138,320)
Income tax expense/(credit)	***37,279***	(39,965)	***37,279***	(39,965)
PROFIT/(LOSS) AFTER TAX	***80,372***	(98,355)	***80,372***	(98,355)

Profit before including market value increments and decrements and tax, increased by $3.3 million in 2008 mainly due to increased sales of sawlogs and contract and haulage revenue.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current assets	***75,253***	75,057	***75,253***	75,057
Non-current assets	***2,727,493***	2,628,856	***2,727,493***	2,628,856
TOTAL ASSETS	***2,802,746***	2,703,913	***2,802,746***	2,703,913
Current liabilities	***73,660***	113,401	***61,963***	102,398
Non-current liabilities	***731,445***	669,407	***743,142***	680,410
TOTAL LIABILITIES	***805,105***	782,808	***805,105***	782,808
NET ASSETS	***1,997,641***	1,921,105	***1,997,641***	1,921,105

COMMISSION ACTIVITIES

The Commission is a corporation sole constituted by the *Forestry Act 1916*. Its objectives include:

- conserving and utilising the timber on Crown-timber lands and other land it controls
- supplying timber from these lands for building, commercial, industrial, agricultural, mining and domestic purposes
- preserving and improving, in accordance with good forestry practice, the soil resources and water catchment capabilities of these lands
- identifying and meeting new market opportunities in wood supply, energy, carbon sequestration and third party investments which are seen as complimentary activities to traditional forestry.

It manages approximately two million hectares of native forests across New South Wales. With the largest areas concentrated on the coast and coastal escarpment. The dominant trees are more than 270 species of eucalypts. The Commission has established softwood and hardwood plantations to complement these native forests. These include approximately 192,711 hectares allocated to softwood plantations and approximately 27,353 hectares of hardwood plantations.

The Commission is a controlled entity of the Department of Primary Industries. It is subject to the control and direction of the Minister for Primary Industries, except in relation to the contents of a recommendation or report made by it to the Minister.

For further information on the Commission, refer to www.dpi.nsw.gov.au/forests.

CONTROLLED ENTITY

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

Entity Name
Forestry Commission Division

Minister for Sport and Recreation

Refer to Appendix 1 for:

Newcastle Showground and Exhibition Centre Trust

Section Two

Performance Auditing

Performance Audit Reports Tabled in Parliament since Volume Four of 2008

Performance Audits in Progress

Performance Audits Otherwise Acquitted

Performance Audit Reports Tabled in Parliament since Volume Four of 2008

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

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

MANAGING INJURED OFFICERS: NSW POLICE FORCE

The report examined how well the NSW Police Force manages injured officers.

Since a new Death and Disability scheme was introduced in 2005, medical retirements under this scheme have tripled in the first 2 years. NSW has 10 times more police officers retiring on medical grounds than Victoria.

Early intervention and return to work are the key factors in successfully managing injured officers and reducing the cost of workplace injuries. The Force has not done this well in the past. Through the establishment of the safety command, the Force has built a framework for managing injured officers that should optimise early return to work.

The audit report looks at key aspects of injury management and gives some examples of the types of injuries and claims that have occurred.

The report was tabled in Parliament on 10 December 2008.

Performance Audits in Progress

The planned tabling dates for audits in progress are:

Title	Planned Tabling Date
Heavy Vehicle Safety	1st quarter of 2009
Administration of Grants	1st quarter of 2009
Diverting Adult Aboriginal Defendants into Treatment	2nd quarter of 2009
Sustaining Native Forest Operations	2nd quarter of 2009
Tackling Cancer with Radiotherapy	3rd quarter of 2009
Private Waterfront Tenancies on Public Land	To be advised

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

Performance Audits Otherwise Acquitted

ENSURING COMPETENCY OF HEALTH PROFESSIONALS

One audit we were planning to conduct this year was related to ensuring health professionals are qualified and competent to practice.

Our initial research confirmed that proposals agreed to by the Council of Australian Governments (COAG) will shift responsibility for registering and ensuring the quality of health professionals. It will become a single national registration and accreditation system in 2010, rather than the current status of more than 80 bodies run by the states. This will also affect the way in which complaints against health practitioners, currently state responsibilities, are managed.

Because of this change in responsibility, we determined that a performance audit was not the best use of Audit Office resources. Instead we are reporting on the key performance indicators of the New South Wales Registration Boards. We are also reporting on the New South Wales Department of Health's (the Department) role in ensuring qualified, competent registered health professionals practice in New South Wales.

No areas of concern were identified in the financial audits of the various New South Wales Registration Boards.

Registration Procedures for Health Professionals

In New South Wales, 12 Registration Boards are currently responsible for protecting the public by promoting and maintaining professional standards for health practitioners. Each Board operates under its own legislation and maintains a register of health care professionals qualified to practise in New South Wales.

Registered health professionals	Year ended	Number of practitioners
Nurses and Midwives Board	30 June 2008	101,928
New South Wales Medical Board	30 June 2008	33,231
Psychologists Registration Board	30 June 2007	9,539
Pharmacy Board of New South Wales	30 September 2007	8,165
Physiotherapists Registration Board	30 June 2007	6,754
Dental Board of New south Wales	30 September 2007	4,998
Optometrists Registration Board	30 June 2007	1,700
Optical Dispensers Licensing Board	30 June 2008	1,509
Chiropractors Registration Board	30 June 2007	1,365
Dental Technicians Registration Board	30 June 2008	1,269
Podiatrists Registration Board	30 June 2007	853
Osteopaths Registration Board	30 June 2007	546
Total		**171,857**

Source: Board annual reports.

In 2006, COAG agreed to establish a national registration scheme for health professionals. By 1 July 2010 a single national system will encompass both the registration and accreditation functions. The Intergovernmental Agreement for a national registration and accreditation scheme provides for the repeal of existing legislation, which will have the effect of abolishing the Boards listed above.

Managing Complaints About Health Professionals

In New South Wales, the *Health Care Complaints Act 1993* established the Health Care Complaints Commission (the Commission) as an independent body to receive, assess, investigate, prosecute or resolve complaints about health practitioners and health service providers. The Act also gives Registration Boards responsibility for managing complaints in conjunction with the Commission.

Development of a national process for registration procedures will affect complaints processes. The Australian Health Ministers' Advisory Council has issued a consultation paper on the proposed model for complaints handling and prosecution of practitioners.

The future role of the New South Wales Health Care Complaints Commission will not be known until this legislation is drafted. The Commission's website notes that it has prepared a submission arguing that the co-regulatory model currently in place in New South Wales is a more transparent, accountable and impartial system than the model proposed and better serves the public's best interest.

Handling of Complaints Under Current New South Wales Legislation

Complaints about health professionals may be directed to the Commission or to the appropriate Registration Board. All complaints against health practitioners received by either a Board or the Commission must be notified to the other. Legislation also requires the Commission to consult with the Registration Boards at various stages of handling a complaint, including in relation to the assessment outcome. If there is disagreement on an outcome, the most serious option prevails.

The Commission received 3,128 written complaints during 2007-08 and finalised the assessment of 2,889 complaints. Of these, 1,357 concerned health organisations such as hospitals and medical centres and 1,771 concerned health care practitioners, around two-thirds of which were about doctors.

Complaints to the Commission about health care practitioners	Number	%
Medical practitioners	1,145	65
Nurses	224	13
Dentists	177	10
Psychologists	77	4
Other registered practitioners	75	4
Unregistered practitioners	73	4
Total	**1,771**	**100**

Source: 2007-08 Health Care Complaints Commission Annual Report, Table 18.12.

Complaints assessed by the Commission in 2007-08 were finalised as shown below.

Assessment decisions by the Commission	%
Discontinue: reasons may include the age of the matter complained of, or it might be better dealt with by some alternative means	34
Assisted resolution: the Commission has voluntary assisted resolution processes to help parties attempt resolve complaints	20
Referred to Registration Board: actions may include counselling, as well as impairment or performance assessment for doctors and nurses	20
Investigation by Commission: an investigation obtains information so that the Commission can objectively determine the most appropriate action (if any) to take	9
Resolved during assessment: Commission staff are able to resolve some complaints during the assessment process	7
Referred for conciliation: appropriate matters can be referred to the Health Conciliation Registry, whose independent expert conciliators can facilitate the parties in seeking a resolution to the complaint	7
Other: referred to another body or resolved by a public health organisation	3
Total	**100**

Source: 2007-08 Health Care Complaints Commission Annual Report, Chart 12.1.

The Commission reports on the time it takes to deal with complaints. Their Annual Report shows significant improvement in the average number of days to assess complaints: down to 39 days in 2007-08 and 2006-07 from 61 days in 2005-06. The percentage of complaints assessed within 60 days also shows significant improvement: 88 per cent in 2007-08, 84 per cent in 2006-07 and 56 per cent in 2005-06.

Many complaints are made directly to the twelve Registration Boards. We estimate that they dealt with 1,830 complaints in 2006-07, nearly two-thirds of these concerning doctors.

Complaints to Registration Boards about health care practitioners	Number	%
Medical practitioners	1,155	63
Nurses	174	10
Dentists	147	8
Psychologists	131	7
Other registered practitioners	223	12
Total	**1,830**	**100**

Source: Annual reports of Registration Boards

The Commission and the Boards separately report the number of complaints received. Given the legislative requirement to notify each other on complaints, it is clear that the majority of these complaints are double counted.

Most Boards show consistency in how they report the number of complaints received, how they are handled and their outcomes. However, some Board annual reports fail to include any summary of complaints or outcomes.

While the Commission's 2007-08 annual report includes timeliness measures for processing complaints, those of the Boards do not. In most cases their annual reports note how many complaints were carried over to the following year, thus giving an indication of the Boards' ability to manage any backlog of complaints. However one Board's reporting on complaints made it difficult to determine how many complaints it received and gave no information on its ability to deal with them in a timely manner.

If this is the case, the national system would benefit from adopting a similar system as already used by the New South Wales Health Care Complaints Commission. This includes using a consistent format for reporting of complaints and their outcomes, and demonstrating timeliness in handling complaints using similar measures.

Reporting of Actions Taken Against Practitioners

All the Registration Boards are required by legislation to make publicly available the name of health practitioners whose registration has been suspended or cancelled. Tribunal decisions that result in the suspension or cancellation of a health professionals' registration are also to be made public.

The website of the Commission provides links to Registration Board websites which have search facilities to enable health service clients to ensure that their health practitioners are registered. Websites of the Medical, Nurses and Midwives, Optometrists, Osteopaths, Physiotherapists and Psychologists Boards report the names of practitioners who have been suspended, deregistered or have had conditions placed upon their right to practice.

The Psychologists Registration Board and the Pharmacy Board are the only Boards whose annual reports include details of health practitioners who have been subject to such disciplinary measures.

It would be invaluable to the public if the national system would also ensure the names of practitioners whose registrations have been suspended, cancelled, or are subject to conditions (and what these are) are publicly available via Board websites and phone contact.

Do Boards Ensure that Practitioners Have Current Knowledge and Skills?

Many professional organisations require their members to confirm that they are maintaining their professional skills and knowledge. For instance New South Wales veterinary surgeons, under the *Veterinary Practice Act 2003*, are annually required to submit evidence of continuing professional development in order to maintain registration.

However, only two of the twelve Registration Boards require their members to confirm currency of knowledge and competence for annual re-registration.

An example of good practice is the Podiatrists Registration Board, which requires that a minimum of 60 Continuing Podiatric Professional Education points must be achieved by its members each year to remain on the Register. It specifies the types of activities and the number of points they contribute, e.g. *Publish an article in a peer-reviewed journal – 30 points*.

Each year random audits of 20 per cent of the registered podiatrists will be conducted so that all podiatrists are reviewed over a five-year period. Podiatrists selected for an audit are required to substantiate their continuing professional education activities with documentary evidence.

However at the other extreme another Board's website notes that 'the legislation in New South Wales does not permit the Board to assess competence for continuing registrants or to insist on competency assessment as part of the renewal process'.

Requiring health professionals to demonstrate the currency of their competence on annual renewal of registration is an important aspect that all Registration Boards should ensure happens.

Can the Public be Confident that New South Wales Health's Employees are Registered and Have Maintained their Skills?

As the above demonstrates, Registration Boards provide a means for consumers to check that health professionals are registered, but in most cases do not provide assurance that their skills are up to date.

Since at least 1981 New South Wales Health has had a policy in place to ensure only registered and trained staff are employed in the system. New South Wales Health reconfirmed and expanded this requirement in 2005:

> It cannot be too strongly stressed the serious consequences of utilising either untrained or unregistered health personnel. It must be a strict rule that no staff are to be employed before qualifications and current registration are confirmed and systems must exist within hospitals to ensure that all persons employed ... maintain current registration.
>
> Source: Policy Directive PD2005_013 *Registration of Professional Personnel*, New South Wales Health, 24 January 2005

We have been advised that public health organisations, e.g. hospitals, are required to maintain a system to check current registration of all employees. However we have not undertaken a review to determine whether such a system has been implemented or its effectiveness.

New South Wales Health has a mandatory policy requirement to check all employed doctors' qualifications. In 2008 the Department conducted an audit and verified, that all registered medical practitioners with practice conditions imposed by the New South Wales Medical Board, were working in compliance with those conditions. New South Wales Health confirmed that no doctors suspended or deregistered were working in New South Wales, and has implemented quarterly reporting of compliance of doctors with practice conditions.

New South Wales Health is also working to improve compliance with mandatory policy requirements regarding the checking of references and verification of registration status of all health professionals.
Since at least 2005 annual performance reviews are required for all visiting practitioners where performance issues can be identified and managed.

Also in 2005 New South Wales Health issued a policy framework for managing performance. However we have not confirmed that this framework has been applied to all health professionals working in the public health system.

In 2006 New South Wales Health issued a policy to encourage learning and development of all staff to assist in skill maintenance. The purpose of the policy is to:

- establish a culture throughout the health system that facilitates learning and enables the organisation to achieve its corporate goals
- assist employees to access learning and development opportunities so that the New South Wales public health system has an appropriately trained workforce to meet its service delivery needs.

However New South Wales Health policy does not make it mandatory for staff to undertake any training to ensure currency of skills. It is left to the discretion of staff and management.

To ensure the health and welfare of the New South Wales public, it is important that New South Wales Health verify that all its employees have current skills and knowledge.

FOLLOWING THE MONEY IN THE DELIVERY OF MENTAL HEALTH SERVICES

Included in the 2007-08 program of performance audits was an audit to examine how effectively increased spending on mental health is being managed. In particular, the audit was to follow the money in the delivery of new services and compare the results against the expected outputs and outcomes.

The audit commenced in mid-2008 and found that the topic of the audit was being addressed by New South Wales Health through a management consultancy. The year long consultancy is to identify the number of staff funded by the mental health program and then map how services are delivered in each of the Area Health Services. This will provide New South Wales Health with a clearer understanding of how the program's funding is applied and help redirect funding in line with mental health priorities.

As the consultancy's aim is similar to the audit's objective the audit was suspended. The audit topic will be reassessed during 2009, when New South Wales Health has received and assessed the consultant's report.

Increasing demand for mental health services is prompting increased funding. The most recent initiative, the five year program *A New Direction for Mental Health*, allocates in excess of $939 million from 2006-07. The program focuses on increasing the number of mental health beds and clinicians, and creating more community services to reduce pressure on acute beds.

The total New South Wales Health budget allocation for mental health services in 2008-09 was $1.1 billion. This funds approximately 10,000 nurses and other clinicians to deliver services to some 150,000 mental health clients in hospitals, emergency care centres, outpatient facilities, and in community and residential settings.

Appendix

Appendix 1
Agencies not reported elsewhere in this Volume

Appendix 1 – Agencies not reported elsewhere in this Volume

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

Entity Name	Website	Period/Year Ended
Belgenny Farm Agricultural Heritage Centre Trust	www.belgennyfarm.com.au	30 June 2008
Dental Board of New South Wales	www.dentalboardnsw.org.au	30 June 2008
Jenolan Caves Reserve Trust	www.jenolancaves.org.au	30 June 2007
- Jenolan Caves Reserve Trust Division	*	30 June 2007
Newcastle Showground and Exhibition Centre Trust	*	30 June 2008
Pharmacy Board of New South Wales	www.pbnsw.org.au	30 June 2008

* These entities do not have websites

Index

A

Page

A.C.N. 093 230 374 Pty Limited .... Vol 4 2008
Aboriginal Affairs, Department of .... Vol 5 2008
Aboriginal Affairs, Minister for 3
Aboriginal Housing Office .... Vol 5 2008
Aboriginal Housing Office Group of Staff .... Vol 5 2008
Aboriginal Land Council, New South Wales 5
Access Macquarie Limited .... Vol 2 2008
accessUTS Pty Limited .... Vol 2 2008
ACN 125 694 546 Pty Limited .... Vol 2 2008
Acyte Biotech Pty Ltd .... Vol 2 2008
Adult Migrant English Service, NSW .... Vol 4 2008
Ageing, Minister for .... Vol 5 2008
Ageing, Disability and Home Care,
Department of .... Vol 5 2008
Agencies not reported elsewhere in this Volume 145
Agricultural Business Research Institute .... Vol 2 2008
Agricultural Scientific Collections Trust .... Vol 5 2008
AGSM Limited .... Vol 2 2008
Ambulance Service of New South Wales 99
ANZAC Health and Medical Research Foundation 84
**ANZAC Health and Medical Research Foundation
Trust Fund 84**
Architects Registration Board, NSW .... Vol 4 2008
Art Gallery of New South Wales Foundation .... Vol 4 2008
Art Gallery of New South Wales Trust .... Vol 5 2008
Arts Education Foundation Trust .... Vol 4 2008
Arts, Minister for .... Vol 5 2008
Arts, Sport and Recreation, Department of the ... Vol 5 2008
Asbestos Diseases Research Foundation, The ...... Vol 5 2008
Attorney General .... Vol 5 2008
Attorney General's Department .... Vol 5 2008
Audio Nomad Pty Ltd .... Vol 2 2008
Aus Health International Pty Limited .... Vol 6 2007
Australian Centre for Advanced Computing and
Communications Pty Ltd .... Vol 5 2008
Australian Education Consultancy Limited .... Vol 2 2008
Australian Institute of Asian Culture and Visual Arts
Limited, The .... Vol 5 2008
Australian Museum Trust .... Vol 5 2008
Australian Plant DNA Bank Limited .... Vol 2 2008
Australian Proteome Analysis Facility Limited .... Vol 2 2008
Australian Technology Park Precinct
Management Ltd .... Vol 5 2008
Australian Water Technologies Pty Ltd .... Vol 5 2008
AWT International (Thailand) Limited .... Vol 5 2008

B

Banana Industry Committee .... Vol 5 2008
**Belgenny Farm Agricultural Heritage Centre
Trust 145**
Biobank Pty Limited .... Vol 2 2008
Board of Studies, Office of the .... Vol 5 2008
Board of Studies, The .... Vol 4 2008
Board of Studies Casual Staff Division .... Vol 4 2008
Board of Surveying and Spatial Information .... Vol 5 2008
Board of Vocational Education and Training,
NSW .... Vol 4 2008
Border Rivers-Gwydir Catchment Management
Authority .... Vol 4 2008
Bosch Institute, The .... Vol 2 2008
Brett Whiteley Foundation, The .... Vol 4 2008
Building and Construction Industry Long Service
Payments Corporation .... Vol 5 2008
Building Insurers' Guarantee Corporation .... Vol 6 2008
Building Professionals Board .... Vol 4 2008
Buroba Pty Ltd .... Vol 5 2008
Businesslink Pty Ltd, NSW .... Vol 5 2008

C

C.B. Alexander Foundation .... Vol 5 2008
Cadre Design Pty Limited .... Vol 2 2008
Cadre Design Unit Trust .... Vol 2 2008
Campus Pre-School Incorporated .... Vol 2 2008
Cancer Institute Division 93
Cancer Institute NSW 91
Casino Control Authority, New South Wales .... Vol 5 2008
Casino Control Authority Division .... Vol 5 2008
Centennial Park and Moore Park Trust .... Vol 6 2008
Centennial Parklands Foundation .... Vol 6 2008
Central West Catchment Management Authority .. Vol 4 2008
Centre for United States Studies Pty Limited ...... Vol 2 2008
Cessnock Uni-Clinic Trust .... Vol 2 2008
Charles Sturt Foundation Limited (and Trust) ..... Vol 2 2008
Charles Sturt Services Limited .... Vol 2 2008
Charles Sturt University .... Vol 2 2008
CHEC English Language Centre .... Vol 2 2008
Chief Investigator of the Office of Transport
Safety Investigations .... Vol 4 2008
Children, Office for .... Vol 5 2008
Chipping Norton Lake Authority .... Vol 4 2008
Citizenship, Minister for .... Vol 5 2008
Chiropractors Registration Board .... Vol 5 2008
City West Housing Pty Limited .... Vol 5 2008
**Climate Change and the Environment,
Minister for 11**
Clinical Excellence Commission 43
Clinical Excellence Commission Special
Purpose Service Entity 43
CMBF Limited .... Vol 2 2008
Coal Compensation Board, New South Wales ...... Vol 5 2008
Cobar Water Board .... Vol 5 2008
Cobar Water Board Division .... Vol 5 2008
Coffs Harbour Technology Park Limited .... Vol 4 2008
Commerce, Department of .... Vol 6 2008
Commerce, Minister for .... Vol 6 2008
Commission for Children and Young
People, NSW .... Vol 5 2008
Community Relations Commission, Office of the .. Vol 5 2008
Community Relations Commission for a
Multicultural New South Wales .... Vol 5 2008
Community Services, Department of .... Vol 5 2008
Community Services, Minister for .... Vol 5 2008
Cooks Cove Development Corporation .... Vol 5 2008
Corporation Sole 'Minister Administering the
Environmental Planning and Assessment
Act, 1979' .... Vol 5 2008
Corporation Sole 'Minister Administering the
Heritage Act, 1977' .... Vol 5 2008
Corrective Services, Department of .... Vol 5 2008
Country Energy .... Vol 4 2008
Country Energy Gas Pty Limited .... Vol 4 2008
Cowra Japanese Garden Maintenance
Foundation Limited .... Vol 5 2008
Cowra Japanese Garden Trust .... Vol 5 2008
Crime Commission, New South Wales .... Vol 4 2008
Crime Commission, Office of the New South
Wales .... Vol 4 2008
Crime Commission Division, New South Wales ..... Vol 4 2008
Crown Employees (NSW Fire Brigades
Firefighting Staff, Death and Disability)
Superannuation Fund .... Vol 5 2008
Crown Entity .... Vol 5 2008
Crown Lands Homesites Program .... Vol 5 2008
Crown Leaseholds Entity .... Vol 5 2008
Cystemix Pty Limited .... Vol 2 2008

D

Dams Safety Committee .... Vol 4 2008
Degrees in Catering Pty Ltd .... Vol 2 2008
Delta Electricity .... Vol 4 2008
Delta Electricity Australia Pty Ltd .... Vol 4 2008
Dental Board of New South Wales 145
Dental Technicians Registration Board .... Vol 5 2008
Director of Public Prosecutions, Office of the ..... Vol 5 2008
Disability Services, Minister for .... Vol 5 2008
Dosimetry & Imaging Pty Ltd .... Vol 2 2008
Downtown Utilities Pty Limited .... Vol 4 2008
Dumaresq-Barwon Border Rivers Commission ...... Vol 4 2008
Duquesne Utilities Pty Ltd .... Vol 5 2008

E

Education and Training, Department of .... Vol 4 2008
Education and Training, Minister for .... Vol 5 2008
Education Training Community Television (ETC TV) Limited .... Vol 2 2008
Elastagen Pty Limited .... Vol 2 2008
Election Funding Authority of New South Wales .. Vol 5 2008
Electoral Commission, New South Wales .... Vol 5 2008
Electricity Industry Overview .... Vol 4 2008
Electricity Tariff Equalisation Ministerial Corporation .... Vol 5 2008
Emergency Services, Minister for .... Vol 6 2008
Emergency Services Overview .... Vol 6 2008
Emergency Services, Office for .... Vol 6 2008
Energy, Minister for .... Vol 4 2008
Energy Industries Superannuation Scheme .... Vol 5 2008
Energy Investment Fund .... Vol 5 2008
EnergyAustralia .... Vol 4 2008
EnergyAustralia Pty Limited .... Vol 4 2008
Environment and Climate Change, Department of .... Vol 6 2008
Environment Protection Authority .... Vol 5 2008
Environmental Trust .... Vol 6 2008
Eraring Energy .... Vol 4 2008
Events New South Wales Pty Limited .... Vol 5 2008

F

Fair Trading Administration Corporation .... Vol 5 2008
Festival Development Corporation .... Vol 4 2007
Film and Television Office, New South Wales ..... Vol 4 2008
Finance, Minister for 13
Financial Counselling Trust Fund .... Vol 5 2008
Financial Reports Not Received by Statutory Date (as at 13 November 2008) .... Vol 5 2008
Financial Reports Received but Audit Incomplete by Statutory Date (as at 13 November 2008) ..... Vol 5 2008
Fire Brigades, New South Wales .... Vol 6 2008
Fire Brigades Superannuation Pty Limited, NSW .... Vol 5 2008
Follow-up Review of CityRail Passenger Security .... Vol 4 2008
Food Authority, NSW .... Vol 5 2008
Food Authority, Office of the NSW .... Vol 5 2008
Forestry Commission of New South Wales (Trading as Forests NSW) 124
Forestry Commission Division 129
Foundation for the Historic Houses Trust of New South Wales .... Vol 5 2008
Foundation for the Historic Houses Trust of New South Wales Limited .... Vol 5 2008

G

Game Council of New South Wales .... Vol 5 2008
Game Council Division .... Vol 5 2008
Gaming and Racing, Minister for .... Vol 5 2008
Gosford Water Supply Authority .... Vol 5 2008
Government Telecommunications Authority (Telco) , New South Wales .... Vol 6 2008
GraduateSchool.com Pty Limited .... Vol 2 2008
Grains Board, New South Wales .... Vol 2 2008
Greater Southern Area Health Service 44
Greater Southern Area Health Service Special Purpose Service Entity 48
Greater Western Area Health Service 49
Greater Western Area Health Service Special Purpose Service Entity 54
Greyhound and Harness Racing Regulatory Authority .... Vol 5 2008
Greyhound and Harness Racing Regulatory Authority Division .... Vol 5 2008
Growth Centres Commission .... Vol 4 2008

H

Hamilton Rouse Hill Trust .... Vol 5 2008
Hawkesbury-Nepean Catchment Management Authority .... Vol 4 2008
Health Administration Corporation 94
Health Administration Corporation Special Purpose Service Entity 99
Health Care Complaints Commission .... Vol 5 2008
Health Care Complaints Commission, Office of the .... Vol 5 2008
Health Foundation, New South Wales .... Vol 6 2008
Health, Department of 41
Health, Minister for 21
Health Overview 23
HealthQuest 43
HealthQuest Special Purpose Service Entity 43
HepatoCell Therapeutics Pty Limited .... Vol 2 2008
Historic Houses Trust of New South Wales .... Vol 5 2008
Home Care Service of New South Wales .... Vol 5 2008
Home Care Service Division .... Vol 5 2008
Home Purchase Assistance Fund .... Vol 5 2007
Housing, Minister for .... Vol 5 2008
Housing NSW .... Vol 5 2008
Housing NSW's $7.0 million Grant to Canterbury City Council, Review of .... Vol 5 2008
Hunter Development Corporation .... Vol 4 2008
Hunter New England Area Health Service 55
Hunter New England Area Health Service Special Purpose Service Entity 60
Hunter Uni-Clinics Pty Limited .... Vol 2 2008
Hunter Water Australia Pty Limited. .... Vol 5 2008
Hunter Water Corporation .... Vol 5 2008
Hunter-Central Rivers Catchment Management Authority .... Vol 4 2008

I

Illawarra Technology Corporation Limited (ITC) ... Vol 2 2008
Independent Commission Against Corruption ...... Vol 5 2008
Independent Pricing and Regulatory Tribunal ..... Vol 5 2008
Independent Pricing and Regulatory Tribunal Division .... Vol 5 2008
Independent Transport Safety and Reliability Regulator .... Vol 4 2008
Independent Transport Safety and Reliability Regulator Division .... Vol 4 2008
Industrial Relations, Minister for .... Vol 5 2008
Infrastructure Implementation Corporation .... Vol 5 2008
Ingham Health Research Institute 84
Insearch Limited .... Vol 2 2008
Institute for Magnetic Resonance Research .... Vol 2 2008
Institute of Psychiatry, New South Wales .... Vol 5 2008
Institute of Sport, New South Wales .... Vol 5 2008
Institute of Sport Division .... Vol 5 2008
Institute of Teachers, NSW .... Vol 4 2008
Institute of Teachers, Office of the .... Vol 4 2008
Integral Energy Australia .... Vol 4 2008
Internal Audit Bureau of New South Wales .... Vol 5 2008
Internal Audit Bureau Division .... Vol 5 2008
International Livestock Resources and Information Centre Ltd .... Vol 2 2008

J

Jenolan Caves Reserve Trust 145
Jenolan Caves Reserve Trust Division 145
John Lewis and Pamela Lightfoot Trust .... Vol 2 2008
Judicial Commission of New South Wales .... Vol 5 2008
Justice Health 100
Justice Health Special Purpose Service Entity 103
Justice, Minister for .... Vol 5 2008
Juvenile Justice, Department of .... Vol 5 2008
Juvenile Justice, Minister for .... Vol 5 2008

L

Lachlan Catchment Management Authority........ Vol 4 2008
Lake Illawarra Authority .... Vol 4 2008
LAMS Foundation Limited............................. Vol 2 2008
LAMS International Pty Limited...................... Vol 2 2008
Land Development Working Account................ Vol 5 2008
Landcom.. Vol 5 2008
Lands, Department of .... Vol 6 2008
Lands, Minister for..................................... Vol 6 2008
Law and Order Overview............................. Vol 5 2008
Legal Aid Commission of New South Wales .... Vol 5 2008
Legal Aid Commission, Office of the................ Vol 5 2008
Legal Aid Temporary Staff Division.................. Vol 5 2008
Legal Opinions Provided by the Crown Solicitor .. Vol 1 2007
Legal Profession Admission Board .... Vol 5 2008
Legislature, The....................................... Vol 5 2008
Legislature (Audit of Members' Additional Entitlements), The .... Vol 2 2008
Liability Management Ministerial Corporation..... Vol 5 2008
Library Council of New South Wales .... Vol 5 2008
Lifetime Care and Support Authority of New South Wales.................................. Vol 6 2008
Liquor Administration Board .... Vol 5 2008
Local Government, Department of.................. Vol 5 2008
Local Government, Minister for...................... Vol 5 2008
Lord Howe Island Board............................... Vol 5 2008
Lotteries Corporation, New South Wales........... Vol 5 2008
Lower Murray-Darling Catchment Management Authority .... Vol 4 2008
Luna Park Reserve Trust .... Vol 5 2008

M

Macquarie Generation................................. Vol 4 2008
Macquarie Graduate School of Management Pty Limited (MGSM)............................... Vol 2 2008
Macquarie University .... Vol 2 2008
Macquarie University Private Hospital Trust....... Vol 2 2008
Macquarie University Professorial Superannuation Scheme .... Vol 2 2008
Macquarie University Property Investment Company No. 2 Pty Limited...................... Vol 2 2008
Macquarie University Property Investment Company Pty Limited............................. Vol 2 2008
Macquarie University Property Investment Trust .... Vol 2 2008
Marine Parks Authority................................ Vol 5 2008
Maritime Authority of NSW .... Vol 5 2008
Maritime Authority of NSW Division................. Vol 5 2008
Medical Board, New South Wales.................... Vol 5 2008
Milk Marketing (NSW) Pty Limited................... Vol 5 2008
Mine Subsidence Board 113
Mineral Resources, Minister for 111
Minerals Industry/University of New South Wales Education Trust, NSW .... Vol 2 2008
Ministerial Corporation for Industry................. Vol 5 2008
Mitchell Services Limited .... Vol 2 2008
Motor Accidents Authority of New South Wales 15
Motor Accidents Authority of New South Wales, Office of the .... Vol 5 2008
Motor Vehicle Repair Industry Authority .... Vol 5 2008
MU Private Hospital Pty Limited..................... Vol 2 2008
MU Sub-Trust No. 1 .... Vol 2 2008
MU Sub-Trust No. 2 .... Vol 2 2008
MU Sub-Trust No. 3 .... Vol 2 2008
MU Sub-Trust No. 4 .... Vol 2 2008
MUPH Clinic Pty Limited .... Vol 2 2008
MUPH Clinic Sub-Trust................................ Vol 2 2008
MUPH Hospital Pty Limited........................... Vol 2 2008
MUPH Hospital Sub-Trust .... Vol 2 2008
MUPI Holding Trust No. 1 .... Vol 2 2008
MUPI Holding Trust No. 2 .... Vol 2 2008
MUPI Holding Trust No. 3 .... Vol 2 2008
MUPI Holding Trust No. 4 .... Vol 2 2008
MUPI Holding Trust No. 5 .... Vol 2 2008
MUPI Holding Trust No. 6 .... Vol 2 2008
Murray Catchment Management Authority ....Vol 4 2008
Murrumbidgee Catchment Management Authority ....Vol 4 2008

N

Namoi Catchment Management Authority..........Vol 4 2008
National Marine Science Centre Pty Ltd ....Vol 2 2008
Natural Resources Commission ....Vol 4 2008
Natural Resources Commission Division.............Vol 4 2008
Newcastle International Sports Centre Trust.......Vol 1 2008
Newcastle Port Corporation...........................Vol 5 2008
Newcastle Showground and Exhibition Centre Trust...145
NewSouth Eight Pty Ltd................................Vol 2 2008
NewSouth Five Pty Ltd.................................Vol 2 2008
NewSouth Four Pty Ltd ....Vol 2 2008
NewSouth Global (Thailand) Limited ....Vol 2 2008
NewSouth Global India Pvt Limited..................Vol 2 2008
NewSouth Innovations Pty Limited ....Vol 2 2008
NewSouth One Pty Ltd ....Vol 2 2008
NewSouth Seven Pty Ltd...............................Vol 2 2008
NewSouth Six Pty Ltd ....Vol 2 2008
Norsearch Limited ....Vol 2 2008
North Coast Area Health Service 61
North Coast Area Health Service Special Purpose Service Entity.......................... 66
Northern Rivers Catchment Management Authority ....Vol 4 2008
Northern Sydney and Central Coast Area Health Service... 67
Northern Sydney and Central Coast Area Health Service Special Purpose Service Entity... 72
NorthPower Energy Services Pty Limited ....Vol 4 2008
Nurses and Midwives Board ....Vol 5 2008

O

Olive Street Services Limited.........................Vol 2 2008
Ombudsman's Office...................................Vol 5 2008
Optical Dispensers Licensing Board..................Vol 5 2008
Optometrists Registration Board ....Vol 5 2008
Osteopaths Registration Board ....Vol 5 2008
Ovine Johne's Disease Transaction Based Contribution Scheme, NSW.......................Vol 5 2008

P

Pacific Industry Services Corporation Pty Limited.Vol 5 2008
Pacific Power (Subsidiary No 1) Pty Ltd............Vol 2 2008
Pacific Solar Pty Limited ....Vol 2 2008
Pacific Western Pty Limited ....Vol 4 2008
Parklands Foundation Limited........................Vol 5 2008
Parliamentary Contributory Superannuation Fund ....Vol 5 2008
Parramatta Park Trust ....Vol 5 2008
Parramatta Stadium Trust.............................Vol 2 2008
Parramatta Stadium Trust Division ....Vol 2 2008
Payments to other Government Bodies under the control of the Minister..Vol 5 2008
Performance Audit Reports Tabled in Parliament since Volume Four of 2008 135
Performance Audits in Progress 136
Performance Audits Otherwise Acquitted................137
Pharmacy Board of New South Wales......................145
Physiotherapists Registration Board ....Vol 5 2008
Planning, Department of ....Vol 5 2008
Planning, Minister for ....Vol 5 2008
Podiatrists Registration Board ....Vol 5 2008
Police Force, NSW ....Vol 5 2008
Police Integrity Commission ....Vol 5 2008
Police Integrity Commission, Office of the ....Vol 5 2008
Police Integrity Commission Division ....Vol 5 2008
Police, Minister for ....Vol 5 2008
Police, Ministry for ....Vol 4 2008
Port Kembla Port Corporation ....Vol 5 2008
Ports and Waterways, Minister for...................Vol 5 2008
Premier..Vol 5 2008

Premier and Cabinet, Department of .... Vol 5 2008
Primary Industries, Department of 117
Primary Industries, Minister for 115
Probiotic Health Pty Limited .... Vol 2 2008
Protective Commissioner and Public Guardian – Common Fund, Office of the .... Vol 1 2007
Protective Commissioner and Public Guardian, Office of the .... Vol 5 2008
Psychologists Registration Board .... Vol 5 2008
Public Transport Ticketing Corporation .... Vol 5 2008
Public Transport Ticketing Corporation Division .... Vol 5 2008
Public Trustee NSW .... Vol 5 2008

Q

Qualified Independent Audit Reports Issued .... Vol 5 2008
Qucor Pty Limited .... Vol 2 2008

R

Rail Corporation New South Wales .... Vol 4 2008
Rail Infrastructure Corporation .... Vol 4 2008
Rail Services Overview .... Vol 4 2008
Redfern and Waterloo, Minister for .... Vol 5 2008
Redfern-Waterloo Authority .... Vol 5 2008
Redfern Waterloo Authority, Office of the .... Vol 5 2008
Regional Land Management Corporation Pty Ltd . Vol 5 2008
Remarkspdf Pty Ltd .... Vol 2 2008
Rental Bond Board .... Vol 5 2008
Rental Housing Assistance Fund .... Vol 5 2008
Residual Business Management Corporation .... Vol 2 2008
Responsible Gambling Fund .... Vol 5 2008
Rice Marketing Board for the State of New South Wales .... Vol 5 2008
Riverina Citrus .... Vol 5 2008
Rivservices Limited .... Vol 2 2008
Roads, Minister for .... Vol 6 2008
Roads and Traffic Authority of New South Wales . Vol 6 2008
Roads and Traffic Authority Division .... Vol 6 2008
Rouse Hill Hamilton Collection Pty Limited .... Vol 5 2008
Royal Alexandra Hospital for Children 104
Royal Alexandra Hospital for Children Special Purpose Service Entity 109
Royal Botanic Gardens and Domain Trust .... Vol 5 2008
Rural Assistance Authority, New South Wales ..... Vol 6 2008
Rural Assistance Authority, Office of the .... Vol 6 2008
Rural Australia Foundation Limited .... Vol 2 2008
Rural Fire Service, NSW .... Vol 6 2008

S

SAS Trustee Corporation .... Vol 5 2008
SAS Trustee Corporation - Pooled Fund .... Vol 5 2008
SAS Trustee Corporation Division .... Vol 5 2008
Self Insurance Corporation, NSW .... Vol 5 2008
Services UNE Limited .... Vol 2 2008
Sesquicentenary of Responsible Government Trust Fund .... Vol 5 2008
SGSM Limited .... Vol 2 2008
Small Business, Minister for .... Vol 5 2008
Small Business Development Corporation of New South Wales .... Vol 5 2008
South Eastern Sydney and Illawarra Area Health Service 73
South Eastern Sydney and Illawarra Area Health Service Special Purpose Service Entity 78
Southern Cross University .... Vol 2 2008
Southern Rivers Catchment Management Authority .... Vol 4 2008
Sport and Recreation, Minister for 131
Sporting Injuries Committee .... Vol 5 2008
State and Regional Development, Department of Vol 5 2008
State Council of Rural Lands Protection Boards ... Vol 2 2007
State Council of Rural Lands Protection Boards Division .... Vol 2 2007
State Development, Minister for .... Vol 5 2008
State Emergency Service .... Vol 6 2008
State Library of New South Wales Foundation .... Vol 5 2008
State Property Authority .... Vol 5 2008
State Property Authority, Office of the .... Vol 5 2008
State Rail Authority Residual Holding Corporation .... Vol 5 2008
State Records Authority of New South Wales ...... Vol 5 2008
State Rescue Board .... Vol 6 2008
State Sports Centre Trust .... Vol 4 2008
State Sports Centre Trust Division .... Vol 4 2008
State Super Financial Services Australia Limited .. Vol 5 2008
State Transit Authority of New South Wales .... Vol 5 2008
State Transit Authority Division .... Vol 5 2008
State Water Corporation .... Vol 5 2008
Statement of the Budget Result .... Vol 3 2008
Superannuation Administration Corporation (trading as Pillar Administration) .... Vol 5 2008
Sydney 2009 World Masters Games Organising Committee .... Vol 5 2008
Sydney 2009 World Masters Games Organising Committee Division .... Vol 5 2008
Sydney 2009 World Masters Games Organising Committee Division, Office of the .... Vol 5 2008
Sydney Business School Pty Ltd .... Vol 2 2008
Sydney Catchment Authority .... Vol 5 2008
Sydney Catchment Authority Division .... Vol 5 2008
Sydney Cricket and Sports Ground Trust .... Vol 4 2008
Sydney Cricket and Sports Ground Trust Division .... Vol 4 2008
Sydney Desalination Plant Pty Limited .... Vol 5 2008
Sydney Educational Broadcasting Limited .... Vol 2 2008
Sydney Ferries Corporation .... Vol 5 2008
Sydney Graduate School of Management Limited . Vol 2 2008
Sydney Harbour Foreshore Authority .... Vol 5 2008
Sydney Harbour Foreshore Authority, Office of the .... Vol 5 2008
Sydney Harbour Foreshore Authority Casual Staff Division, ... Vol 5 2008
Sydney Institutes of Health and Medical Research, The .... Vol 2 2008
Sydney Metropolitan Catchment Management Authority .... Vol 4 2008
Sydney Olympic Park Authority .... Vol 5 2008
Sydney Olympic Park Authority, Office of the ..... Vol 5 2008
Sydney Olympic Park Authority Sydney Olympic Park Aquatic and Athletic Centres Division .... Vol 5 2008
Sydney Opera House Trust .... Vol 5 2008
Sydney Pilot Service Pty Ltd .... Vol 5 2008
Sydney Ports Corporation .... Vol 5 2008
Sydney South West Area Health Service 79
Sydney South West Area Health Service Special Purpose Service Entity 84
Sydney Water Corporation .... Vol 5 2008
Sydney West Area Health Service 85
Sydney West Area Health Service Special Purpose Service Entity 90
Sydney West International College Pty Limited ... Vol 2 2008

T

TCorp Nominees Pty Limited .... Vol 4 2008
Teacher Housing Authority of New South Wales ... Vol 5 2008
Technical and Further Education Commission, New South Wales .... Vol 4 2008
Technical and Further Education Commission Division, New South Wales .... Vol 4 2008
Technical Education Trust Funds .... Vol 2 2008
Television Sydney (TVS) Limited .... Vol 2 2008
TheraPPY Pty Limited .... Vol 2 2008
Total State Sector Accounts .... Vol 3 2008
Tourism, Minister for .... Vol 5 2008
TransGrid .... Vol 4 2008
Transport, Minister for .... Vol 5 2008
Transport, Ministry of .... Vol 5 2008
Transport Infrastructure Development Corporation .... Vol 4 2008
Transport Services Overview .... Vol 5 2008
Treasurer .... Vol 5 2008

Treasury, The .... Vol 5 2008
Treasury Corporation, New South Wales .... Vol 4 2008
Treasury Corporation Division .... Vol 4 2008
Trustees of the ANZAC Memorial Building .... Vol 2 2008
Trustees of the Farrer Memorial Research
Scholarship Fund .... Vol 2 2008
Trustees of the Museum of Applied Arts
and Sciences .... Vol 5 2008

U

U@MQ Limited .... Vol 2 2008
Ucom Eleven Pty Limited .... Vol 2 2008
Ucom Fifteen Pty Limited .... Vol 2 2008
Ucom Fourteen Pty Limited .... Vol 2 2008
Ucom Seven Pty Limited .... Vol 2 2008
Ucom Six Pty Limited .... Vol 2 2008
Ucom Sixteen Pty Limited .... Vol 2 2008
UNE Partnerships Pty Limited .... Vol 2 2008
UNE Vision Pty Ltd .... Vol 2 2008
Unilinc Limited .... Vol 2 2008
Uniprojects Pty Limited .... Vol 5 2008
United States Studies Centre Limited .... Vol 2 2008
Universities Admissions Centre (NSW & ACT)
Pty Limited .... Vol 5 2008
Universities Overview .... Vol 2 2008
University of New England .... Vol 2 2008
University of New England Professorial
Superannuation Fund .... Vol 2 2008
University of New England Sports Association .... Vol 2 2008
University of New South Wales Foundation .... Vol 2 2008
University of New South Wales .... Vol 2 2008
University of New South Wales Foundation
Limited .... Vol 2 2008
University of New South Wales International
House Limited .... Vol 2 2008
University of New South Wales Press Limited .... Vol 2 2008
University of Newcastle .... Vol 2 2008
University of Newcastle Research Associates
Limited, The .... Vol 2 2008
University of Sydney, The .... Vol 2 2008
University of Sydney Professorial Superannuation
System .... Vol 2 2008
University of Technology, Sydney .... Vol 2 2008
University of Western Sydney .... Vol 2 2008
University of Western Sydney Foundation
Limited .... Vol 2 2008
University of Western Sydney Foundation Trust .... Vol 2 2008
University of Wollongong .... Vol 2 2008
University of Wollongong Recreation and
Aquatic Centre Limited .... Vol 2 2008
UNSW & Study Abroad – Friends and US
Alumni, Inc. .... Vol 2 2008
UNSW (Thailand) Limited .... Vol 2 2008
UNSW Asia .... Vol 2 2008
UNSW Asia Foundation Limited .... Vol 2 2008
UNSW Asia School Limited .... Vol 2 2008
UNSW Global (Singapore) Pte Limited .... Vol 2 2008
UNSW Global Pty Limited .... Vol 2 2008
UNSW Hong Kong Foundation Limited .... Vol 2 2008
UNSW Hong Kong Limited .... Vol 2 2008
UON, Singapore Pte Ltd .... Vol 2 2008
UoN Foundation Ltd .... Vol 2 2008
UoN Services Limited .... Vol 2 2008
Upper Parramatta River Catchment Trust .... Vol 4 2008
Upper Parramatta River Catchment Trust
Division .... Vol 4 2008
UWS College Pty Limited .... Vol 2 2008
UWS Conference and Residential Colleges Limited Vol 2 2008
uwsconnect Limited .... Vol 2 2008

V

Valley Commerce Pty Limited .... Vol 5 2008
Veterinary Practitioners Board .... Vol 5 2008
Vocational Education and Training
Accreditation Board, NSW .... Vol 4 2008

W

Waste Recycling and Processing Corporation .... Vol 5 2007
Water and Energy, Department of .... Vol 5 2008
Water Industry Overview .... Vol 5 2008
Water, Minister for .... Vol 5 2008
Wentworth Annexe Limited .... Vol 2 2008
Wentworth Park Sporting Complex Trust .... Vol 4 2008
Western Catchment Management Authority .... Vol 4 2008
Western Research Institute .... Vol 2 2008
Western Sydney Buses Division .... Vol 5 2008
Western Sydney Parklands Trust .... Vol 5 2008
Whitlam Institute Within the University of
Western Sydney Limited .... Vol 2 2008
Whitlam Institute Within the University of
Western Sydney Trust .... Vol 2 2008
Wild Dog Destruction Board .... Vol 2 2008
Wild Dog Destruction Board Division .... Vol 2 2008
Wine Grapes Marketing Board .... Vol 2 2008
Wollongong Sportsground Trust .... Vol 5 2008
Wollongong Sportsground Trust Division .... Vol 5 2008
Wollongong UniCentre Limited .... Vol 2 2008
WorkCover Authority, Office of the .... Vol 6 2008
WorkCover Authority of New South Wales .... Vol 6 2008
Workers Compensation Commission of
New South Wales .... Vol 6 2008
Workers Compensation Nominal Insurer
(trading as The NSW WorkCover Scheme) 17
Workers' Compensation (Dust Diseases) Board .... Vol 5 2008
World Youth Day Co-ordination Authority .... Vol 5 2008
World Youth Day Co-ordination Authority,
Office of .... Vol 5 2008
Wyong Water Supply Authority .... Vol 5 2008

Y

Youth, Minister for .... Vol 5 2008

Z

Zoological Parks Board of New South Wales .... Vol 5 2008
Zoological Parks Board Division .... Vol 5 2008

AUDITOR-GENERAL'S REPORT
FINANCIAL AUDITS
Volume Two 2009

focusing on Universities

The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

Pursuant to the *Public Finance and Audit Act 1983,* I present Volume Two of my 2009 Report.

Peter Achterstraat
Auditor-General

Sydney
May 2009

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 four sections. One includes a Special Review and Section Two incorporates The Legislature.

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

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

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

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

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

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

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

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

Agency Activities 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.

Section Four refers to Performance Audits tabled or in progress at the time of this report.

Contents

Significant Items iii

SPECIAL REVIEW

Corporate Governance Arrangements in Large Government Agencies and Universities 3

SECTION TWO – The Legislature

Audit of Members' Additional Entitlements 11

SECTION THREE – Commentary on Government Agencies

Attorney General 17

  Office of the Protective Commissioner – Common Fund 19

Minister for Climate Change and the Environment 25

  Waste Recycling and Processing Corporation 27

Minister for Education and Training 31

  University Overview 33

  Universities:

  Charles Sturt University 53

  Macquarie University 59

  Southern Cross University 66

  The University of Sydney 69

  University of New England 76

  University of New South Wales 81

  University of Newcastle 91

  University of Technology, Sydney 95

  University of Western Sydney 100

  University of Wollongong 104

Minister for Primary Industries 113

Minister for Sport and Recreation 115

Premier 117

  State Plan 119

  World Youth Day Co-ordination Authority 120

SECTION FOUR – Performance Auditing

Performance Audit Reports Tabled in Parliament since Volume One of 2009 125

Performance Audits in Progress 127

APPENDICES

Appendix 1 – Agencies not reported elsewhere in this Volume.. 131
Appendix 2 - Financial Reports not received by Statutory Date (as at 5 May 2009) 132
Appendix 3 - Financial Reports received but Audit Incomplete
by Statutory Date (as at 5 May 2009) 133

INDEX...137

Significant Items

	Page
Corporate Governance Arrangements in Large Government Agencies and Universities	
Our survey of large New South Wales Government agencies' and universities' key corporate governance arrangements identified gaps in: ▪ key stakeholder communication ▪ continuous disclosure of performance ▪ management sign-offs on the adequacy of internal controls ▪ managing compliance with laws and Government directions ▪ fraud control.	3
Audit of Members' Additional Entitlements	
The Legislature did not have any formal process to monitor and ensure members' loyalty or incentive scheme accounts are used for Parliamentary purposes only.	11
Electoral Mail Account (EMA) entitlement spending is mostly concentrated at the end of each financial year. In 2008, 46 per cent of EMA expenditure was spent in June.	12
Office of the Protective Commissioner – Common Fund	
Control weaknesses relating to the payment of client expenses were identified in 2007 and considerably delayed finalising the audit. While most recommendations to address these weaknesses have been implemented, some actions are incomplete and corrective action is continuing.	19
University Overview	
The combined universities incurred an operating loss of $65.7 million compared to a surplus of $388 million in 2007, largely as a result of the global financial crisis and volatility in financial markets. The 2008 losses include unrealised investment losses of $407 million and a reduction in investment income of $88.4 million.	34
Unfunded superannuation liabilities increased by $1.8 billion to $3.1 billion. These liabilities are to be funded by the Australian Government, but there are no funding agreements with the universities.	35
Overseas students now represent 19.7 per cent of all enrolled students. Revenue from these students is 48.4 per cent of total student revenue indicating increased reliance by universities on this source of revenue.	40
Excessive annual leave balances for academic staff are increasing, indicating universities need to manage academic leave more effectively to minimise costs and Occupational Health and Safety implications.	43
Universities control 125 separate entities increasing compliance costs and governance risks.	45
Two universities have yet to implement asset management plans to ensure the construction and procurement of assets is planned and managed effectively.	47
Backlog maintenance for all universities is estimated at $983 million.	48

Capital works expenditure across all universities totalled $794 million in 2008 and $1.7 billion is projected to 2010. Under the current economic conditions, universities will need to continuously review and carefully manage these projects to ensure adequate funding/cashflows are available.	48
Macquarie University	
The University's corporate structure is large and complex and should be reviewed to ensure it is in line with the University's strategy.	59
The University of Sydney	
The University incurred an operating loss of $160 million for 2008 compared to a surplus of $187 million in 2007, largely as a result of the global financial crisis and volatility in financial markets.	69
The value of the University's investments fell by 23 per cent or $271 million from $1.15 billion to $884 million at 31 December 2008.	69
It has been over ten years since the University conducted a comprehensive valuation of the collection assets in the Nicholson and Macleay Museum.	70
Annual Leave balances for 1,501 academic and general staff (22 per cent of all staff) exceed the maximum allowed threshold.	71
The University is still determining the full financial impact of employer superannuation underpayments and the individuals affected.	71
University of New South Wales	
The University lost $6.3 million because it did not hedge all its foreign currency exposures.	81
Despite an increase in total revenue, the University has incurred an operating loss of $87.3 million for 2008 compared to a loss of $6.5 million in 2007. This was largely as a result of the global financial crisis, volatility in financial markets and additional depreciation expenses. Included were unrealised investment losses of $91.0 million.	82
Superannuation liabilities requiring funding by the University increased by $45.4 million to $58.3 million.	83
Annual leave balances for 683 staff (13.5 per cent of all staff) exceed the maximum allowed threshold.	84
The complexity of the University group structure continues to pose significant challenges. There were 29 controlled entities at 31 December 2008. Management has commenced voluntary liquidation on four of these entities.	85
Disciplinary action was taken against a staff member following a six year investigation into matters relating to Co-operative Research Centre for Eye Research and Technology.	86
University of Technology, Sydney	
The sale of the its Ku-ring-gai campus was suspended because the New South Wales Government has claimed an interest in the property.	95
The University's operating result benefited from the timely movement of its investments into cash which significantly minimised the impact of the current global financial crisis on its operating result.	96

Section One

Special Review

Corporate Governance Arrangements in Large Government Agencies and Universities

Corporate Governance Arrangements in Large Government Agencies and Universities (17 Components of Corporate Governance)

During 2008, I conducted a survey on whether 17 key corporate governance components exist in large New South Wales Government agencies and universities. The areas surveyed are detailed on the following pages and were based on the ASX 'Corporate Governance Principles and Recommendations', the Audit Office of New South Wales 'On Board' and the Australian National Audit Office 'Public Sector Governance - Better Practice Guide'.

Corporations that are governed well outperform others.[1] Corporate governance largely focuses on high level systems and processes that direct and control organisations. In simple terms it is the management of management. Good governance improves outcomes and boosts confidence by improving performance and transparency.

I surveyed 50 large New South Wales Government agencies and all ten New South Wales universities. I received 44 responses from agencies and ten from universities. The findings in this report are based on those responses.

CONCLUSION

I found most agencies and universities surveyed have many of the 17 key governance components. There were gaps in:

- key stakeholder communication
- continuous disclosure of performance
- management sign-offs on the adequacy of internal controls
- managing compliance with laws and Government directions
- fraud control.

KEY FINDINGS

Of the agencies and universities I surveyed:

- all had strategic and business plans, with most regularly reporting performance against plans internally
- all agency boards reported having a majority of independent members with appropriate levels of competence and experience. All university councils reported having a majority of independent members, but one reported not having enough legal experience on the council
- all had audit committees and internal audit functions
- all had appropriate CEO or CFO financial report sign-offs
- one agency reported not having a risk management program
- four agencies and two universities did not publish their annual reports on time.

[1] Brown, R. and Gorgens, T. March 2009, *Corporate Governance and Financial Performance in an Australian Context, Australian Government Treasury Working Paper 2009-02*

However, agencies and universities reported only partial or no policies or processes for:

- continuous disclosure of their performance – only three agencies and one university reported adequate practice
- management sign-offs on the adequacy of internal controls – only 15, or one in three agencies, and five universities reported adequate practice
- managing compliance with relevant laws and Government directions – only 24 agencies and three universities reported adequate practice
- managing key stakeholder communications only 27 agencies and seven universities reported adequate practice
- fraud and corruption control – only 30 agencies and eight universities reported adequate practice.

A more detailed summary of the results follows in Detailed Findings.

RECOMMENDATIONS

I recommend large government agencies and universities:

- ensure they have policies to support key stakeholder communication
- develop continuous disclosure policies to provide regular performance information to the public
- implement regular management sign-offs on the adequacy of their internal controls
- establish systems to gain assurance they are meeting relevant laws and Government directions
- ensure they have appropriate fraud and corruption policies and practices.

AREAS SURVEYED

The key areas I surveyed were:

Foundations for management and oversight - (accountability and leadership)

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

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

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

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

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

Integrity in financial reporting - (stewardship)

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

Disclosure - (integrity and transparency/openness)

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

Key stakeholder management - (transparency/openness)

14. Key stakeholder communication plan exists.

Risk management - (accountability)

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

Remuneration - only agencies with Boards - (accountability)

17. Board remuneration committee exists.

DETAILED FINDINGS

Compliance with the 17 Components of Corporate Governance

Governance Component	Universities (10 respondents)			Large Agencies - With a Board (20 respondents)			Large Agencies - Without a Board (24 respondents)		
	Yes	No	Partial	Yes	No	Partial	Yes	No	Partial
Management and Oversight									
1. Strategic and business plans	10	--	--	20	--	--	24	--	--
2. Reporting against plans	9	--	1	15	1	4	16	1	7
3. Executive performance	8	1	1	18	1	1	23	--	1
Board Structure									
4. Independent members	10	--	--	20	--	--	na	na	na
5. Experience and competence	10	--	--	19	--	1	na	na	na
Ethical Decision-making									
6. Code of Conduct	10	--	--	19	--	1	23	--	1
7. Fraud and Corruption Control	8	1	1	16	1	3	14	2	8
8. Compliance Management	3	2	5	13	2	5	11	4	9
Financial Reporting									
9. Audit and Risk Committee	10	--	--	20	--	--	24	--	--
10. Internal and External Audit	10	--	--	20	--	--	24	--	--
11. CEO and CFO sign-off	10	--	--	20	--	--	24	--	--
Disclosure									
12. Annual Report	8	2	--	20	--	--	20	4	--
13. Continuous Disclosure	1	7	2	1	15	4	2	19	3
Key Stakeholder Management									
14. Communication Plan	7	1	2	14	2	4	13	3	8
Risk Management									
15. Risk Management Program	9	--	1	20	--	--	15	1	8
16. Internal Control Sign-off	5	1	4	4	--	16	11	--	13
Remuneration									
17. Remuneration Committee	9	--	1	20*	--	--	na	na	na

* seven of these agencies do not require board remuneration committees so they have been included as compliant.
na not applicable.

BACKGROUND

Corporate governance is a relatively new term for what has been around for a long time. It is the high-level direction and control of organisations. A well governed organisation is clear about its purpose, decision-making and appropriate behaviour.

Good governance is those high-level processes and behaviours that ensure an agency **performs** by achieving its intended purpose, and **conforms** by complying with all relevant laws, codes and directions and community expectations of probity, accountability and transparency.

Governance should be enduring, not just something done from time to time.

At the core of good governance is 'doing the right thing' by acting with honesty, impartiality, integrity, trustworthiness, respect for the law and due process. A commitment to ethical values is fundamental.

Governance includes processes and structures that:

- set direction
- manage risk
- ensure compliance with laws, ethical standards and government directions
- manage key stakeholder relationships
- monitor and report performance.

Generally, corporate governance has improved in the public and private sectors, since the very public corporate collapses of the late 1990's and early this decade. However, we still have a way to go.

Public sector governance

At the core of public sector governance is accountability, transparency, integrity, stewardship and leadership.

The governance structures and processes for public sector agencies will vary depending on the entity's nature, size and laws such as its enabling legislation. For example, not all of the 17 components of governance I examined are applicable to every organisation. Three components relate to Boards and are not applicable to many government agencies. They concern Board member independence, experience, competence, and remuneration.

A key issue is whether a component is implemented effectively. For example, the fact that a code of conduct exists is not in itself sufficient. The code must be up-to-date and needs to be 'owned' by all staff in the organisation. Similarly the fact that risk management exists is not by itself sufficient as it needs to be linked to corporate planning and be an ongoing process.

Continuous disclosure

The continuous disclosure component in the survey generated a lot of discussion among CEOs. Some CEOs have suggested that continuous disclosure is purely a private sector concept and has no place in the public sector. Others are of the view that continuous disclosure is different in the public sector. I welcome this debate.

Continuous disclosure in listed companies is about keeping the market informed of events and developments that a reasonable person would expect to have a material effect on the value of a company's securities. The equivalent in the public sector would be a State Owned Corporation keeping the shareholder ministers advised of such events.

At the very least, all government agencies should regularly keep the public aware of the ongoing performance against its key performance indicators. Importantly, the public expects to be kept fully informed on how well their taxes are being spent.

THE WAY AHEAD

In 2009 and 2010 I intend to look more closely at the design and operation of some of the key governance components in large New South Wales Government agencies and universities.

Section Two

The Legislature

Audit of Members' Additional Entitlements

Audit of Members' Additional Entitlements

AUDIT OPINION

Members substantially complied with the requirements of the Parliamentary Remuneration Tribunal's (PRT) Determination for the year ended 30 June 2008.

KEY ISSUES

Loyalty and Incentive Scheme Points

We recommend the Legislature introduce a formal process that requires members to certify that Frequent Flyer Benefits are used for Parliamentary purposes only and do not accrue to members for personal use. The process should incorporate the current requirements of the PRT Determination.

The PRT Determination provides for members' travelling expenses for Parliamentary duties through the 'Electorate Charter Transport Allowance', 'Electorate to Sydney Travel Allowance' and the 'Travelling Allowance for Recognised Office Holders'. The Determination provides that:

> Benefits accrued by a Member by way of loyalty/incentive schemes such as frequent flyers, as a consequence of the Member using his or her additional entitlements, are to be used only for Parliamentary duties and not for private purposes. Any outstanding benefits of this nature, when the Member ceases to be a Member, are to be forfeited.

Compliance with the Determination was not monitored. This increases the risk that points accruing to members' loyalty or incentive scheme accounts may be used inappropriately.

Sydney Allowance

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

Timely reconciliation of members' annual entitlements improved significantly this year, with only one member returning the annual reconciliation late.

Year ended 30 June	Legislative Assembly			Legislative Council		
	2008	2007	2006	2008	2007	2006
Members receiving entitlement on an annual basis	***22***	25	21	***7***	7	7
Members' reconciliations submitted on time	***21***	21	14	***7***	4	1

Source: The Legislature.

OTHER INFORMATION

Review of the Management of Members' Entitlements

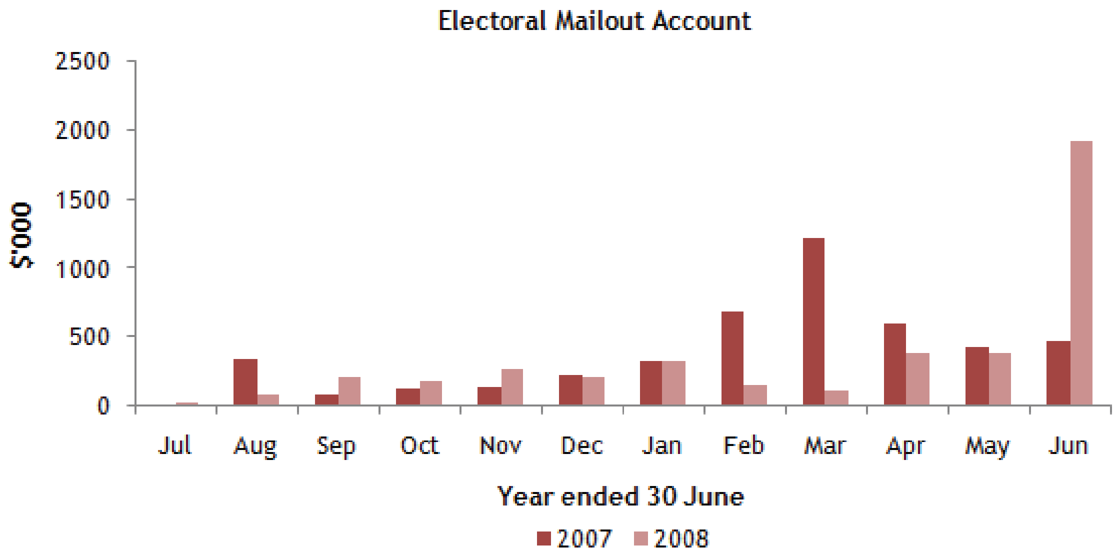
During the year the Parliament engaged a consultant to conduct a review of the management of members' additional entitlements. The review made a number of recommendations to help simplify and streamline existing administrative practices and procedures to reduce the administrative burden on both members and parliamentary staff. The review recommendations have been approved by the Parliament's Presiding Officers and will take effect from 1 July 2009.

Electorate Mailout Account (EMA)

We recommend that members should ensure their EMA entitlement spending is better planned and not concentrated at the end of each financial year.

Members of the Legislative Assembly are provided with an annual amount to fund the cost of preparing and distributing newsletters to their electorate twice each year.

While we recognise that it is a matter for a Member to determine when the allowance is used, the graph below indicates Members spent their EMA allowance more in the last quarter of the financial year (46 per cent was spent in June). This may be partly due to members communicating with their constituents the details of the budget announced in late May or early June each year. The increase in March 2007 coincided with the date of the last election. The increase in June 2008 may reflect the fact that unspent entitlements cannot be carried from one financial year to another. An inference can be drawn that current expenditure pattern could give the impression of lack of forward planning into the timing of EMA expenditure.



Members spent $4.1 million ($4.5 million in 2007) of the total available allocation of $5.8 million ($5.7 million).

The Role of the PRT

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

These additional entitlements fall into two categories:

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

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

The additional entitlements determined by the PRT are separate to:

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

Section Three

Commentary on Government Agencies

Attorney General

Office of the Protective Commissioner - Common Fund

Office of the Protective Commissioner - Common Fund

AUDIT OPINION

The audit of the Office of the Protective Commissioner - Common Fund's financial report for the year ended 30 June 2007 resulted in an unqualified Independent Auditor's Report.

Considerable delay occurred in finalising this audit due to the control deficiencies discussed below.

KEY ISSUES

Control Deficiencies

> We recommend the Office of the Protective Commissioner (the Office) continues to take corrective action to fully address control deficiencies in the payment of client expenses.

Serious control weaknesses relating to the payment of client expenses were identified in 2007, which increased the risk of fraudulent or otherwise invalid payments being processed. The weaknesses included inappropriate segregation of duties, ineffective client budgets, insufficient access controls within the Office's Client Information System (CIS) and inadequate policies and procedures over the processing of client payments.

The Office's internal audit function made numerous recommendations to address the control weaknesses, but due to the nature of some of these weaknesses, the recommendations required a lengthy implementation period.

While the Office has made significant progress in implementing the recommendations, we note that some actions are still incomplete or have only been partially completed. In our view it is essential that the Office fully implement these recommendations.

The control deficiencies required us to perform additional audit testing over the validity of the payment of client expenses. No fraudulent or invalid payments were identified.

PERFORMANCE INFORMATION

The management of client investment funds is outsourced to a private sector custodian and fund manager. The funds are invested on an index basis and benchmarked to financial market indices as detailed below.

Investment Fund	Benchmark	30 June 07 Total client funds %	2006-07 Benchmark Return* %	2006-07 Fund Return* %	30 June 06 Total client funds %	2005-06 Fund Return* %
Access	UBS Australian 90 day Bank Bill Index	***28***	***5.92***	***5.96***	31	5.57
Australian Cash	UBS Australian 90 day Bank Bill Index	***12***	***5.92***	***6.00***	13	5.51
Australian Cash Plus	UBS Australian 0-3 year Composite Bond Index	***8***	***5.01***	***4.99***	9	4.54
Australian Fixed Interest	UBS Australian All Maturities Composite Bond Index	***5***	***3.49***	***3.48***	6	3.15
Australian Shares	S&P/ASX 200 Accumulation Index	***28***	***28.16***	***28.00***	24	23.30
Australian Listed Property Securities Fund	S&P/ASX 200 Listed Property Trust Accumulation Index	***6***	***25.37***	***24.89***	5	17.50
International Bonds	JP Morgan Global Bond (ex-Australia) Index	***1***	***4.71***	***4.45***	1	0.85
International Shares	MSCI World (ex-Australia) Index	***12***	***7.27***	***7.24***	11	19.44

Source: Office of the Protective Commissioner.
* Net of fees.

The funds performed in line with their benchmark in 2007 with investments earning total revenue of $173 million ($140 million in 2005-06) of which $36.5 million ($56.1 million) was unrealised at 30 June 2007. In particular the earnings reflect the favourable performance in local shares and listed property at that time.

Investment performance subsequent to 30 June 2007 has varied considerably. The impact of the global financial crisis has reduced investment returns and investment asset values. At 31 January 2009, the Fund's investments had fallen in value by $197 million (unaudited) or 14.7 per cent from $1.3 billion at 30 June 2007.

OTHER INFORMATION

We identified opportunities for improvement to accounting and internal control procedures and have reported them to management. The more significant recommendations include:

- establishing a policy on the documentation required to support client payments
- improving the Office's Client Information System so that relevant accounting and management reports can be efficiently produced.

Merger of the Office with the Public Trustee

The Government announced on 11 November 2008 the merger of the Office with the Public Trustee in the '2008-09 Mini-Budget'. While it is anticipated that the merger will take effect from 1 July 2009, legislation is yet to be introduced to New South Wales Parliament.

Independent Pricing and Regulatory Tribunal (IPART) review of Fees of the Office

During 2008, IPART reviewed the fees charged by the Office. It made a number of recommendations about fee levels, which were accepted by the NSW Government, including:

- that the four per cent annual income fee for privately managed clients be capped at $2,000 from 1 April 2009
- that the annual cap on the management fee for directly managed clients be lowered from $50,000 to $15,000 from 1 July 2009
- that the cap on the establishment fee be increased from $2,200 to $3,300 from 1 July 2009
- that the fee for account keeping be increased from $100 to $200 or $300 for complex clients from 1 July 2009.

The full report is available on the IPART website at www.ipart.nsw.gov.au

FINANCIAL INFORMATION

As directed by the Treasurer, the Office prepares a general-purpose financial report for the Common Fund.

Abridged Income Statement

Year ended 30 June	2007 $'000	2006 $'000
Investment income	***136,277***	84,050
Unrealised gains	***36,451***	56,140
TOTAL REVENUE	***172,728***	140,190
Management Fees	***22,478***	19,313
Other expenses	***1,131***	362
TOTAL EXPENDITURE	***23,609***	19,674
SURPLUS	***149,119***	120,516
Distributions to clients	***112,540***	64,352
CHANGES IN NET ASSETS ATTRIBUTABLE TO CLIENTS*	***36,579***	56,164

* Includes unrealised gains of $36.5 million ($56.1 million) not distributed to clients.

Total revenue increased by $32.5 million largely due to a $41.4 million increase in dividend and distribution income. The increase was partly offset by a decrease in unrealised gains of $19.7 million.

Distributions to clients paid, payable and re-invested during the year amounted to $113 million ($64.4 million). The increase reflected investment market performance in this period, especially in relation to the Australian Share Fund.

Abridged Balance Sheet

At 30 June	2007 $'000	2006 $'000
Cash assets	***34,376***	36,775
Receivables	***68,110***	24,478
Investments	***1,339,508***	1,323,996
TOTAL ASSETS	***1,441,994***	1,385,249
Payables	***875***	698
Other liabilities	***2,470***	2,267
TOTAL LIABILITIES	***3,345***	2,965
NET ASSETS	***1,438,649***	1,382,284

The increase in receivables of $43.6 million is largely due to an increase in accrued income of $43.7 million. This also reflects the investment market performance in the period.

OFFICE ACTIVITIES

Comment on the Office of the Protective Commissioner and Public Guardian was included in Volume 5 of the 2008 Report to Parliament.

The Common Fund consists of funds received by the Protective Commissioner from the estates of protected persons. The *Protected Estates Act 1983* outlines how the Protective Commissioner should manage the estates of protected persons. The main principles for all current accounts in the trust fund (Common Fund) are:

- the funds are to be invested in accordance with the *Trustee Act 1925*
- to maintain one or more investment funds and a reserve fund
- money in an investment fund may be used to purchase investments, make payments to the reserve fund, make payments for the operation of the Office or make periodic payments to clients' accounts
- any income from an investment fund is to be divided equally amongst clients' accounts
- any capital profit or loss is to be divided equally amongst clients' accounts.

For further information on the Office of the Protective Commissioner and the Office of the Public Guardian, see www.lawlink.nsw.gov.au/opc and www.lawlink.nsw.gov.au/opg respectively.

Minister for Climate Change and the Environment

Waste Recycling and Processing Corporation

Refer to Appendix 1 for:

Jenolan Caves Reserve Trust

Wild Dog Destruction Board

Waste Recycling and Processing Corporation (WSN Environmental Solutions)

AUDIT OPINION

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

KEY ISSUES

Proposed Sale

In November 2008 the New South Wales Government announced a review of the strategic ownership of the Corporation. In February 2009, the Treasurer appointed specialist financial, accounting, tax and legal advisers to prepare detailed transaction strategies for the proposed sale of the Corporation. The Government will decide on how to proceed when it receives the result of these reviews over the next few months.

Valuation of Assets and Liabilities

> We recommend the Corporation continues to apply sound recognition criteria and measurement bases for determining property asset values and liabilities for rehabilitation of landfill sites.

The Corporation's property valuations of $311 million ($254 million in 2007) and liabilities for rehabilitation of landfill sites of $41.0 million ($39.0 million) include major estimates. The recognition criteria and the estimation methodologies significantly impact the amounts determined for financial reporting. The Government's intention to sell the Corporation heightens the need for accuracy when determining these estimates.

Efficiency of the Performance of the Corporation (Repeat Issue)

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

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

PERFORMANCE INFORMATION

Financial Performance

Year ended 30 June	Target*	Actual	
	2008	2008	2007
Profit before interest and tax ($m)	***18.6***	***28.6***	19.3
Return on equity (%) (a)	***7.5***	***9.7***	7.9
Return on assets (%) (b)	***6.3***	***8.1***	6.3
Total distributions to government ($m) (c)	***12.0***	***12.5***	5.0

* As agreed with shareholding Ministers in the Statement of Corporate Intent.
(a) profit after tax divided by average equity.
(b) profit before interest and tax divided by average assets.
(c) comprises budgeted dividend and income tax equivalent.

Receipt of $13.0 million from Landcom contributed to the improved results for 2008. The receipt was for consenting to cease putrescible waste processing at the Jacks Gully landfill site. This improvement was partially offset by increased rehabilitation provision expense of $5.4 million due to new licensing standards.

OTHER INFORMATION

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

FINANCIAL INFORMATION

Abridged Income Statement

Year Ended 30 June	2008 $'000	2007 $'000
TOTAL REVENUE	***247,059***	204,127
PROFIT BEFORE BORROWING COSTS, DEPRECIATION AND TAX	***48,234***	36,618
Borrowing costs	***3,494***	6,313
Depreciation	***19,655***	17,354
PROFIT BEFORE TAX	***25,085***	12,951
Income tax equivalent	***5,684***	160
PROFIT AFTER TAX	***19,401***	12,791

Total revenue includes $231 million received from waste charges ($196 million in 2006-07). The increase of $35.0 million was mainly due to increased charges and waste tonnages processed from council and commercial customers.

Expenditure for the year amounted to $218 million ($184 million). The increase was mainly due to:

- a contribution of $15.0 million to the Environment Protection Authority resulting from the $8.20 per tonne rise in the waste and environment levy from 2008
- the provision for rehabilitation increasing by $5.6 million due to improved estimation
- a $5.5 million increase in payroll costs due to higher staff numbers and award increases.

Borrowing costs decreased by $2.8 million due to the timing of repayments and lower average levels of borrowings throughout the year.

Abridged Balance Sheet

At 30 June	2008 $'000	2007 $'000
Current assets	***51,517***	60,171
Non-current assets	***327,621***	267,043
TOTAL ASSETS	***379,138***	327,214
Current liabilities	***74,378***	71,381
Non-current liabilities	***102,243***	59,858
TOTAL LIABILITIES	***176,621***	131,239
NET ASSETS	***202,517***	195,975

The increase in non-current assets is attributable to acquisition of property, plant and equipment of $86.2 million and goodwill of $3.0 million.

Non-current liabilities increased by $42.4 million largely due to an increase in borrowings during the latter half of the year.

Liabilities included $40.8 million set aside as a provision for the rehabilitation of landfill sites ($38.6 million). Payments from the provision were $4.8 million.

In 2008, the Corporation reassessed its provision for rehabilitation of its landfill sites and corrected a number of errors in its past computation. The principal adjustment related to the reclassification of components of the rehabilitation provision that had the nature of new assets or improvements to existing asset values. The provision as at 30 June 2007 was adjusted from $18.8 million to $38.6 million with a corresponding increase in the value of land assets of $16.4 million and plant and equipment of $3.0 million.

CORPORATION ACTIVITIES

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

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

Minister for Education and Training

Universities Overview

Universities:

Charles Sturt University

Macquarie University

Southern Cross University

The University of Sydney

University of New England

University of New South Wales

University of Newcastle

University of Technology, Sydney

University of Western Sydney

University of Wollongong

Refer to Appendix 1 for:

Technical Education Trust Funds

UNILINC Limited

Universities Overview

There are ten universities established under State legislation providing higher education in New South Wales:

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

AUDIT OPINION

The audits of all ten universities' 2008 financial reports resulted in unqualified Independent Auditor's Reports (IAR). The universities had 125 controlled entities at 31 December 2008 and a summary of the status of the audits of their financial reports follows:

University	Number of Controlled Entities	Unqualified IAR	Qualified IAR	Audit Incomplete
Charles Sturt	*6*	5	1	--
Macquarie	*30*	8	--	22
Southern Cross	*3*	3	--	--
Sydney	*10*	9	--	1
New England	*6*	5	1	--
New South Wales	*29*	25	1	3
Newcastle	*9*	8	1	--
Technology, Sydney	*6*	5	--	1
Western Sydney	*14*	12	2	--
Wollongong	*12*	8	--	4
Total	***125***	**88**	**6**	**31**

KEY ISSUES

Impact of the global financial crisis

The global financial crisis and volatility in financial markets has the potential to significantly impact universities' operations and may result in:

- borrowings being required to fund operating and capital expenditure
- deferral or significant changes to the scope of capital works programs
- reduced spending on research grants, scholarships and prizes.

The value of the universities' investments fell from $2.1 billion at 31 December 2007 to $1.6 billion at 31 December 2008. Most universities advised they do not believe the fall in value will impact their operations or capital works programs, except for The University of Sydney which advised that it may result in the deferral of some capital works programs.

Despite an increase in total revenue, the universities incurred a combined operating loss of $65.7 million compared to a surplus of $388 million in 2007. This was largely as a result of the global financial crisis and volatility in financial markets. The operating result was impacted by the need to:

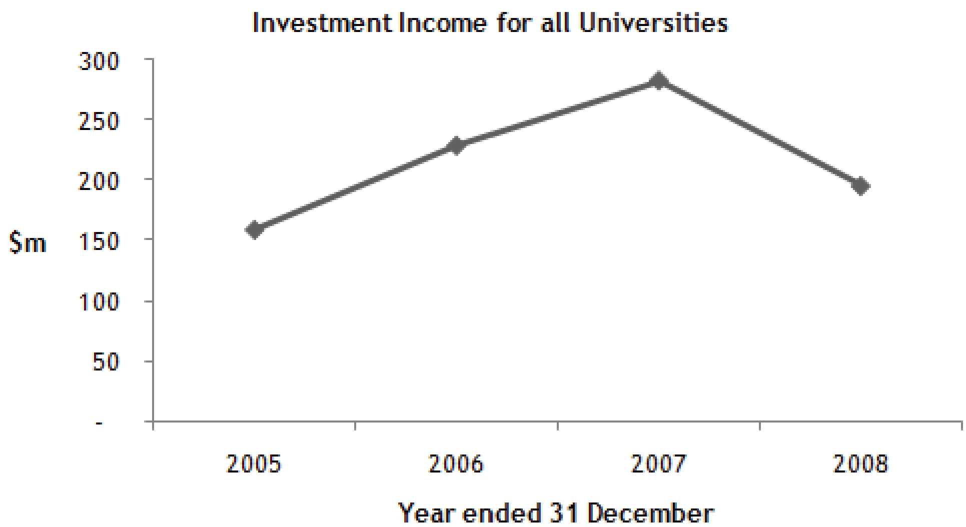
- expense unrealised investment losses of $407 million
- expense losses of $42.6 million realised on the sale of investments during the year
- recognise a fall of $88.4 million in investment income earned during the year.

Details for each university were:

Year ended 31 December 2008	CSU $m	MU $m	SCU $m	TUS $m	UNE $m	UNSW $m	UN $m	UTS $m	UWS $m	UW $m	TOTAL $m
Unrealised investment(losses)	*(26)*	*(17)*	--	*(211)*	*(2)*	*(91)*	*(29)*	--	*(7)*	*(24)*	*(407)*
Realised gains/(losses) on sale of investments	*(1)*	*4*	--	*(45)*	--	--	--	--	--	--	*(42)*
Increase/(decrease) in investment income earned	*2*	*1*	*2*	*(75)*	--	*(19)*	*(4)*	*4*	*1*	--	*(88)*
Surplus/(deficit) for the year	*34*	*26*	*14*	*(160)*	*7*	*(87)*	--	*57*	*37*	*6*	*(66)*
Value of cash and investments at year end	*138*	*231*	*67*	*879*	*49*	*381*	*131*	*176*	*89*	*180*	*2,321*

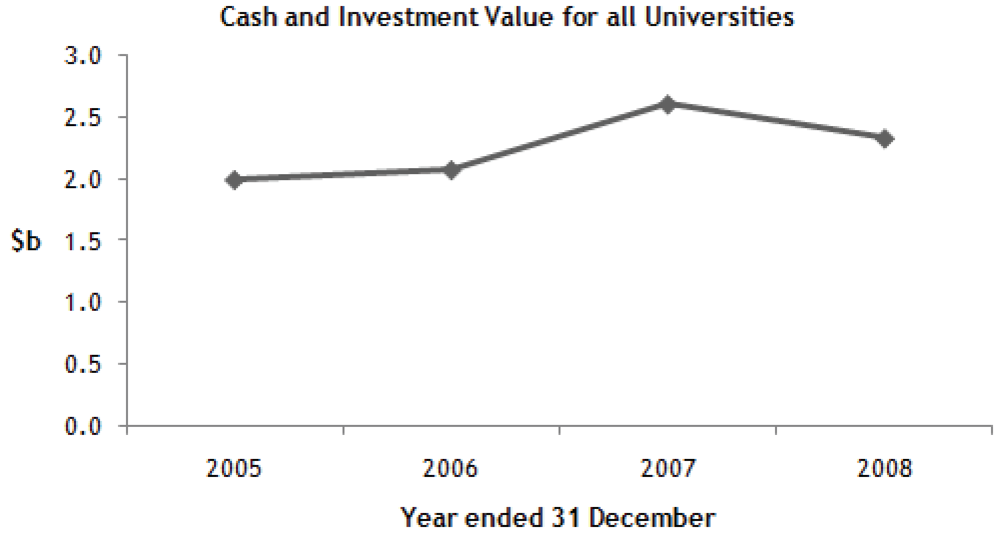
Movement in Cash and Investments

The following graph demonstrates the movement in the value of all universities' cash and investments over the last four years.



Investment Income

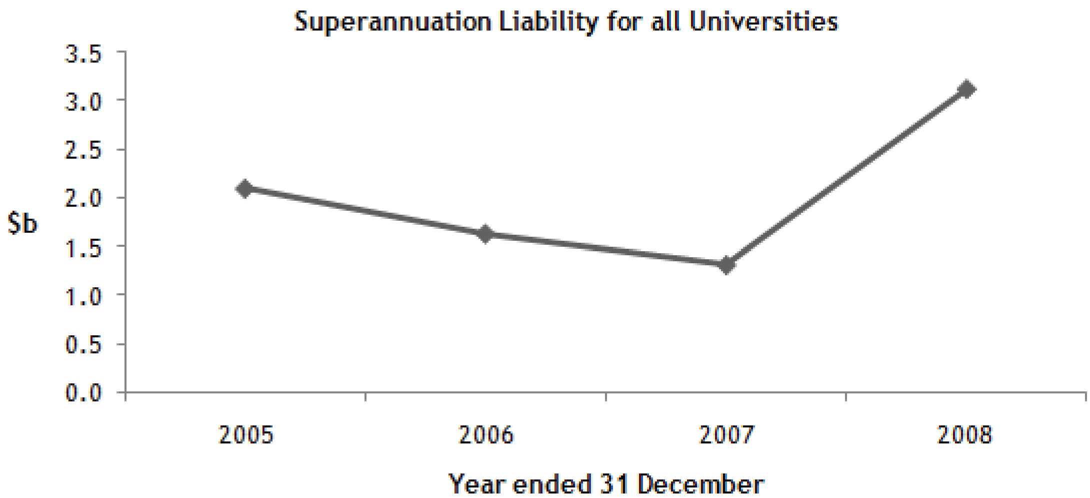
The global financial crisis contributed to significant reductions in investment income in 2008. Nevertheless most do not believe the reduction in investment income will impact their operations or capital works programs.



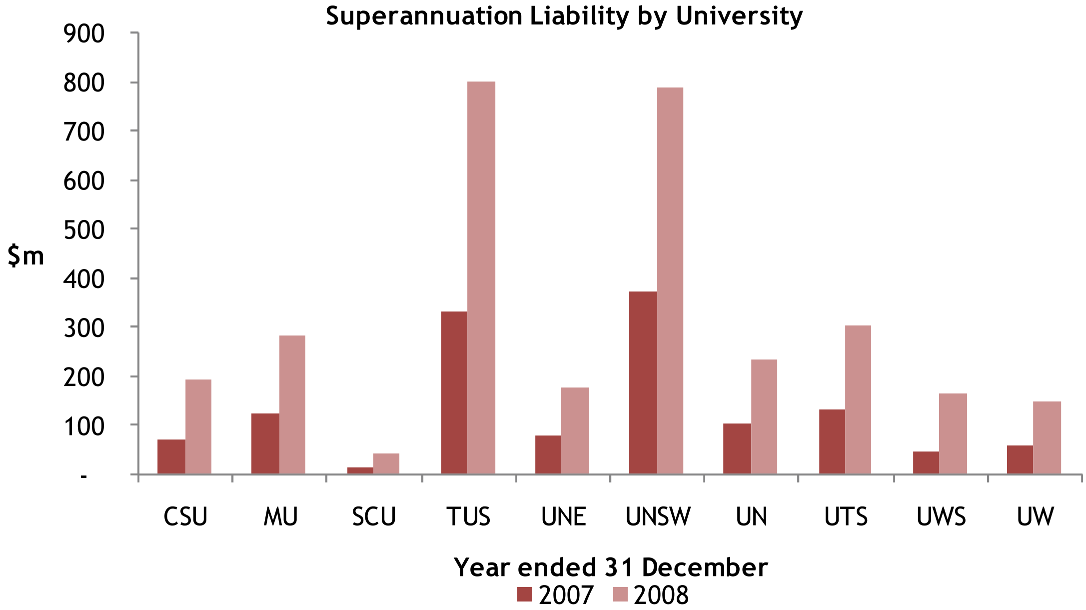
Superannuation Liabilities

We recommend universities' Vice Chancellors approach the Australian Government to negotiate a funding agreement to meet staff superannuation obligations.

Another significant impact of the global financial crisis has been on superannuation investment earnings and benefit valuations. Liabilities for defined benefit superannuation schemes across all universities increased from $1.3 billion in 2007 to $3.1 billion in 2008:



At 31 December 2008, 50.8 per cent (53.3 per cent in 2007) of the superannuation liability was attributable to the University of New South Wales and The University of Sydney:

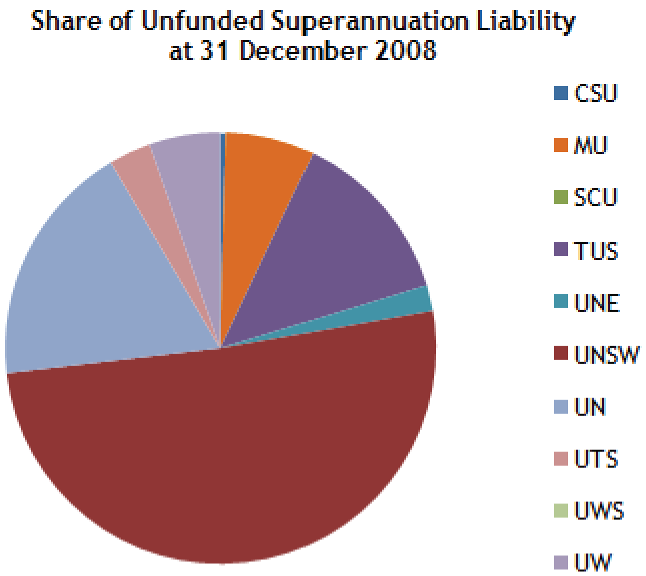


Although there is no formal funding agreement, the Australian Government funds the majority of these liabilities which minimises the impact on the respective universities' operating results. The aging work force together with increased unfunded superannuation liabilities will require increasing superannuation payments by the superannuation schemes. Universities may therefore need higher levels of funding from the Australian Government to meet their obligations to these schemes.

Superannuation Liabilities Not Funded by the Australian Government

The total superannuation liability not funded by the Australian Government, for all universities, at 31 December 2008 was $176 million ($117 million). All universities, particularly those with the greatest unfunded liabilities, will need to ensure they have the ability to generate sufficient future cash flows to meet these obligations.

As shown below, 50.1 per cent of this liability (43.8 per cent) is attributable to the University of New South Wales (commented on later in this Volume) and 18.4 per cent (22.2 per cent) of the liability is attributable to the University of Newcastle.



PERFORMANCE INFORMATION

Financial Performance

The Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) has identified benchmark indicators for the financial performance of universities. These measures include liquidity, diversity of revenue, employee benefits and on-costs, and operating result.

Six (six in 2007) of the State's ten universities meet the four Australian benchmarks for university financial performance.

The liquidity of two universities (three) is below the benchmark range. Seven universities (nine) recorded operating profits. Two universities (one) relied on Australian Government funding for more than 50 per cent of operating revenue, and all achieved the benchmark for employee benefits and on-costs.

The following table summarises each university's performance against these benchmarks at 31 December 2008.

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

* DEEWR records the essence of good practice is to have a reasonable safely margin that should be positive other than in exceptional years. Due to the global financial crisis 2008 could be considered to be an exceptional year and therefore the University would have achieved this benchmark.

A 'No' result indicates the university did not meet the DEEWR benchmark and is performing outside the general better practice guidelines. These are discussed in further detail below.

The criteria and calculations of these benchmarks are presented in the aggregated tables on pages 50 to 52 of this overview.

Liquidity

For 2008, two universities did not meet the DEEWR benchmark. DEEWR considers a liquidity ratio of less than 1.5 as being below its general better practice guideline. None of the universities exceeded DEEWR's upper benchmark of three.

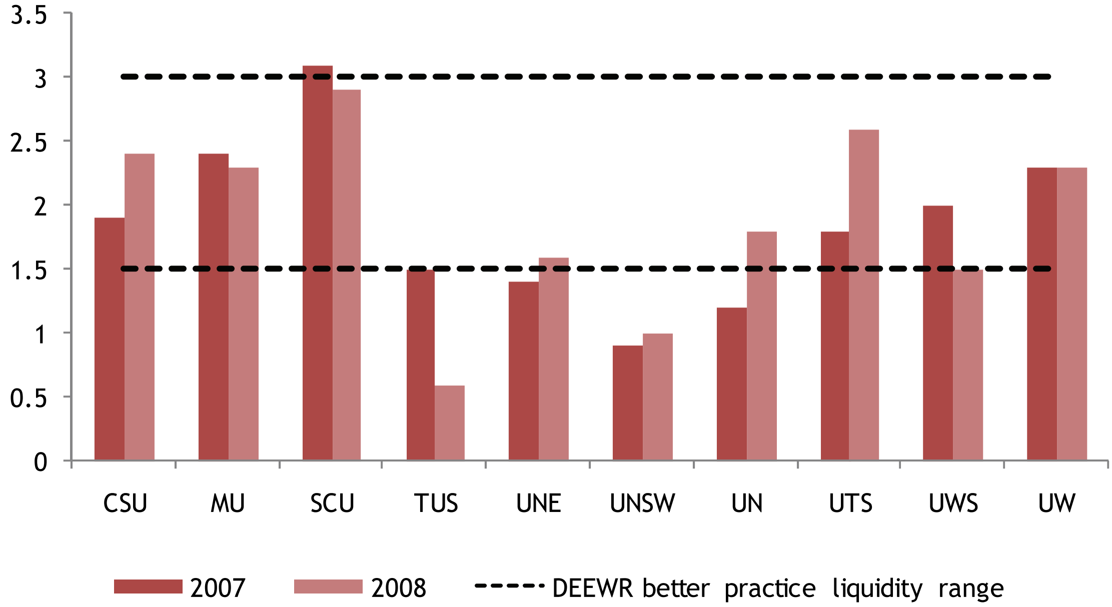
The highest current ratio of 2.9 was achieved by Southern Cross University which has significant short-term and at-call deposits and no borrowings.

DEEWR's benchmark current ratio is based on the traditional formula of current assets divided by current liabilities. The definition of current liabilities has changed significantly under Australian Accounting Standards. As a result we have adjusted the liabilities reported in each university's financial report to allow us to present a ratio that is more consistent with DEEWR's benchmark liquidity measure.

Australian Accounting Standards require certain liabilities to be reported as current liabilities irrespective of when they are expected to be settled. As a result we have excluded long service leave liabilities expected to be settled after 12 months of the reporting date.

On this basis, the graph below depicts the trend in all New South Wales universities' liquidity ratios over the last two years.

Liquidity Ratio at 31 December

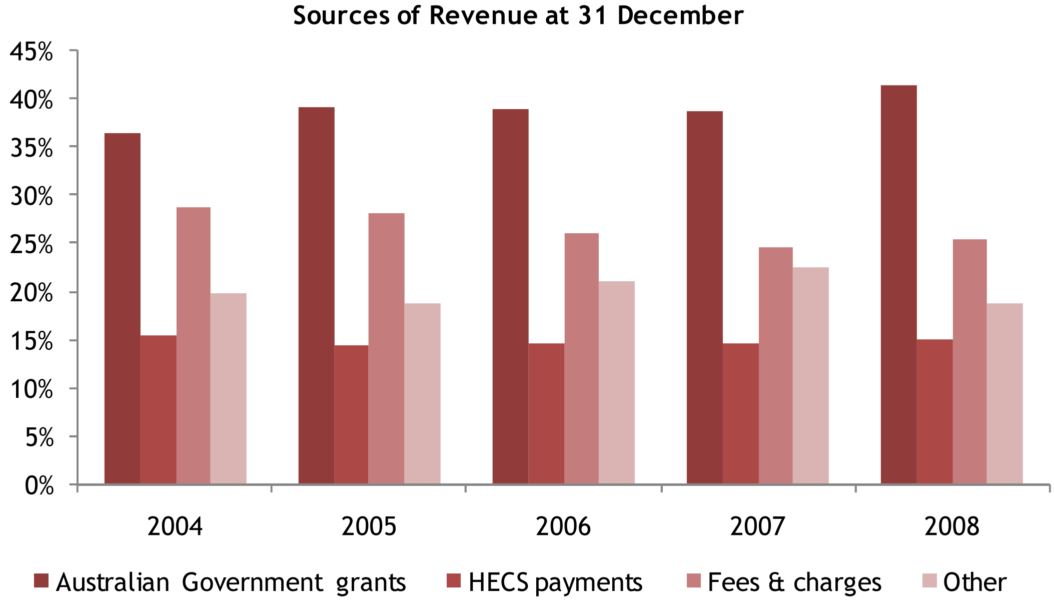


Another DEEWR guideline, the Annual Institutional Assessment Framework, suggests a current ratio of more than one indicates a low risk of a university not being able to fund its current obligations, between 0.75 and one is medium risk, and less than or equal to 0.75 is high risk. Using this benchmark, The University of Sydney's liquidity position would be considered high risk. However, the University has non-current available for sale investments, a significant amount of which could be realised at short notice.

Diversity of Revenue

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

The breakdown of total universities' revenue is shown below:



Australian Government grants grew steadily over the five years to 2008. Fees and charges as a percentage of revenue appears to have stabilised after a declining trend, which had been largely offset by increases in other income until 2008. In 2008, there was a significant decline in investment income because of the global financial crisis. A further dissection of revenue is shown below.

Year	2008 $m	2007 $m	2006 $m	2005 $m	2004 $m
Australian Government grants	***2,303***	1,957	1,823	1,669	1,421
Higher Education Contribution Scheme	***829***	738	679	615	604
Fees and charges					
- Student fees - Domestic	***199***	187	177	172	163
- Student fees - Overseas	***928***	794	728	715	661
- Consultancy and contracts	***282***	267	260	230	215
Total fees and charges	***1,409***	1,248	1,165	1,117	1,039
Other income					
- Investment income*	***195***	283	230	159	143
- Other*	***851***	856	805	728	715
Total other income	***1,046***	1,139	1,035	887	858
Total operating revenue	***5,587***	5,082	4,702	4,288	3,922

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

Total operating revenue has increased by 42.7 per cent over the last five years. The major source of revenue is Australian Government grants, which has increased by 62.1 per cent since 2004. DEEWR expects Australian Government grants to be not much more than 50 per cent of operating revenue. All universities continued to achieve this expectation.

The University of New England is the most reliant on Australian Government grants, while Charles Sturt University's increased reliance on these grants in 2008 was largely due to grants of $36.0 million for the new Dental School. Macquarie University remains the least reliant on Australian Government grants.

The ratio of HECS receipts to total operating revenue has remained fairly constant over the last five years. The University of Sydney and the University of New South Wales had ratios of 10.9 per cent, equal lowest of all universities (9.8 per cent and 10.1 per cent in 2007, respectively). The highest ratio of 26.7 per cent (27.4 per cent) was again achieved by the University of Western Sydney.

Fees and charges have increased by 35.6 per cent over the last five years. Macquarie University's largest source of revenue, 45.3 per cent of its total operating revenue, is again from fees and charges. This is the highest percentage of all universities and is due to the increase in revenue from overseas students. Charles Sturt University has the lowest percentage of revenue from fees and charges.

Since 2004 there has been a 31.2 per cent increase in consultancy and contracts revenue. In the same period, other income increased by 19 per cent and investment income increased by 36.4 per cent.

Student numbers

Revenue from fee-paying overseas students has increased by 40.4 per cent over the last five years. This source of revenue provides a significantly higher financial return to universities than domestic students. Revenue from overseas students represents 48.4 per cent of total student revenue (46.9 per cent) and 15.2 per cent of total operating revenue (14.3 per cent). For individual universities, revenue from fee-paying overseas students as a percentage of total operating revenue ranged from 3.5 per cent for Charles Sturt University to 27.7 per cent for Macquarie University.

In 2007, the Australian Government announced a major policy initiative to phase out domestic undergraduate full fee-paying places from 1 July 2009. Revenue from full fee-paying domestic students has risen 22 per cent over the last five years. For 2008, these fees were four per cent of total operating revenue.

Total full time equivalent (FTE) students in the State's universities increased by 6,270 (or 2.8 per cent) to 233,726 in 2008. The total number of FTE overseas students enrolled in the State's universities increased by 2,474 (or 5.7 per cent) to 46,141 in 2008. Overseas students now represent 19.7 per cent (19.2 per cent) of all enrolled students.

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

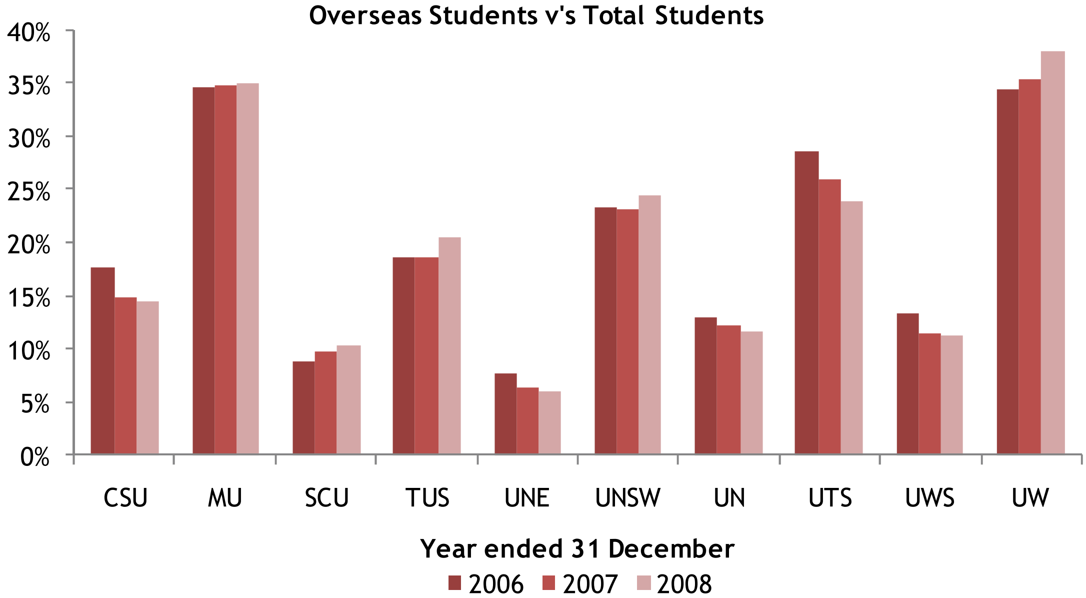
University	**Overseas Students**				**Domestic Students**			
	Trend	**2008 FTE**	**2007 FTE**	**2006 FTE**	**Trend**	**2008 FTE**	**2007 FTE**	**2006 FTE**
Charles Sturt	↓	***2,585***	2,724	3,376	↓	***15,150***	15,617	15,739
Macquarie	↑	***7,461***	7,196	7,041	↑	***13,753***	13,452	13,284
Southern Cross	↑	***1,625***	1,411	1,175	↑	***13,935***	12,952	12,093
Sydney	↑	***7,230***	6,433	6,353	~	***27,964***	28,036	27,669
New England	↓	***1,074***	1,126	1,388	↑	***16,860***	16,656	16,466
New South Wales	↑	***7,781***	6,863	6,537	↑	***23,926***	22,767	21,467
Newcastle	~	***2,201***	2,194	2,209	↑	***16,592***	15,717	14,870
Technology, Sydney	↓	***5,469***	5,953	6,634	↑	***17,383***	16,848	16,456
Western Sydney	↓	***3,975***	4,036	4,667	~	***31,069***	31,304	30,394
Wollongong	↑	***6,740***	5,731	5,374	↑	***10,953***	10,440	10,149
Total	~	***46,141***	43,667	44,754	↑	***187,585***	183,789	178,587

Source: Information provided by the respective universities.
Key: ↑ Trending upwards, ↓ Trending downwards, ~ No trend

The University of Wollongong recorded the highest growth in overseas student enrolments in 2008 increasing by 17.6 per cent from 5,731 FTEs in 2007 to 6,740 FTEs in 2008. The University advises the increase was due to strong growth in demand for a variety of courses.

The University of Technology Sydney recorded the biggest drop in overseas students. Its overseas student FTEs have been reducing for the last three years. The University advises the fall is partly due to some offshore courses being discontinued or closed to new enrolments.

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



The University of Wollongong has the highest percentage of overseas students, with 38.1 per cent of its students coming from overseas (35.4 per cent). The University of New England has the lowest percentage at six per cent (6.3 per cent).

Employee Benefits and On-Costs

DEEWR monitors the ability of universities to meet employee expenses by measuring employee benefits and on-costs as a percentage of total revenue. All ten universities had employee benefits and on-costs within DEEWR's good practice benchmark of 50 per cent to 70 per cent. Universities ranged between 51.3 per cent for Charles Sturt University and 58.3 per cent for The University of Sydney.

The University of Sydney's ratio changed from being the lowest in 2007 to the highest in 2008. This was attributable to the fall in revenue as a result of the global financial crisis and a 12.8 per cent increase in employment costs. Further comment on the University's employment costs is included later in this Volume.

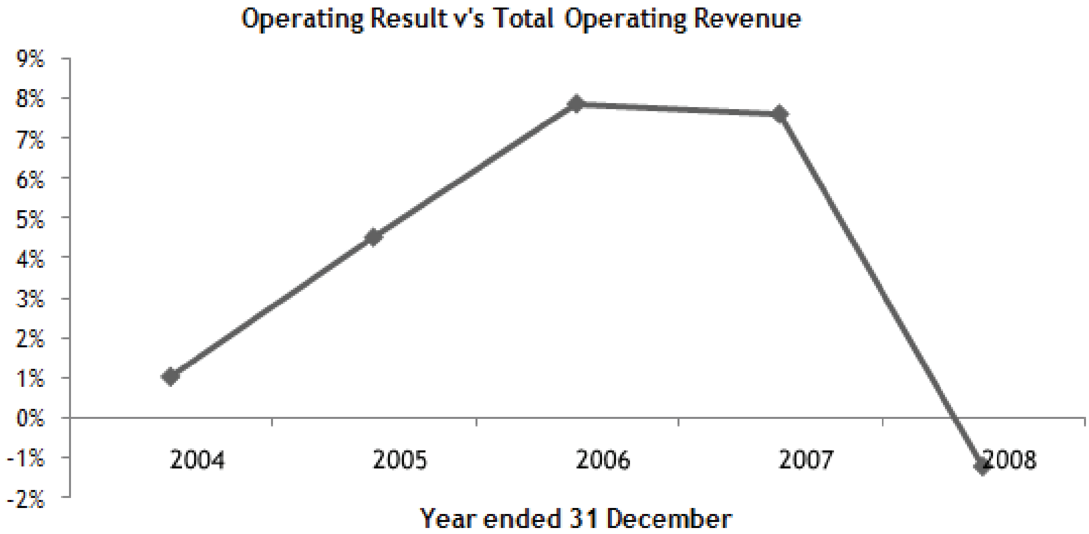
Operating Result

Although universities are not-for-profit organisations, DEEWR considers the operating result a useful measure of financial performance. Apart from exceptional years, DEEWR believes universities should record an operating surplus which represents a reasonable safety margin. Due to the global financial crisis 2008 could be considered to be an exceptional year. Our analysis does not exclude the impact of the global financial crisis.

In 2008, the universities recorded a combined deficit of $65.7 million (surplus of $388 million). The University of Technology, Sydney recorded the highest operating surplus of $57.5 million and The University of Sydney recorded the lowest operating result, a deficit of $160.0 million.

Seven of the ten universities reported an operating surplus for 2008 (nine reported surpluses in 2007). Charles Sturt University, the University of New England, the University of Technology, Sydney and the University of Western Sydney all reported a higher surplus than in the previous year.

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



In 2008, the combined operating result as a percentage of total operating revenue was negative 1.2 per cent (positive 7.6 per cent) and for individual universities ranged from negative 12.4 per cent for The University of Sydney to a positive 11.1 per cent for the University of Technology, Sydney.

Operational Performance

New South Wales universities' student to academic ratio of 26.1 in 2007 was the fourth highest of any jurisdiction in Australia (26.7 and the third highest in 2006). New South Wales universities' ratios ranged from 19.0 for the University of New South Wales to 36.3 for Southern Cross University. At the date of preparing this Report, DEEWR statistics for 2008 were not available. Some universities are concerned that this ratio is misleading as it includes students enrolled with partner organisations, but not the teaching staff of those organisations. Accordingly, the information in this report should be considered in this context.

The ratio of equivalent full-time (EFT) students to full-time equivalent (FTE) academics (excluding staff not involved in teaching) is one indicator of education quality. From a student academic perspective, the lower the ratio the better. However, from a financial viewpoint, a lower ratio may translate into higher total salaries and related costs and adversely impact financial performance benchmarks.

Statistics for 2007 show the ratio increased from 2006 for five of the eight jurisdictions.

Jurisdiction	Number of Universities	EFT Students	FTE Academics	Trend	Student : Academic Ratio		
		2007	2007		2007	2006	2005
Australian Capital Territory	2	***18,637***	***907***	~	***20.5***	20.3	22.1
New South Wales	10	***206,190***	***7,896***	~	***26.1***	26.7	25.7
Northern Territory	1	***3,451***	***154***	~	***22.4***	17.8	18.6
Queensland	7	***126,495***	***4,769***	↓	***26.5***	27.6	28.0
South Australia	3	***50,780***	***2,027***	↑	***25.1***	24.7	24.5
Tasmania	1	***13,457***	***550***	~	***24.5***	24.7	24.3
Victoria	8	***190,941***	***6,740***	↑	***28.3***	26.8	26.2
Western Australia	4	***68,961***	***2,574***	↑	***26.8***	26.0	25.5

Source: Australian Government Department of Education, Employment and Workplace Relations.
Key: ↑ Trending upwards, ↓ Trending downwards, ~ No trend

Aggregated Results of Operations, Financial Positions and Performance Indicators

The aggregated tables on pages 50 to 52 give the results of operations, financial positions and performance indicators for the universities and their controlled entities.

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

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

OTHER INFORMATION

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

Excessive Annual Leave

> We recommend universities review the effectiveness of their policies for managing excessive annual leave balances.

Managing excessive annual leave balances remains a challenge for most universities. At 31 December 2008, 10.3 per cent of all staff had accrued annual leave balances of more than 40 days (10.1 per cent). Excessive annual leave balances have adverse financial implications as salary rates increase and can also impact cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave. The table below provides details of the number of staff with more than 40 days of accrued annual leave as at 31 December. The University of Newcastle was unable to provide any details.

Number of staff with more than 40 days annual leave

University	Academic				General			
Year	Trend	2008	2007	2006	Trend	2008	2007	2006
Charles Sturt	↑	***61***	*37*	*3*	↑	***99***	46	48
Macquarie	↑	***186***	*149*	*138*	~	***35***	27	34
Southern Cross	↑	***37***	*31*	*3*	↑	***64***	61	48
Sydney	~	***401***	*423*	*397*	~	***275***	358	317
New England	↑	***48***	*12*	*2*	↑	***67***	61	50
New South Wales	↑	***412***	*281*	*266*	↓	***271***	374	460
Newcastle	~	***na***	*na*	*na*	~	***na***	na	na
Technology, Sydney	↑	***124***	*105*	*97*	↓	***91***	107	126
Western Sydney	↑	***60***	*35*	*24*	↓	***105***	108	126
Wollongong	~	***0***	*0*	*0*	~	***125***	110	129
Total	↑	***1,329***	*1,073*	*930*	↓	***1,132***	1,252	1,338

Source: Information provided by respective universities.
na Not available
Key: ↑ Trend upwards, ↓ Trend downwards, ~ No trend

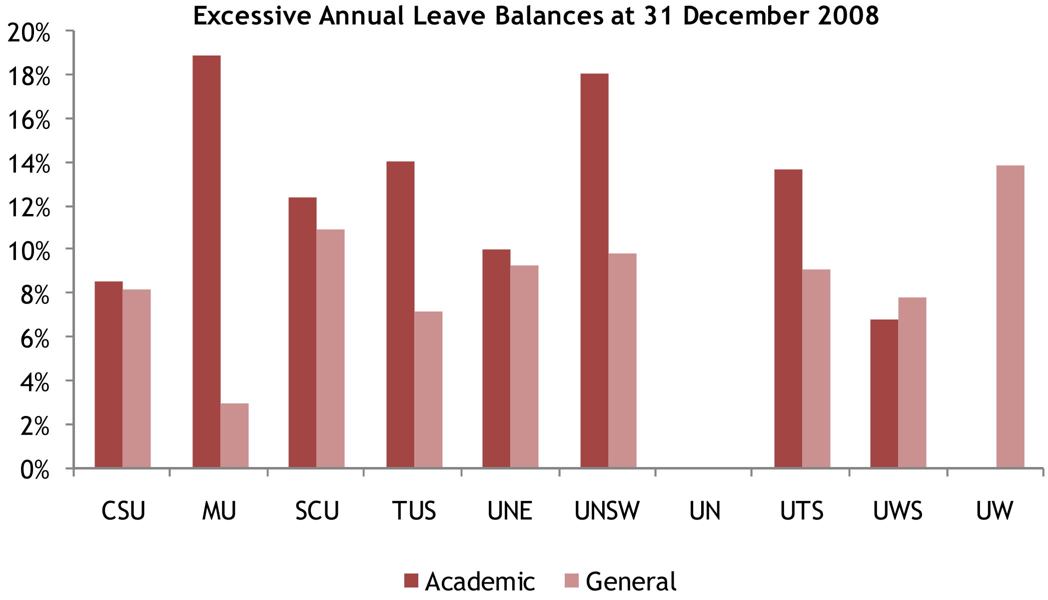
The table shows that excessive annual leave balances for general staff are trending downwards, while these for academic staff are trending upwards. The number of staff with excessive leave balances has increased from 1,073 to 1,329 staff at 31 December 2008. This represents 12.8 per cent of all academic staff employed at that date (10.7 per cent).

While the number of general staff with excessive annual leave balances reduced significantly at the University of New South Wales, there was a large increase in the number of academics with excessive leave balances. The University is addressing this matter in 2009.

At the University of New England, general staff accrue 25 days of annual leave per year and are not directed to take leave unless they have accrued more than 50 days. If we had used 50 days as the criteria, 25 general staff at the University would had accrued excessive leave balances at 31 December 2008 (14).

Annual leave balances greater than 40 days for academic staff at the University of Wollongong are nil because academic staff are not entitled to carry forward unused annual leave from one year to the next.

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



The graph shows Macquarie University had the highest recorded percentage of staff with excessive annual leave balances for academics and lowest for general staff. While only three per cent of general staff had accrued more than 40 days annual leave, 18.9 per cent of academic staff had annual leave balances exceeding 40 days. The University advised it will review existing leave management practices in 2009. The University of Wollongong has the highest percentage for general staff and it is continuing to address this matter.

Controlled Entities (Repeat Issue)

We recommend universities review their corporate structures to ensure they are aligned with their corporate strategies. Eliminating unnecessary controlled entities could save the sector millions of dollars in compliance and assurance costs over the next five years.

Generally, the university sector continues to establish new entities in Australia. As at 31 December 2008, New South Wales universities controlled 125 separate entities (127).

The existence of so many controlled entities increases compliance costs and governance risks. The *Public Finance & Audit Act, 1983* requires each of these entities to prepare a financial report each year and have it audited regardless of the size and nature of their operations or level of activity. As a result, each entity is also required to implement and maintain an effective compliance framework to help ensure it complies with all legislative requirements which apply to its operations. The number of controlled entities by university at 31 December follows:

University	Incorporated in Australia				Incorporated Overseas			
At 31 December	Trend	2008	2007	2006	Trend	2008	2007	2006
Charles Sturt	~	***6***	8	7	~	***0***	0	0
Macquarie	↑	***30***	29	7	~	***0***	0	0
Southern Cross	~	***3***	3	3	~	***0***	0	0
Sydney	~	***10***	8	12	~	***0***	0	0
New England	~	***6***	7	5	~	***0***	0	0
New South Wales	~	***20***	23	17	~	***9***	9	11
Newcastle	~	***8***	8	5	~	***1***	1	1
Technology, Sydney	↓	***3***	4	4	↓	***3***	4	4
Western Sydney	↑	***14***	12	12	~	***0***	0	0
Wollongong	↑	***9***	8	7	~	***3***	3	2
Total	↑	***109***	**110**	**79**	↓	***16***	**17**	**18**

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

Over the last two years, Macquarie University has created 23 new entities to facilitate the construction and operation of a private hospital and clinic and other activities. The University of New South Wales has the second largest number of controlled entities, however management is rationalising its corporate structure and three local companies and one overseas company are currently being liquidated.

Governance Considerations

We recommend universities review governance arrangements for their controlled entities.

The Board of each controlled entity should include appropriate members from the University's governing body.

Copies of internal and external audit reports that include significant findings for individual controlled entities should be reported to university's audit committees.

To effectively manage and mitigate risk exposures from the operations of controlled entities, we believe it is essential for universities to have effective corporate governance frameworks in place. These frameworks are strengthened if controlled entities are required to report on their operations, financial performance, risk and fraud management, strategies and outcomes and compliance with legislation to their respective university audit committees.

In practice, governance arrangements at universities vary significantly. Some universities have very little direct representation on the Boards of their controlled entities and the tabling of internal and external audit reports of controlled entities at University audit committees is similarly diverse in practice.

We conducted a governance survey at all ten universities. The results of this survey are reported earlier in this Volume.

Capital Expenditure

Total Asset Management Planning

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

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

Total asset management planning is vital in ensuring existing assets are managed in a way that supports service delivery objectives and results in effective and efficient use of the $8.6 billion of infrastructure assets controlled by State universities. Planning is also vital in ensuring future asset needs are properly identified, planned, delivered and managed. The absence of effective planning can have a detrimental impact on operational and financial performance.

Reporting on Asset Management

We recommend all universities improve asset management performance reporting in their annual reports.

We reviewed a sample of annual reports and found universities disclosed limited information on outcomes achieved from their asset management practices. With State universities managing assets worth more than $8.6 billion, we believe universities should report how they are managing these resources.

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

Asset maintenance

Based on the survey responses, all ten universities confirmed they have computerised software to manage their asset maintenance program, including backlog maintenance. While systems and processes are in place to effectively and efficiently manage maintenance programs, the extent of backlog maintenance remains significant. The table below illustrates the extent of backlog maintenance for the ten universities.

Year ended 31 December	2008	2007
Backlog maintenance ($m)	***983***	na
Actual maintenance expenditure ($m)	***150***	141
Infrastructure values at 31 December ($b)	***8.6***	8.1
Actual maintenance expenditure/infrastructure values (%)	***1.7***	1.7
Depreciation expense ($m)	***289***	346

Source: All data except for backlog maintenance sourced from universities' financial reports. Backlog maintenance was supplied by universities and is unaudited.
na Not available.

The backlog maintenance for all the universities at 31 December 2008 was $983 million. The extent of backlog maintenance ranges from nil at Southern Cross University to an estimated $500 million at The University of Sydney. Comparative data at 31 December 2007 was not available.

Annual maintenance expenditure increased by 6.5 per cent to $150 million for all State universities. This is equal to 1.74 per cent of the total value of infrastructure assets at 31 December 2008 (1.74 per cent). As previously mentioned, we believe all universities ought to publicly benchmark their maintenance expenditure against industry standards.

Capital Works

State universities continue to deliver significant capital works programs. Capital works spending in 2008 across all universities totalled $794 million ($572 million). The table below shows the capital spend by university for the last three years and the budgeted spend for 2009 and 2010.

University	Budget		Actual		
Year	2010 $m	2009 $m	2008 $m	2007 $m	2006 $m
Charles Sturt	34.8	77.6	***88.3***	34.4	60.6
Macquarie	220.1	182.7	***145.1***	40.6	36.0
Southern Cross	43.2	77.1	***11.9***	3.7	7.5
Sydney	118.1	97.4	***221.0***	163.9	117.0
New England	20.1	27.6	***20.4***	17.7	10.9
New South Wales	64.0	116.0	***87.4***	105.7	158.3
Newcastle	69.8	49.3	***31.3***	36.2	28.0
Technology, Sydney	123.8	81.4	***44.7***	37.3	48.0
Western Sydney	38.3	114.3	***74.8***	75.4	52.5
Wollongong	67.5	96.9	***69.4***	57.3	25.5
Total	799.7	920.3	***794.3***	572.2	544.3

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

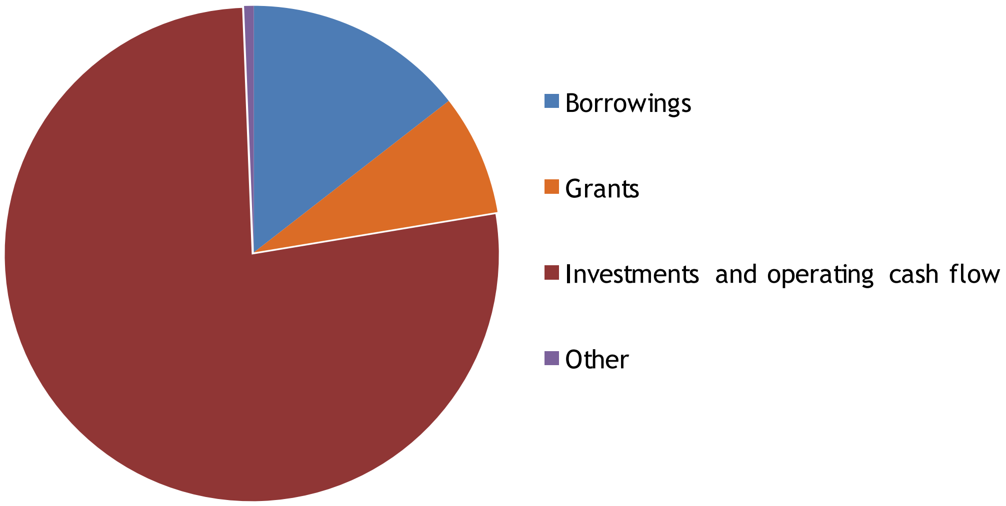
- improve infrastructure and address backlog maintenance
- provide suitable accommodation for students and staff
- replace outdated facilities with modern teaching and research facilities.

The capital budgets for 2009 and 2010 exclude any capital works under the Australian Government's Economic Stimulus Plan. They also exclude any private/public partnership capital works. The source of funding for these capital programs includes:

- cash flows from operating activities
- Australian and State Government grants
- non-government grants
- sale of excess university properties
- borrowings and other financing arrangements.

Funding for the 2009 and 2010 combined capital program is shown in the chart below.

Sources of Funding for 2009 and 2010 Capital Program



The chart shows that universities will rely largely on operating cash flows and realisation of investments to fund their 2009 and 2010 capital programs. Under the current economic conditions, universities will need to constantly review and carefully manage their cash flows from these funding sources.

UNIVERSITY INFORMATION

University	Charles Sturt		Macquarie		Southern Cross		Sydney	
Year	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m
Abridged Income Statements (year ended 31 December)								
Total revenue	***363.8***	305.4	***532.2***	462.8	***155.2***	141.3	***1,290.9***	1,304.7
Total expenses	***329.7***	273.6	***506.0***	408.4	***141.1***	125.2	***1,451.2***	1,117.5
Outside equity interest/other	**--**	--	**--**	--	**--**	--	***0.3***	--
Surplus/(deficit)	***34.1***	31.8	***26.2***	54.4	***14.1***	16.1	***(160.0)***	187.2
Abridged Balance Sheets (at 31 December)								
Total assets	***874.3***	669.1	***1,630.6***	1,380.0	***273.0***	221.1	***4,239.0***	3,846.7
Total liabilities	***282.2***	125.8	***483.6***	254.7	***76.4***	38.5	***1,116.6***	616.5
Net assets	***592.1***	543.3	***1,147.0***	1,125.3	***196.6***	182.6	***3,122.4***	3,230.2

Performance Indicators (at 31 December)								
Current ratio (a)	***2.4***	1.9	***2.3***	2.4	***2.9***	3.1*	***0.6****	1.5
Australian Government grants as a % of total revenue (b)	***50.3***	44.9	***26.4***[L]	26.2[L]	***45.4***	46.3	***43.7***	37.2
HECS as a % of total revenue (b)	***18.7***	19.5	***12.0***	12.1	***20.2***	21.2	***10.9***[L]	9.8[L]
Fees and charges as a % of total revenue (b)	***12.3***[L]	15.6	***45.3***[H]	43.0[H]	***15.7***	14.5[L]	***22.6***	19.5
Employee Benefits and on-costs as a % of total revenue (c)	***51.3***[L]	55.8	***53.4***	51.7	***54.0***	53.1	***58.3***[H]	51.3[L]
Operating result as a % of total revenue (d)	***9.4***	10.4	***4.9***	11.8	***9.1***	11.4	***(12.4)***[L]	14.3[H]
Student numbers EFT **	***na***	18,397	***na***	21,408	***na***	9,005	***na***	36,123
Students per academic**	***na***	30.0	***na***	29.7	***na***	36.3[H]	***na***	22.6

Key: All data except 'Student numbers' and 'Students per academic' are based on the universities' financial reports.
They reflect the key indicators set out in the February 2000 Department of Education, Employment and Workplace Relations publication 'Benchmarking: A Manual for Australian Universities'. That publication considers:
(a) Current Ratio – an indicator of liquidity. Good practice is a ratio of more than 1.5 to less than three.
(b) Diversity of Revenue – Universities should reduce financial risks from reduction or failure of an income source by having three or four major income sources with none below five per cent for any one source and preferably all above 15 per cent. Reliance on Australian Government funding should be decreasing, preferably to not much more than 50 per cent.
(c) Employee Benefits and on-costs as a percentage of Total Operating Revenue – Good practice is between 50 per cent and 70 per cent.
(d) Operating Result as a percentage of Total Operating Revenue – The essence of good practice is to have a reasonable safety margin that should be positive other than in exceptional years, the rationale for which should be reported in the university's annual report.
L Lowest performance by a New South Wales University.
H Highest performance by a New South Wales University.
* Represents performance outside benchmark.
** Source: DEEWR publications Higher Education Statistics Collection. The academic numbers represent 'Teaching Only' and 'Teaching and Research'.
na Not available.

University	New England		New South Wales		Newcastle		Technology, Sydney	
Year	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m
Abridged Income Statements (year ended 31 December)								
Total revenue	***214.1***	205.9	***1,154.6***	1,012.3	***474.1***	415.8	***518.0***	461.6
Total expenses	***206.9***	201.8	***1,241.7***	1,018.5	***474.5***	391.5	***460.5***	423.9
Outside equity interest/other	***--***	--	***(0.1)***	(0.2)	***--***	--	***--***	(0.1)
Surplus/(deficit)	***7.2***	4.1	***(87.2)***	(6.4)	***(0.4)***	24.3	***57.5***	37.6
Abridged Balance Sheets (at 31 December)								
Total assets	***472.6***	368.7	***2,537.3***	2,136.0	***1,101.6***	970.4	***1,451.7***	1,239.6
Total liabilities	***238.4***	135.9	***1,204.6***	736.0	***348.6***	218.2	***458.3***	282.4
Net assets	***234.2***	232.8	***1,332.7***	1,400.0	***753.0***	752.2	***993.4***	957.2
Performance Indicators (at 31 December)								
Current ratio (a)	***1.6***	1.4*	***1.0****	0.9*	***1.8***	1.2*	***2.6***	1.8
Australian Government grants as a % of total revenue (b)	***51.5*** H	51.1 H	***40.8***	39.0	***44.7***	42.6	***33.6***	32.5
HECS as a % of total revenue (b)	***19.0***	19.0	***10.9*** L	10.1	***17.1***	17.5	***17.4***	17.7
Fees and charges as a % of total revenue (b)	***19.1***	20.4	***30.1***	30.6	***17.3***	18.1	***31.7***	33.5
Employee Benefits and on-costs as a % of total revenue (c)	***58.1***	55.9	***54.9***	55.0	***53.8***	53.2	***53.7***	55.2
Operating result as % of total revenue (d)	***3.4***	2.0	***(7.6)***	(0.6)* L	***(0.1)***	5.8	***11.1*** H	8.1
Student numbers EFT **	***na***	8,940	***na***	30,404	***na***	18,779	***na***	22,800
Students per academic**	***na***	22.4	***na***	19.0 L	***na***	28.8	***na***	31.3

Key: All data except 'Student numbers' and 'Students per academic' are based on the universities' financial reports. They reflect the key indicators set out in the February 2000 Department of Education, Employment and Workplace Relations publication 'Benchmarking: A Manual for Australian Universities'. That publication considers:

(a) Current Ratio – an indicator of liquidity. Good practice is a ratio of more than 1.5 to less than three.
(b) Diversity of Revenue – Universities should reduce financial risks from reduction or failure of an income source by having three or four major income sources with none below five per cent for any one source and preferably all above 15 per cent. Reliance on Australian Government funding should be decreasing, preferably to not much more than 50 per cent.
(c) Employee Benefits and on-costs as a percentage of Total Operating Revenue – Good practice is between 50 per cent and 70 per cent.
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* Represents performance outside benchmark.
** Source: DEEWR publications Higher Education Statistics Collection. The academic numbers represent 'Teaching Only' and 'Teaching and Research'.
na Not available.

University	Western Sydney		Wollongong		Total	
Year	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m
Abridged Income Statements (year ended 31 December)						
Total revenue	***468.5***	422.5	***415.5***	350.1	***5,586.9***	5,082.4
Total expenses	***431.3***	392.9	***409.3***	341.1	***5,652.2***	4,694.4
Outside equity interest/other	***--***	--	***(0.6)***	0.1	***(0.4)***	(0.2)
Surplus/(deficit)	***37.2***	29.6	***5.6***	9.1	***(65.7)***	387.8
Abridged Balance Sheets (at 31 December)						
Total assets	***1,154.5***	1,010.5	***854.8***	687.0	***14,589.4***	12,529.1
Total liabilities	***269.9***	143.7	***321.0***	156.9	***4,799.6***	2,708.6
Net assets	***884.6***	866.8	***533.8***	530.1	***9,789.8***	9,820.5
Performance Indicators (at 31 December)						
Current ratio (a)	***1.5***	2.0	***2.3***	2.3	***1.5***	1.6
Australian Government grants as a % of total revenue (b)	***46.2***	45.2	***38.5***	38.9	***41.2***	38.6
HECS as a % of total revenue (b)	***26.7*** H	27.4 H	***14.6***	15.1	***14.8***	14.5
Fees and charges as a % of total revenue (b)	***14.7***	14.9	***33.8***	32.7	***25.9***	25.2
Employee Benefits and on-costs as a % of total revenue (c)	***57.9***	60.0 H	***53.5***	56.5	***55.7***	54.2
Operating result as a % of total revenue (d)	***7.9***	7.0	***1.4***	2.6	***(1.2)***	7.6
Student numbers EFT**	***na***	23,974	***na***	16,351	***na***	206,190
Students per academic**	***na***	33.4	***na***	26.5	***na***	26.1

Key: All data except 'Student numbers' and 'Students per academic' are based on the universities' financial reports. They reflect the key indicators set out in the February 2000 Department of Education, Employment and Workplace Relations publication 'Benchmarking: A Manual for Australian Universities'. That publication considers:

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

(b) Diversity of Revenue – Universities should reduce financial risks from reduction or failure of an income source by having three or four major income sources with none below five per cent for any one source and preferably all above 15 per cent. Reliance on Australian Government funding should be decreasing, preferably to not much more than 50 per cent.

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

(d) Operating Result as a percentage of Total Operating Revenue – The essence of good practice is to have a reasonable safety margin that should be positive other than in exceptional years, the rationale for which should be reported in the university's annual report.

L Lowest performance by a New South Wales University.

H Highest performance by a New South Wales University.

* Represents performance outside benchmark.

** Source: DEEWR publications Higher Education Statistics Collection. The academic numbers represent 'Teaching Only' and 'Teaching and Research'.

na Not available.

Charles Sturt University

AUDIT OPINION

The audits of the University and its controlled entities' financial reports (other than Charles Sturt Foundation Trust) for the year ended 31 December 2008 resulted in unqualified Independent Auditor's Reports.

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

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

KEY ISSUES

Impact of the global financial crisis

Following our recommendation in 2007, the University re-evaluated its investment risk management strategies and implemented procedures to better manage risk exposures. During 2008, the global financial crisis and volatility in financial markets worsened and impacted the market values of investments.

The University's investments at 31 December 2008 were $87.2 million compared to $113 million at 31 December 2007. The University recognised a loss of $26.2 million in its financial report to reflect the fall in the market values during the year. The University intends holding the investments until maturity and believes the majority will mature at full face value. Because of this it considers the fall in the value of its investments will not impact its operations or capital works programs.

The operating result was impacted by the need to:

- expense unrealised losses of $26.2 million, representing the fall below cost in the value of equity investments
- expense losses of $877,000 realised on the sale of investments during the year
- recognise an increase of $2.1 million in investment income realised during the year.

Another significant impact of the global financial crisis has been on superannuation investment earnings and benefit valuations. Liabilities for superannuation increased from $70.8 million in 2007 to $190 million in 2008. The Australian Government funds the majority of these liabilities which has minimised the impact on the operating result.

Overseas Operations

We recommend the University strengthen corporate governance, accounting and internal control procedures for its overseas campus. In particular it should ensure tax, accounting and other compliance requirements are met.

The University plans to change the organisational structure of its Canadian campus because of growing student numbers and courses since its establishment in 2005. This growth significantly increases compliance requirements.

System Generated Balances (Repeat Issue)

We recommend the University investigate alternative procedures to reconcile and clear system generated balances.

The University's financial system does not provide sufficient details for certain control accounts. It requires onerous manual analyses to ensure accuracy and completeness when reporting these balances. Transactions in these accounts are system generated and have accumulated over a number of years. The accumulated balance at 31 December 2008 was $3.9 million ($5.1 million in 2007). System upgrades during the year did not address the identified deficiencies.

The University has advised that the majority of these balances consist of funds held in trust by the University and that there is no impact upon the operating result.

PERFORMANCE INFORMATION

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

The University's current ratio (a measure of its financial liquidity) was 2.4 at 31 December 2008, up from the previous year's ratio of 1.9. At this level it is significantly above the State average of 1.5 (1.6 at 31 December 2007) and the within the Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) 'good practice' parameter of 1.5 to 3.0.

Australian Government grants as a percentage of operating revenue increased from 44.9 per cent in 2007 to 50.3 per cent in 2008. This is still significantly higher than the State average of 41.2 per cent (38.6 per cent in 2007) and just above DEEWR's 'good practice' parameter of no more than 50 per cent. The increase was largely due to grants of $36.0 million received for the new Dental School.

Employee benefits and on-costs as a percentage of operating revenue decreased from 55.8 per cent in 2007 to 51.3 per cent in 2008. This is now lower than the State average of 55.3 per cent (54.2 per cent) and within the DEEWR 'good practice' parameter of 50 per cent to 70 per cent. It also represents the lowest percentage of all universities. The decrease was largely due to the above increase in grants.

Fees and charges as a percentage of operating revenue decreased from 15.6 per cent in 2007 to 12.3 per cent in 2008. This represents the lowest percentage of all universities and is significantly less than the State average of 25.9 per cent (25.2 per cent). The reduction in fees and charges is due to decreased number of overseas students. The percentage decrease was also exacerbated by the above increase in grants.

OTHER INFORMATION

School of Dentistry

The University commenced the establishment of a school of dentistry at its Orange and Wagga Wagga campuses in 2009. New teaching facilities are being constructed at an estimated cost of $54.2 million. When complete these facilities will cater for 300 students.

New National University

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

Improvement Opportunities

We identified opportunities for the University to improve existing procedures. We will discuss our findings with University staff and where appropriate report them to management. The areas include inventory accounting, employee benefits, capital commitments and asset acquisitions.

FINANCIAL INFORMATION

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

Abridged Income Statements

Year ended 31 December	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Australian Government grants	***182,957***	137,083	***182,957***	137,083
Higher Education Contribution Scheme	***67,961***	59,577	***67,961***	59,577
Fees and charges	***44,652***	47,789	***44,652***	47,789
Other	***68,224***	60,961	***65,877***	58,046
Deferred income – superannuation	***119,185***	(17,618)	***119,185***	(17,618)
TOTAL REVENUE	***482,979***	287,792	***480,632***	284,877
Employee benefits and on-costs	***186,481***	170,273	***185,597***	169,164
Depreciation	***21,272***	20,377	***21,272***	20,377
Other	***121,956***	82,903	***119,259***	81,901
Deferred expense – superannuation	***119,185***	(17,618)	***119,185***	(17,618)
TOTAL EXPENSES	***448,894***	255,935	***445,313***	253,824
SURPLUS	***34,085***	31,857	***35,319***	31,053

The increase in Australian Government grants is largely due to receipt of $36.0 million ($18.0 million) for the dental school and $11.6 million under the Better Universities Renewal Funding program.

The increase in other income is mainly due to $7.3 million of buildings and other assets contributed by student associations.

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

Employee benefits and on-costs increased due to increased staff numbers and award rates.

Other expenses increased largely because of loss in the market value of investments by $26.2 million (nil) and a $5.6 million increase in maintenance.

Abridged Balance Sheets

At 31 December	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current assets	***98,008***	66,221	***96,135***	64,319
Non-current assets	***776,308***	602,869	***772,273***	596,308
TOTAL ASSETS	***874,316***	669,090	***868,408***	660,627
Current liabilities	***59,382***	51,310	***59,377***	51,307
Non-current liabilities	***222,849***	74,438	***222,632***	74,247
TOTAL LIABILITIES	***282,231***	125,748	***282,009***	125,554
NET ASSETS	***592,085***	543,342	***586,399***	535,073

The movement in current assets reflects increased cash flows from operations.

The movement of $119 million in non-current assets and liabilities is mainly attributable to the impact of the global financial crisis on the values of superannuation assets and liabilities.

Construction of the dental school and student residences totalling $66.8 million contributed to the increase in non-current assets.

Borrowings of $29.0 million for construction of new student residences contributed to the increase in non-current liabilities.

UNIVERSITY ACTIVITIES

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

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

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

CONTROLLED ENTITIES

Charles Sturt Foundation Trust

The Foundation is the main fundraising arm of the University.

Year ended 31 December	2008 $'000	2007 $'000
Revenue	***1,297***	1,448
Expenses	***2,434***	759
(Loss)/profit	***(1,137)***	689
Net assets (at 31 December)	***5,287***	7,720

The operating result was impacted by the need to:

- expense unrealised losses of $1.5 million, representing the fall below cost in the value of equity investments
- expense losses of $376,000 realised on the sale of investments during the year
- recognise a fall of $147,000 in investment income realised during the year.

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

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

* These entities do not have websites.

Macquarie University

AUDIT OPINION

The audits of the University and its controlled entities' financial reports for the year ended 31 December 2008 resulted in unqualified Independent Auditor's Reports for ten (including the parent) entities in the group.

We are completing the audits of the remaining 22 controlled entities and have not yet issued Independent Auditor's Reports for:

- Australian Proteome Analysis Facility Limited
- Macquarie University Medical Research Foundation Limited
- Macquarie University Medical Research Trust
- Macquarie University Private Hospital Trust
- Macquarie University Property Investment Company No. 2 Pty Limited
- Macquarie University Property Investment Company Pty Limited
- Macquarie University Property Investment Trust
- MU Private Hospital Pty Limited
- MUPIT Sub-Trust No. 1
- MUPIT Sub-Trust No. 2
- MUPIT Sub-Trust No. 3
- MUPIT Sub-Trust No. 4
- MUPH Clinic Pty Limited
- MUPH Clinic Sub-Trust
- MUPH Hospital Pty Limited
- MUPH Hospital Sub-Trust
- MUPI Holding Trust No. 1
- MUPI Holding Trust No. 2
- MUPI Holding Trust No. 3
- MUPI Holding Trust No. 4
- MUPI Holding Trust No. 5
- MUPI Holding Trust No. 6.

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

KEY ISSUES

Controlled entities

> We recommend the University review its corporate strategy to help ensure its corporate structure aligns with that strategy.

The University had 30 controlled entities at 31 December 2008 (29 at 31 December 2007). The drivers for creating so many controlled entities, whilst not in conflict with the University's strategy, were not the primary strategic objective. Nineteen of these entities were created in 2007 as part of the private hospital and clinic transaction.

The existence of so many controlled entities increases compliance costs and governance risks. While some of these entities may be dormant corporate trustees, they are still required to prepare and have audited a financial report. Each entity must also implement and maintain an effective compliance framework to help ensure it complies with legislative requirements which apply to its operations.

We understand the University will deregister Macquarie University Medical Research Foundation Limited and dissolve Macquarie University Medical Research Trust during 2009. The University established these entities in 2007.

Impact of the global financial crisis

The global financial crisis and volatility in financial markets has the potential to significantly impact the group's operations and may result in:

- increased borrowings to fund operating and capital expenditure
- deferral or significant changes to the scope of capital works programs
- reduced spending on research grants, scholarships and prizes.

The University has advised that it does not believe the fall in the value of its investments due to the global financial crisis will impact its operations or capital works programs.

However, despite an increase in total revenue, the group achieved a lower surplus of $26.1 million for 2008 compared to a surplus of $54.4 million in 2007, due in part to the global financial crisis and volatility in financial markets. The impact of investment activities on the operating result was to:

- expense unrealised losses of $16.9 million, representing the fall below cost in the value of equity investments
- recognise gains of $3.6 million realised on the sale of investments during the year
- recognise an increase of $1.5 million in investment income earned during the year

Another significant impact of the global financial crisis has been on superannuation investment earnings and benefit valuations. Liabilities for superannuation increased from $125 million in 2007 to $282 million in 2008. The Australian Government funds the majority of these liabilities which has minimised the impact on the operating result.

The University will need to refinance its borrowings for the construction of the private hospital and clinic in early 2011. The University is actively managing the refinancing risks within its control, none of which have crystallised at the moment.

Private Hospital and Clinic

The University is, in conjunction with Dalcross Holdings Pty Limited, constructing a 208 bed private hospital and clinic on its campus. The University expects the facilities to open in early 2010.

The University has a comprehensive reporting structure in place to manage the finance and other project risks. The project is largely debt funded which creates the financing risks mentioned above. Other project risks include operator failure, buildings not being well suited to their purpose, buildings being delivered late and/or over budget and reputational risks.

The Australian School of Advanced Medicine at Macquarie University is the first medical school in Australia to be linked to a private teaching hospital on a university campus. It will offer advanced sub-specialty training for doctors, particularly in surgery, and is currently accepting enrolments for Masters and PhD programs.

The estimated construction cost of these buildings is $115 million ($112 million in 2007). The value of work in progress at year end is $75.9 million ($9.4 million).

PERFORMANCE INFORMATION

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

The University's current ratio (a measure of its financial liquidity) was 2.3 at 31 December 2008, down from the previous year's ratio of 2.4. At this level it is still significantly higher than the State average of 1.5 (1.6 at 31 December 2007) and within the Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) 'good practice' parameter of 1.5 to 3.0. Over time, the University's financial strategy has been to maintain a higher current ratio.

Australian Government grants as a percentage of operating revenue for the year increased slightly from 26.2 per cent in 2007 to 26.4 per cent in 2008. This is again significantly lower than the State average of 41.2 per cent (38.6 per cent in 2007) and represents the lowest level of reliance on Australian Government grants of all universities. It is also well below DEEWR's 'good practice' parameter of no more than 50 per cent. Enrolments at the University include a large number of fee paying students which contributes to a lower percentage of Australian Government grant revenue compared with total operating revenue.

Employee benefits and on-costs as a percentage of operating revenue increased from 51.7 per cent in 2007 to 53.4 per cent in 2008. This is again lower than the State average of 55.3 per cent (54.2 per cent) and within the DEEWR 'good practice' parameter of 50 per cent to 70 per cent.

Fees and charges as a percentage of operating revenue increased to 45.3 per cent (43.0 per cent in 2007). This represents the highest level of reliance on fees and charges of all universities and is significantly higher than the State average of 25.9 per cent (25.2 per cent). The increase in fees and charges was largely due to an increase in revenue from overseas students, which increased from $120 million in 2007 to $148 million in 2008.

OTHER INFORMATION

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

Backlog maintenance

The University estimates its backlog maintenance program will cost $25.0 million at 31 December 2008. The University's backlog maintenance has increased slightly over the past three years, as demonstrated in the table below. The University advises that it has significantly increased its 2009 maintenance budget to reduce the backlog.

Year ended 31 December	Estimate		
	2008 $'000	2007 $'000	2006 $'000
Backlog maintenance	***25,000***	24,480	23,275

Excessive Annual Leave balances

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

At 31 December 2008, 221 University employees accrued more than 40 days of annual leave entitlements (176 employees at 31 December 2007). This represents more than ten per cent of all employees (nine per cent). The accumulation of excessive annual leave entitlements results in increased financial cost to the University because these entitlements are paid out at higher salary rates in the future and may have occupational health and safety implications.

FINANCIAL INFORMATION

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

Abridged Income Statements

Year ended 31 December	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Australian Government grants	***140,581***	121,439	***140,523***	121,439
Higher Education Contribution Scheme	***63,966***	56,186	***63,966***	56,186
Fees and charges	***241,126***	198,846	***210,110***	187,690
Other	***86,565***	86,341	***60,994***	56,477
Deferred income – superannuation	***148,502***	(23,566)	***148,502***	(23,566)
TOTAL REVENUE	***680,740***	439,246	***624,095***	398,226
Employee benefits and on-costs	***284,385***	239,355	***242,576***	211,977
Depreciation	***29,184***	27,125	***27,492***	26,477
Other	***192,433***	141,886	***186,494***	145,755
Deferred expense – superannuation	***148,502***	(23,566)	***148,502***	(23,566)
TOTAL EXPENSES	***654,504***	384,800	***605,064***	360,643
SURPLUS	***26,236***	54,446	***19,031***	37,583

The increase in Australian Government grants was largely due to the University receiving $11.9 million under the Better Universities Renewal Funding program. The increase in fees and charges was due to higher enrolments of fee paying overseas students.

Higher salary increments awarded to staff and an increase in the actuarially assessed liability for employees in the Professorial Superannuation Scheme resulted in an increase in employee benefits and on-costs.

The increase in other expenses was partly due to the previously mentioned impairment loss on investments, as well as an increase in scholarships and grants expenditure.

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

Abridged Balance Sheets

At 31 December	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current assets	***228,753***	221,728	***191,737***	190,767
Non-current assets	***1,401,841***	1,158,256	***1,332,093***	1,157,662
TOTAL ASSETS	***1,630,594***	1,379,984	***1,523,830***	1,348,429
Current liabilities	***123,436***	111,700	***102,188***	99,849
Non-current liabilities	***360,181***	142,993	***314,830***	156,232
TOTAL LIABILITIES	***483,617***	254,693	***417,018***	256,081
NET ASSETS	***1,146,977***	1,125,291	***1,106,812***	1,092,348

Non-current assets and non-current liabilities increased largely due to an increase in the deferred State Government's defined superannuation liability of $149 million.

UNIVERSITY ACTIVITIES

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

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

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

CONTROLLED ENTITIES

Macquarie Graduate School of Management Pty Limited

Year ended 31 December	2008 $'000	2007 $'000
Revenue	***29,490***	27,291
Expenses	***24,614***	25,536
Profit	***4,876***	1,755
Net assets (at 31 December)	***9,014***	4,138

The increase in revenue and profit was largely due to an increase in student numbers and course fees. The company promotes management education and conducts educational programs and research in management. For further information on the company, refer to www.mgsm.edu.au.

Access Macquarie Limited

Year ended 31 December	Consolidated	Parent	
	2008 $'000	2008 $'000	2007 $'000
Revenue	***30,431***	***29,896***	15,339
Expenses	***28,595***	***28,273***	15,315
Income tax expense	***64***	**--**	--
Profit	***1,772***	***1,623***	24
Net assets (at 31 December)	***5,587***	***5,438***	3,815

During the year, Access Macquarie Limited invested in Risk Frontiers Group Pty Limited. Risk Frontiers Group Pty Limited's controlled entity is Risk Frontiers Flood (Australia) Pty Limited. Risk Frontiers Flood (Australia) Pty Limited provides a Global Information System-based methodology to estimate mainstream flood risk data.

The increase in revenue and expenses was due the University transferring its Centre for Macquarie English (CME) to the company. CME offers a range of English programs. The company is the University's commercial development company. For further information on the company, refer to www.accessmq.com.au.

Macquarie University Property Investment Trust

Year ended 31 December	Consolidated		Parent	
	2008 $'000	2007* $'000	2008 $'000	2007* $'000
Revenue	***2,555***	63	***1,338***	--
Expenses	***1,933***	110	***710***	72
Income tax expense	**--**	--	**--**	--
Profit/(loss)	***622***	(47)	***629***	(72)
Net assets (at 31 December)	***26,444***	26,452	***16,500***	16,427

* For the period 2 July 2007 to 31 December 2007.

Revenue increased largely due to the Trust contracting for the construction of works of approximately $998,000 on behalf of other parties and management fees of $1.2 million associated with the construction of the private hospital and clinic. Expenses increased due to construction costs of approximately $998,000 and management costs associated with the construction of the private hospital and clinic.

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

Entity Name	Website
Australian Proteome Analysis Facility Limited	www.proteome.org.au
CMBF Limited	*
LAMS Foundation Limited	*
LAMS International Pty Limited	www.lamsinternational.com
Macquarie University Medical Research Foundation Limited	*
Macquarie University Medical Research Trust	*
Macquarie University Private Hospital Trust	*
Macquarie University Property Investment Company No. 2 Pty Limited	*
Macquarie University Property Investment Company Pty Limited	*
MU Private Hospital Pty Limited	*
MUPIT Sub-Trust No. 1	*
MUPIT Sub-Trust No. 2	*
MUPIT Sub-Trust No. 3	*
MUPIT Sub-Trust No. 4	*
MUPH Clinic Pty Limited	*
MUPH Clinic Sub-Trust	*
MUPH Hospital Pty Limited	*
MUPH Hospital Sub-Trust	*
MUPI Holding Trust No. 1	*
MUPI Holding Trust No. 2	*
MUPI Holding Trust No. 3	*
MUPI Holding Trust No. 4	*
MUPI Holding Trust No. 5	*
MUPI Holding Trust No. 6	*
Risk Frontiers Flood (Australia) Pty Limited	www.riskfrontiers.com
Risk Frontiers Group Pty Limited	*
U@MQ Limited	www.uatmq.com.au

* These entities do not have websites

OTHER BODIES ASSOCIATED WITH THE UNIVERSITY

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

Entity Name
Macquarie University Professorial Superannuation Scheme
Sydney Educational Broadcasting Limited

Southern Cross University

AUDIT OPINION

The audits of the University and its controlled entities' financial reports for the year ended 31 December 2008 resulted in unqualified Independent Auditor's Reports.

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

KEY ISSUES

Impact of the global financial crisis

The global financial crisis and volatility in financial markets has the potential to significantly impact the University's operations. The impact on the University's investments has been minimal because all investments held were term deposits.

A significant impact of the global financial crisis has been on superannuation investment earnings and benefit valuations. Liabilities for superannuation increased from $11.3 million in 2007 to $40.2 million in 2008. The Australian Government funds the majority of these liabilities which has minimised the impact on the operating result.

PERFORMANCE ISSUES

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

The University's current ratio (a measure of its financial liquidity) was 2.9 at 31 December 2008, down from the previous year's ratio of 3.1. At this level it is the highest of all universities and it is significantly higher than the State average of 1.5 (1.6 at 31 December 2007). It is also within the Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) 'good practice' parameter of 1.5 to 3.0. The high current ratio is the result of significant short-term and at-call deposits and no borrowings.

Australian Government grants as a percentage of operating revenue decreased from 46.3 per cent in 2007 to 45.4 per cent in 2008. This is still higher than the State average of 41.2 per cent (38.6 per cent in 2007) but still below the DEEWR 'good practice' parameter of no more than 50 per cent.

Employee benefits and on-costs as a percentage of operating revenue increased from 53.1 per cent in 2007 to 54.0 per cent in 2008. This is still lower than the State average of 55.3 per cent (54.2 per cent) and within the DEEWR 'good practice' parameter of 50 per cent to 70 per cent.

OTHER INFORMATION

Gold Coast Campus

Construction of the new Gold Coast Campus commenced in 2008 with total estimated costs for building-A of $18.0 million and second building of $50.0 million. At 31 December construction work completed amounted to $4.4 million. Students applying to study in Semester One 2009 will be admitted to the current Tweed Heads campus and will transfer to the new Gold Coast campus when the foundation building is complete.

New National University

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

Improvement Opportunities

We identified opportunities for the University to improve existing procedures. We will further discuss these with University staff and where appropriate report them to management. The more significant areas related to the classification of leases, accounting for the long service leave provision, accumulation of annual leave, preparation and posting of journals, and some aspects impacting the University's general computer control environment.

FINANCIAL INFORMATION

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

Abridged Income Statements

Year ended 31 December	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Australian Government grants	***70,445***	65,432	***70,445***	65,432
Higher Education Contribution Scheme	***31,302***	29,984	***31,302***	29,984
Fees and charges	***24,351***	20,501	***24,168***	20,385
Other	***29,120***	25,421	***28,353***	24,504
Deferred income – superannuation	***28,892***	(5,025)	***28,892***	(5,025)
TOTAL REVENUE	***184,110***	136,313	***183,160***	135,280
Employee benefits and on-costs	***83,866***	75,056	***83,180***	74,207
Depreciation	***5,687***	5,687	***5,676***	5,677
Other	***51,591***	44,469	***51,078***	43,872
Deferred expense – superannuation	***28,892***	(5,025)	***28,892***	(5,025)
TOTAL EXPENSES	***170,036***	120,187	***168,826***	118,731
SURPLUS	***14,074***	16,126	***14,334***	16,549

Australian Government grants reflect additional funding received in 2008. In addition to funding for increased student numbers these grants also include non-recurrent amounts totalling $5.1 million under the Better Universities Renewal Funding program.

Higher Education Contribution Scheme amounts received increased in line with the increase in student numbers.

Higher international student numbers in both onshore and offshore study programs largely contributed to the rise in fees and charges revenue.

Other revenue increased mainly because of higher receipts from Scientific Testing Service and cost recoveries.

Employee benefits and on-costs rose because of increases in staff numbers, award rates and employee leave entitlements. Other expenses increased over a number of areas largely relating to 'advertising, marketing and promotional expenses', 'travel and related staff development and training' and 'education providers expenditure'.

Abridged Balance Sheets

At 31 December	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current assets	***75,925***	57,664	***75,295***	56,733
Non-current assets	***197,107***	163,426	***190,206***	156,604
TOTAL ASSETS	***273,032***	221,090	***265,501***	213,337
Current liabilities	***34,100***	25,789	***33,958***	25,685
Non-current liabilities	***42,315***	12,758	***42,315***	12,758
TOTAL LIABILITIES	***76,415***	38,547	***76,273***	38,443
NET ASSETS	***196,617***	182,543	***189,228***	174,894

Increased net cash inflows from operating activities were largely responsible for the increase in net assets.

The net increase in liabilities for superannuation and the corresponding receivable from the Australian Government is the reason for the significant increase in total assets and total liabilities.

UNIVERSITY ACTIVITIES

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

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

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

CONTROLLED ENTITIES

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

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

The University of Sydney

AUDIT OPINION

The completed audits of the University and its continuing controlled entities' financial reports, for the year ended 31 December 2008 resulted in unqualified Independent Auditor's Reports.

The audit of a controlled entity remains incomplete. Further details on the University's controlled entities appear later in this comment.

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

KEY ISSUES

Impact of the global financial crisis

The global financial crisis and volatility in financial markets has the potential to significantly impact the University's operations and may result in:

- borrowings being required to fund capital expenditure
- deferral or significant changes to the scope of capital works programs
- reduced discretionary spending on research grants, scholarships and prizes.

Investments held by the University fell by 23 per cent or $271 million from $1.15 billion to $884 million at 31 December 2008. The decrease in investments held is due to falling investment values and the use of investments to partly fund its capital building program. The University advised that it does not believe the fall in value will materially impact its operations, however it may result in the deferral of some capital works programs.

The University has incurred an operating loss of $160 million for 2008 compared to a surplus of $187 million in 2007, largely as a result of the global financial crisis and volatility in financial markets. The operating result was impacted by the need to:

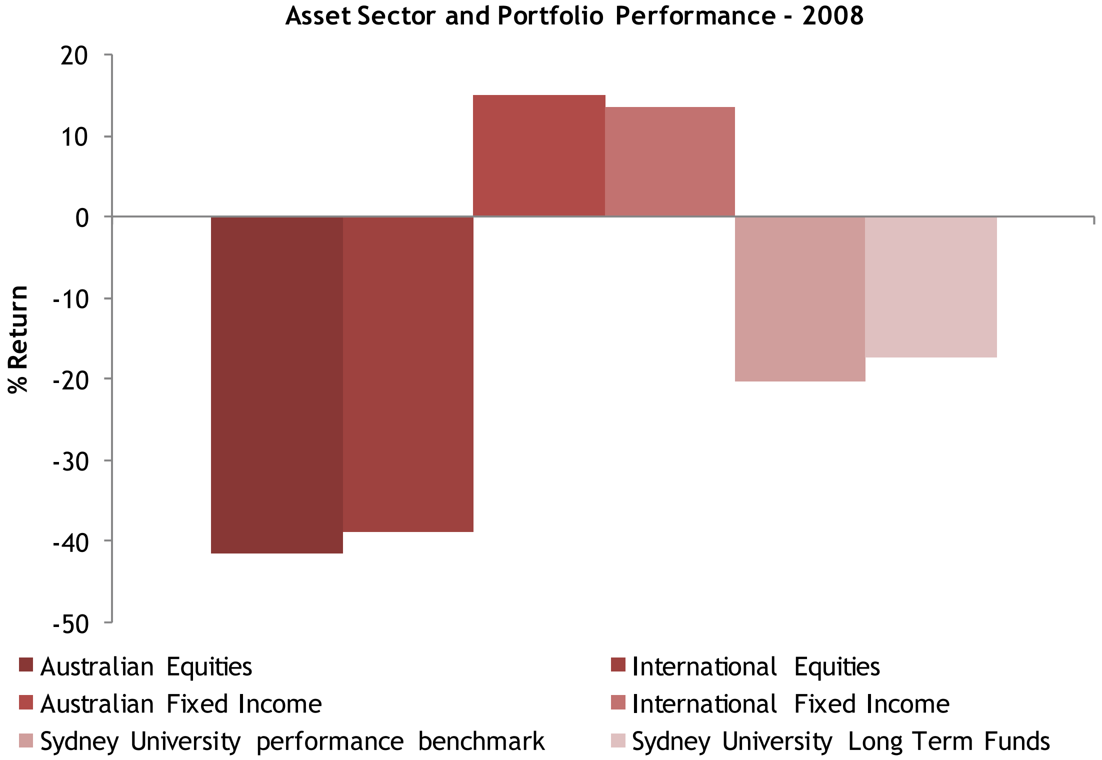
- expense unrealised losses of $211 million, representing the decline in the value of equity investments significantly below their original cost
- expense losses of $45.0 million realised on the sale of investments during the year
- recognise a fall of $75.0 million in investment income earned during the year.

Another significant impact of the global financial crisis has been on superannuation investment earnings and benefit valuations. Liabilities for superannuation increased from $330 million in 2007 to $797 million in 2008. The Australian Government funds the majority of these liabilities which has minimised the impact on the operating result.

Investment Performance

The University's investment funds are divided into short term and long term portfolios. As at 31 December 2008, $829 million of a total $884 million in financial assets (excluding receivables) were in long term funds. The University's long term funds have an investment time horizon of more than seven years and comprise mainly bequest and endowment funds. Short term funds mainly comprise operational working capital and capital development funds and have a time horizon of less than one year.

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



The University's Long Term Investment portfolio performed 2.7 per cent better than the performance benchmark set by the University for the Fund based upon fixed weight strategic asset allocation targets. The benchmark assessed performance on the basis of either peer groups invested in similar investment facilities or a relevant market index plus a margin.

Equity returns fell significantly while fixed income provided positive returns. Better portfolio returns were therefore achieved in 2008 by tilting portfolio asset allocation towards defensive assets (fixed income) and away from traditional growth assets (equity).

Valuation of Heritage Assets (Repeat Issue)

We recommend the University undertake a comprehensive valuation of its Nicholson and Macleay Museum collection assets as the last comprehensive valuation was performed over ten years ago.

Some museum collection assets have not been appropriately valued. A comprehensive valuation of the Nicholson Museum was completed in 1997 and the Macleay Museum in 1998. Some asset values have subsequently been updated via indexation. Indexation may be appropriate for short periods between valuations but it has been over ten years since the last valuation. Accounting standards require non-current assets to be valued as frequently as required to ensure the assets are disclosed at fair value. The University has a plan to complete comprehensive revaluations of these collections over the next three years.

Excessive Annual Leave Balances (Repeat Issue)

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

We are concerned that 1,501 academic and general staff out of a total of 6,751 (22 per cent), held annual leave balances in excess of the maximum allowed thresholds under the University's leave policy. This breach of University policy, results in additional expense to the University as staff remuneration levels increase over time, and can lead to workforce health declining as staff are not taking sufficient breaks from work.

While overall annual leave balances in excess of the maximum allowed threshold improved on the prior year by 170 staff, academic staff with leave balances in excess of 60 days has increased by 19 to 172 staff. The University's leave policy for academic staff allows a maximum balance of 20 days annual leave.

In addition to the current measures being undertaken to reduce leave balances, we recommend the University focus on staff at the high end of the range (i.e. > 60 days) by putting in place leave plans to reduce balances to within policy limits in an agreed timeframe.

University Superannuation (Repeat Issue)

> We recommend the University quantify and resolve employer superannuation underpayments as quickly as possible.

In 2006, the University identified a past superannuation employer contribution underpayment in respect of some current and past employees. The University is still determining the full financial impact of the underpayment and the individuals affected. The UniSuper scheme underpayment, estimated at $7.5 million, has been provided for in the financial report.

This issue is not expected to be resolved until December 2009. The length of time taken (i.e. three years) to resolve this issue remains a concern.

PERFORMANCE INFORMATION

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

The global financial crisis and volatility in financial markets has had a negative impact on all the following performance measures.

The University's current ratio (a measure of its financial liquidity) was 0.6 at 31 December 2008, a decrease on the previous year's ratio of 1.5. At this level it is below the State average of 1.5 (1.6 at 31 December 2007) and below the Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) 'good practice' parameter 1.5 to 3.0.

Australian Government grants as a percentage of operating revenue increased from 37.2 per cent in 2007 to 43.7 per cent in 2008. It is now higher than the State average of 41.2 per cent (38.6 per cent in 2007) but still below the DEEWR 'good practice' parameter of no more than 50 per cent.

Employee Benefits and on-costs as a percentage of operating revenue increased from 51.3 per cent in 2007 to 58.3 per cent in 2008. This is now the highest of all Universities and above the State average of 55.7 per cent (54.2 per cent) but within the DEEWR 'good practice' parameter of 50 per cent to 70 per cent.

Higher education contributions as a percentage of total revenue increased from 9.8 per cent in 2007 to 10.9 per cent in 2008. This represents the equal lowest contributions of all universities and is significantly below the State average of 14.8 per cent (14.5 per cent).

The University's operating loss for the year was a loss of $160 million, or negative 12.4 per cent of total revenue (positive 14.3 per cent). This is the lowest return on total revenue of all universities and well below the State average of negative 1.2 per cent (positive 7.6 per cent). Comments on the University's operating loss appeared earlier in this report.

Capital Expenditure Program

Capital expenditure in 2008 totalled $221 million. The University's capital works program for the years 2009 to 2011 exceeds $1.0 billion. The University is seeking to fund this program through government grants, operating surpluses and borrowings.

The University's capital programs are designed to:

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

The University completed a number of capital projects during the year including the Jane Foss Russell Building and Darlington Public Domain ($78.0 million), and the Madsen Geosciences refurbishment ($9.1 million).

FINANCIAL INFORMATION

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

Abridged Income Statements

Year ended 31 December	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Australian Government grants	***564,514***	485,937	***564,514***	485,937
Higher Education Contribution Scheme	***141,339***	127,530	***141,339***	127,530
Fees and charges	***291,480***	254,566	***291,480***	254,566
Other	***293,532***	436,710	***293,412***	432,708
TOTAL REVENUE	***1,290,865***	1,304,743	***1,290,745***	1,300,741
Employee benefits and on-costs	***754,530***	668,878	***753,213***	668,878
Depreciation and amortisation	***52,465***	51,006	***52,453***	51,006
Other	***433,346***	397,660	***432,615***	397,609
Impairment of available-for-sale assets	***210,520***	--	***210,520***	--
TOTAL EXPENSES	***1,450,861***	1,117,544	***1,448,801***	1,117,493
(DEFICIT)/SURPLUS	***(159,996)***	187,199	***(158,056)***	183,248

Other revenue fell $143 million primarily due to a $75.0 million decrease in investment income this year and a reduction of $75.2 million from gains on investments sold.

Employee benefits and on-cost expenses increased by 12.8 per cent due to a combination of increased staff numbers, salary increases, and costs associated with University funded superannuation schemes.

The impairment expense of $211 million included in the deficit of $160 million for the Consolidated Entity and $158 million for the University, resulted from the global financial crisis mentioned earlier.

Abridged Balance Sheets

At 31 December	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current assets	***136,420***	280,007	***138,423***	279,948
Non-current assets	***4,102,586***	3,566,667	***4,089,618***	3,553,665
TOTAL ASSETS	***4,239,006***	3,846,674	***4,228,041***	3,833,613
Current liabilities	***301,852***	239,118	***301,796***	238,783
Non-current liabilities	***814,749***	377,340	***814,745***	377,340
TOTAL LIABILITIES	***1,116,601***	616,458	***1,116,541***	616,123
NET ASSETS	***3,122,405***	3,230,216	***3,111,500***	3,217,490

Current assets decreased by $144 million due to decreases in cash and other financial assets. The cash and other financial assets were predominately used for the completion of major capital works programs.

The increase of $536 million in non-current assets primarily relates to a $457 million rise in Australian Government receivables for defined benefit superannuation obligations and increases in property, plant and equipment of $170 million. This increase was partially offset by a decrease of $110 million in non-current financial assets attributable to the fall in investment values. Non-current assets include property, plant and equipment of $1.6 billion, financial assets of $844 million, and library and heritage assets of $680 million.

Non-current liabilities increased by $437 million mainly due to increased defined benefit superannuation liabilities of $434 million. The large superannuation liability movement this year is a result of both the increases in actuarially assessed liabilities arising from changes in economic assumptions particularly discount rates, and the deterioration in equity market conditions impacting on superannuation reserve account assets.

Defined benefit superannuation assets and liabilities reflect movements in the actuarially assessed liability for employees who are members of the State Government's defined benefit superannuation plans.

UNIVERSITY ACTIVITIES

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

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

CONTROLLED ENTITIES

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

Entity Name
Centre for United States Studies Pty Limited
Elastagen Pty Limited
Institute for Magnetic Resonance Research
Sports Knowledge Australia Pty Limited#^
Sydney Talent Pty Limited#*
SydneyLearning Pty Limited*
The Bosch Institute
The Sydney Institutes of Health and Medical Research
The Warren Centre for Advanced Engineering Limited*
Ucom Fifteen Pty Limited
Ucom Sixteen Pty Limited
Wayahead Pty Limited*
Wentworth Annexe Limited

* Controlled entities created during 2008.

\# In 2008, two of the university's subsidiaries, Sports Knowledge Australia Pty Ltd and Sydney Talent Pty Ltd, had operated at a loss and had net liabilities at year end. The University has agreed to underwrite commercially acceptable losses, subject to governance and periodic performance reviews, for these two subsidiaries. The University expects these companies to make future profits. We will continue to monitor this situation during the coming year.

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

Elastagen Pty Limited was sold by the University on 12 August 2008.

Two companies controlled by the University were deregistered during the year due to no activity in recent years. They comprised Ucom Fifteen Pty Limited (deregistered on the 3 December 2008) and the Centre for United States Studies Pty Limited (deregistered 3 December 2008). A third controlled entity Ucom Sixteen Pty Limited was deregistered after year end on 21 January 2009.

Audit opinions on the financial reports for these three University controlled deregistered entities and Elastagen Pty Limited have not yet been issued. The Crown Solicitor has advised The Treasury that former directors (or equivalent) of a former statutory body can prepare and submit the financial report, but they cannot sign the financial report. As a result, the Auditor-General cannot issue an audit opinion. The Treasury is investigating ways to overcome this problem.

OTHER BODIES ASSOCIATED WITH THE UNIVERSITY

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

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

Entity Name	Website
United States Studies Centre Limited	www.sydney.edu.au/us-studies/index.shtml
University of Sydney Professorial Superannuation System	*

* This entity does not have a website

University of New England

AUDIT OPINIONS

The audits of the University and the following controlled entities' financial reports for the year ended 31 December 2008 resulted in unqualified Independent Auditor's Reports.

- Agricultural Business Research Institute
- National Marine Science Centre Pty Ltd (Joint Venture)
- Services UNE Ltd
- UNE Partnerships Pty Limited
- UNE Vision Pty Ltd

Similarly the audit of the financial report of International Livestock Resources and Information Centre Ltd for the 18 month period ended 31 December 2008 resulted in an unqualified Independent Auditor's Report.

During 2008, the University transferred 70 per cent of its shares in Remarkspdf Pty Ltd to a private company as a commercial venture. As a result, Remarkspdf Pty Ltd ceased to be a controlled entity of the University and was not consolidated in the 2008 financial report.

The audits of the University of New England Sports Association for the years ended 31 December 2007 and 31 December 2008 resulted in qualified Independent Audit Reports. The qualification was due to buildings and infrastructure not being depreciated in 2007 as required by Australian Accounting Standards.

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

KEY ISSUES

Corporate Governance

During 2008, there were a number of governance issues affecting the University that included disagreement between the Chancellor and Vice-Chancellor over their respective roles. These disagreements led to serious divisions within the University. Both the Chancellor and the Vice-Chancellor engaged legal firms to represent and advise them. The Chancellor also engaged an accounting firm to investigate allegations of impropriety raised against the Vice-Chancellor. The Chancellor completed his full term on 10 December 2008 following a vote of no confidence by the University Council and a new Chancellor was appointed on 11 December 2008. The University Council subsequently agreed that the cost of the legal and accounting experts would be borne by the University. During 2008, legal costs of the University increased by $878,000 to $1.3 million due largely to the above issues.

In a media release dated 11 December 2008, the University Council noted the findings of the November 2008 reports from the accounting and legal firms appointed to investigate the allegations made against the Vice-Chancellor. The Council resolved not to accept all the findings and the allegations. On 17 April 2009 the Vice-Chancellor announced his early retirement.

In June 2008, the University Council requested that Sir Laurence Street, an independent arbiter, conduct an inquiry into the respective roles of the Chancellor and Vice-Chancellor and to consider other related governance matters at the University. The request was accepted and the inquiry commenced. However, after a short time Sir Laurence decided to put the inquiry on hold pending resolution of certain matters by the University Council. On 2nd February 2009, Sir Laurence advised in writing that he was of the view the proposed inquiry should be 'wholly discontinued' as the healing process 'seems to be progressing'.

The Council held a Retreat on 18 and 19 February 2009 to focus on governance issues. To address issues relating to the governance framework and process, the Council has formed a sub committee to consider a number of papers and formulate matters for debate at the Council's July meeting. The current financial delegations are also subject to review. The outcomes from this process including recommendations for further refinement of roles, responsibilities and processes will be reviewed by Sir Laurence who has agreed to address the University Council at its September meeting.

Excessive Annual Leave Balances

We recommend that management develop a leave plan with employees to reduce leave balances within an acceptable timeframe.

Academic staff accrue 20 days of annual leave per 12 month period and general staff accrue 25 days. The number of academic staff with annual leave balances in excess of 40 days has increased from two in 2006 to 48 in 2008. The number of general staff with leave balances in excess of 50 days has increased from nine in 2006 to 25 in 2008. Workchoices Legislation prevents the University from forcing staff to take annual leave unless they have more than two years of accrued leave.

Impact of the global financial crisis

The global financial crisis and volatility in financial markets has the potential to impact the University's operations and may result in:

- the need for borrowings to fund operating and capital expenditure
- deferral or significant changes to the scope of planned capital works programs
- reduced spending on research grants, scholarships and prizes.

The University did not have a significant investment balance. During the year the University's equity securities declined in value by $282,000 to $892,000 at 31 December 2008.

The most significant impact of the global financial crisis has been on superannuation investment earnings and benefit valuations. Liabilities for superannuation increased from $78.5 million in 2007 to $180 million in 2008. The Australian Government funds the majority of these liabilities which has minimised the impact on the operating result.

PERFORMANCE INFORMATION

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

The University's current ratio (a measure of its financial liquidity) was 1.6 at 31 December 2008, up from the previous year's ratio of 1.4. At this level it is now above the State average of 1.5 per cent (1.6 per cent at 31 December 2007) and within the Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) 'good practice' parameter of 1.5 to 3.0.

Australian Government grants as a percentage of operating revenue increased from 51.1 per cent in 2007 to 51.5 per cent in 2008. The University continues to have the highest level of reliance on Australian Government grants of all universities. Its reliance on these grants is significantly higher than the State average of 41.2 per cent (38.6 per cent in 2007) and it still exceeds the DEEWR 'good practice' parameter of no more than 50 per cent. Measures adopted by the University aimed at improving the ratio include actively restructuring course offerings to attract additional full fee paying students and offering University programs in conjunction with new partnership providers.

Employee benefits and on-costs as a percentage of operating revenue increased from 55.9 per cent in 2007 to 58.1 per cent in 2008. This is higher than the State average of 55.3 (54.2 per cent) but within the DEEWR 'good practice' parameter of 50 per cent to 70 per cent.

OTHER INFORMATION

We identified opportunities for improvement in internal controls and are in the process of reporting them to management.

Maintenance Backlog

The University's Strategic Asset Maintenance Plan 2008-2013 estimates deferred maintenance at $43.4 million with a further $22.0 million relating to residential college buildings. The University's primary focus is to invest in areas that will support an increase in student numbers, to maximise space utilisation, to manage the demolition of unsuitable buildings and to manage the environment appropriately. The capital budget for 2008 was $13.2 million including $7.2 million for backlog corrective maintenance.

The University is considering external loan funding for the purposes of further capital projects.

Voluntary Student Unionism

The University contributed $722,000 ($700,000 in 2007) to controlled entities to fund services previously funded by student organisations prior to the introduction of Voluntary Student Unionism (VSU).

FINANCIAL INFORMATION

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

Abridged Income Statements

Year ended 31 December	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Australian Government grants	***110,275***	105,236	***110,275***	105,236
Higher Education Contribution Scheme	***40,752***	39,108	***40,752***	39,108
Fees and charges	***40,877***	41,934	***31,764***	31,132
Other	***22,268***	19,629	***16,754***	14,644
Deferred income – superannuation	***98,195***	(21,700)	***98,195***	(21,700)
TOTAL REVENUE	***312,367***	184,207	***297,740***	168,420
Employee benefits and on-costs	***124,407***	115,120	***115,430***	106,412
Depreciation and amortisation	***13,141***	12,295	***12,182***	11,453
Other	***69,384***	74,417	***64,042***	68,288
Deferred expense – superannuation	***98,195***	(21,700)	***98,195***	(21,700)
TOTAL EXPENSES	***305,127***	180,132	***289,849***	164,453
SURPLUS	***7,240***	4,075	***7,891***	3,967

Under the Australian Government's $500 million Better Universities Renewal Funding program the University received $7.3 million towards capital investment in priority areas. Areas nominated by the University included a $2.0 million facility for climate change, $2.1 million on e-learning infrastructure and $2.0 million on redevelopment of the Mary White residential college. As at 31 December 2008 no expenditure had been incurred on those projects and the balance of the grant was held in cash.

Abridged Balance Sheets

At 31 December	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current assets	***62,701***	55,682	***52,918***	46,064
Non-current assets	***409,897***	313,039	***393,282***	297,209
TOTAL ASSETS	***472,598***	368,721	***446,200***	343,273
Current liabilities	***53,434***	52,968	***49,975***	49,396
Non-current liabilities	***185,001***	82,911	***184,051***	81,902
TOTAL LIABILITIES	***238,435***	135,879	***234,026***	131,298
NET ASSETS	***234,163***	232,842	***212,174***	211,975

The $7.0 million increase in current assets was mainly due to the unexpended grant received under the Better Universities Renewal Funding program referred to previously.

The large increase in non-current assets and non-current liabilities largely reflects the impact of the global financial crisis on defined benefit superannuation liabilities.

UNIVERSITY ACTIVITIES

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

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

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

CONTROLLED ENTITIES

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

Entity Name	Website
Agricultural Business Research Institute	www.abri.com.au
International Livestock Resources and Information Centre Ltd	www.ilric.com
Remarkspdf Pty Ltd	#
Services UNE Ltd	www.servicesune.com.au
UNE Partnerships Pty Limited	www.unepartnerships.edu.au
UNE Vision Pty Ltd	*
University of New England Sports Association	www.une.edu.au/sportune

* This entity does not have a website.
\# This entity is no longer controlled by the University.

OTHER BODIES ASSOCIATED WITH THE UNIVERSITY

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

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

* This entity does not have a website.

University of New South Wales

AUDIT OPINIONS

The audits of the University and its controlled entities' financial reports for the year ended 31 December 2008 resulted in unqualified Independent Auditor's Reports for 26 (including the parent) entities and a qualified Independent Auditor's Report for one entity.

I issued a qualified Independent Auditor's Report for UNSW Hong Kong Foundation Limited. As is common for organisations of this type, it is impractical for these entities to maintain an effective system of internal control over donation revenues they receive until their initial entry in the financial records. I was therefore unable to express an opinion as to whether all donations have been recorded in the Foundation's financial records. The Independent Auditor's Report for the year ended 31 December 2007 was similarly qualified.

At the time of finalising this report the audits for the following controlled entities had not been completed:

- Acyte Biotech Pty Ltd
- NewSouth Innovations Pty Ltd
- University of New South Wales Foundation
- UNSW & Study Abroad – Friends and U.S. Alumni, Inc.

This is a significant improvement over prior years.

	2008	2007	2006
Incomplete audits	*4*	8	20

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

KEY ISSUES

Singapore Campus – UNSW Asia

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

Last year, we reported that following the closure of UNSW Asia, the University signed a settlement agreement in December 2007 with the Singapore Economic Development Board (EDB), the Government of the Republic of Singapore, the JTC Corporation and UNSW Asia. This resulted in the University assuming UNSW Asia's liabilities and closure costs including an ANZ Bank loan, an EDB loan and a grant repayable to the EDB. The company is still in the process of voluntary liquidation.

During 2008, the University:

- repaid a SGD15.0 million (AUD15.4 million) loan to the EDB and realised a foreign exchange loss of AUD3.6 million because the loan was unhedged
- repaid a SGD1.2 million (AUD1.2 million) EDB grant and realised a foreign exchange loss of AUD282,000 because the grant was unhedged
- recognised an unrealised foreign exchange loss of AUD2.4 million on an unhedged grant of SGD9.7 million (AUD9.9 million) repayable to the EDB at 31 December 2008.

Impact of the global financial crisis

> We recommend the University continue to closely monitor its cash flow requirements to ensure it is able to fund its operating and capital expenditure commitments and meet other liability obligations.

The global financial crisis and volatility in financial markets has the potential to significantly impact the University's operations and may result in:

- increased borrowings to fund operating and capital expenditure
- deferral or significant changes to the scope of capital works programs
- reduced spending on research grants, scholarships and prizes.

The University has advised that it does not believe the fall in the value of its investments from $360 million at 31 December 2007 to $305 million at 31 December 2008, will impact its operations or capital works programs.

However, despite an increase in total revenue, the group incurred an operating loss of $87.3 million for 2008 compared to a loss of $6.5 million in 2007, largely as a result of the global financial crisis and volatility in financial markets. The operating result was impacted by the need to:

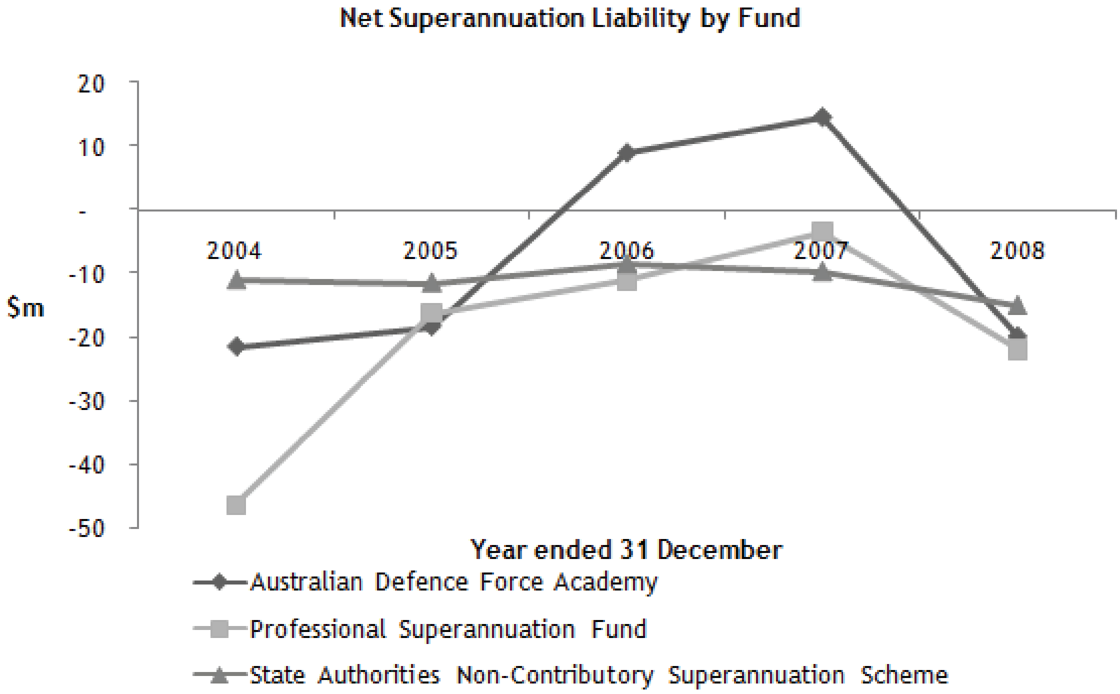
- expense unrealised losses of $91.0 million, representing the fall below cost in the value of equity investments
- expense losses of $348,000 realised on the sale of investments during the year
- recognise a fall of $19.4 million in investment income earned during the year.

The University's long-term investment fund and short-term working fund underperformed against its benchmark facilities as follows:

Fund	2008		2007	
	University Return %	Benchmark Facility Return %	University Return %	Benchmark Facility Return %
Long-term	***(17.06)***	***(15.75)***	7.08	5.06
Short-term	***4.27***	***7.51***	5.90	6.55

Source: University of New South Wales.

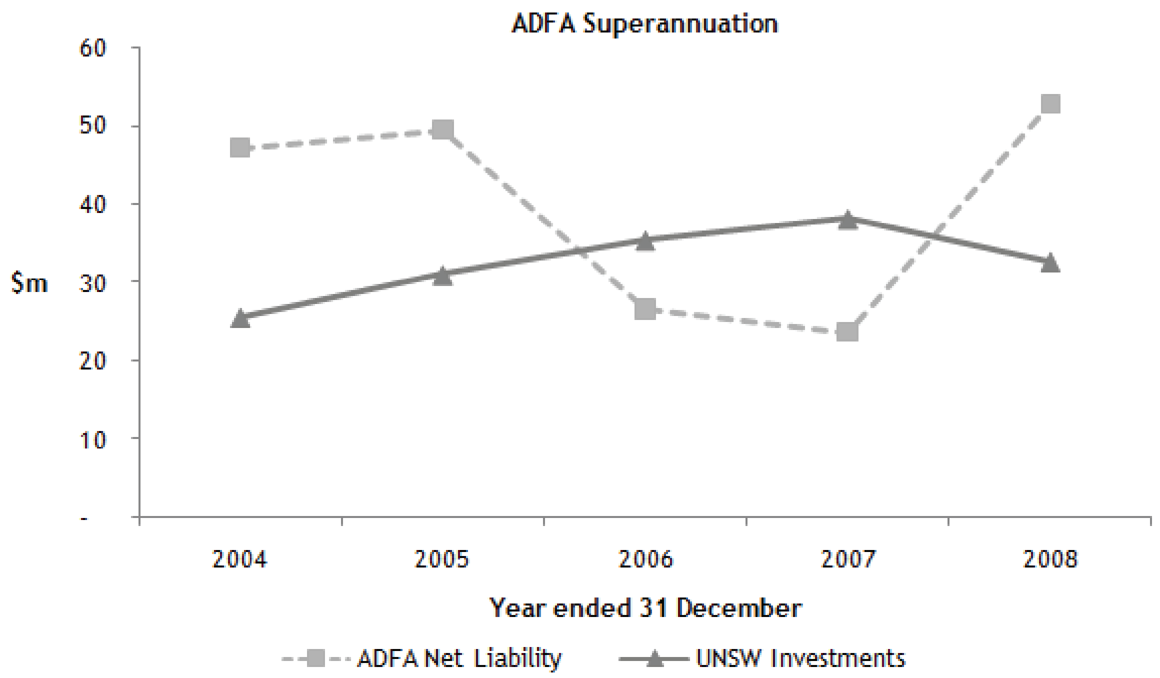
Another significant impact of the global financial crisis has been on superannuation investment earnings and benefit valuations. Liabilities for superannuation increased from $370 million in 2007 to $788 million in 2008. The Australian Government funds the majority of these liabilities which has minimised the impact on the operating result. The University's unfunded liability for the three superannuation funds not funded by the Australian Government at 31 December 2008 was $58.3 million ($12.9 million in 2007). The trend for these liabilities over the last five years has been:



Australian Defence Force Academy (ADFA) Superannuation (Repeat Issue)

In 2006, we reported that the University planned to transfer investments it was holding to fund superannuation liabilities of ADFA staff to the State Superannuation Scheme (SSS Fund).

In 2004, the University reached agreement with the Australian Government for funding superannuation liabilities of ADFA staff transferred to the University when ADFA became a University college. In December 2004 the Australian Government paid the University $25.5 million for those liabilities. Since then it has been the University's obligation to fund current and future liabilities. As shown below, investments had grown by $7.2 million to $32.7 million at 31 December 2008. These funds are externally managed as part of the University's pool of general investments. The ADFA Superannuation liability at 31 December was $52.6 million, leaving a significant net liability at 31 December 2008 of $19.9 million.



Excessive Annual Leave Balances

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

We are concerned 683 (13.5 per cent) out of a total of 5,047 academic and general staff at 31 December 2008, held annual leave balances in excess of the maximum thresholds allowed under the University's leave policy. This results in additional expense to the University as staff remuneration levels increase over time, and can lead to workplace health declining as staff are not taking sufficient breaks from work.

While the total number of staff with excess annual leave balances only increased by 28 in 2008, academic staff with leave balances in excess of 40 days increased by 271, from 131 to 412 staff. Management has advised a target project will be undertaken in 2009 aimed at markedly reducing the number of employees with greater than 40 days of accrued annual leave entitlements.

Controlled Entities (Repeat Issue)

The complexity of the University group structure continues to pose significant challenges for the University to address and manage. These include:

- timely identification, communication, reporting and resolution of issues
- ensuring appropriate governance and controls are in place across the group that operate effectively throughout the year
- significant costs of ensuring compliance with all legislative requirements.

We understand management is continuing to review the appropriateness of the group structure and take steps to improve existing governance and controls, and the timeliness of reporting and issues resolution. Management is focussing on:

- improving communication across the group
- centralising controls for compliance activities.

The University had 29 controlled entities at 31 December 2008 (32 at 31 December 2007). Management has commenced voluntary liquidation of another four controlled entities.

The number of controlled entities in the group significantly increases compliance costs and governance risks. While some of the entities are dormant, each entity must:

- prepare and have audited a financial report
- implement and maintain an effective compliance framework to ensure it complies with legislative requirements which apply to its operations.

Student Debtors and other Reconciliations (Repeat Issue)

In 2006, we reported that management had identified the need to complete a review of credit balances in student debtors' accounts. This review was expected to be completed in 2008, but is still ongoing. The credit balances date back several years and comprise thousands of small accounts.

PERFORMANCE INFORMATION

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

The University's current ratio (a measure of its financial liquidity) was 1.0 at 31 December 2008, an increase from the previous year's ratio of 0.9. At this level it is still well below the State average of 1.5 (1.6 at 31 December 2007) and below the Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) 'good practice' parameter of 1.5 to 3.0. However, another DEEWR guideline, the Annual Institutional Assessment Framework, suggests a current ratio of more than one is low risk, between 0.75 and one is medium risk, and less than or equal to 0.75 is high risk. Using this benchmark, the University's current ratio would be considered medium risk. The University has $303 million available for sale financial assets, some of which could be realised at short notice to fund a short-term requirement.

Australian Government grants as a percentage of total revenue increased from 39 per cent in 2007 to 40.8 per cent in 2008. This is lower than the State average of 41.2 per cent (38.6 per cent in 2007) and still below the DEEWR 'good practice' parameter of no more than 50 per cent.

Employee benefits and on-costs as a percentage of total revenue decreased from 55 per cent in 2007 to 54.9 per cent in 2008. This is now lower than the State average of 55.3 per cent (54.2 per cent) and still within the DEEWR 'good practice' parameter of 50 per cent to 70 per cent.

Higher education contributions as a percentage of total revenue increased from 10.1 per cent in 2007 to 10.9 per cent in 2008. This is equal lowest of all universities and is significantly below the State average of 14.8 per cent (14.5 per cent).

OTHER INFORMATION

Capital Expenditure Program

Capital expenditure in 2008 was $87.4 million, a decrease of $8.5 million on 2007. However, the University has a significant capital expenditure program planned over the next few years, including student accommodation and a cancer research building on the main campus. The student accommodation building, with 173 studio type apartments and 316 beds, was completed and ready for occupancy in January 2009. The University's capital commitments as at 31 December 2008 totalled $75.6 million.

The capital expenditure program is designed to address the following major challenges facing the University:

- to meet its infrastructure needs and address backlog maintenance, which was estimated at $236 million at 31 December 2008, for the parent only
- to provide suitable accommodation for students and staff
- to replace outdated facilities with modern teaching and research facilities.

In 2008 the University received funds for capital works from the following sources:

- land sold at Little Bay for $103 million. The net proceeds will fund construction of a cancer research building, additions to the Wallace Wurth Medical School, the relocation of research facilities and provide student sporting facilities
- a DEEWR grant of $26.1 million for the Better Universities Renewal Funding Program to enhance the features and functionality of the University's infrastructure and student amenities
- $20.0 million from the South Eastern and Illawarra Area Health Service to fund the Virology Institute Building to be constructed on land owned by St. Vincent's Hospital Sydney. The building is to facilitate the National Centre in HIV Epidemiology and Clinical Research's activities. Under the agreement this amount will flow to a new company once it has been established. Until that time the University holds these funds
- $12.5 million from the Australian Government to establish the Centre for Social Impact (CSI). The University will be the lead participant in a consortium or joint venture arrangement to be formed to establish and host the Centre. The other participants are the University of Melbourne and Swinburne University of Technology. The money is to be invested by the University with the income earned to be used to fund the establishment and ongoing operations of the Centre. The University must preserve the funding at the nominal value of $12.5 million and cannot use the funding to purchase or create any asset. If the University does not receive matching funding by 30 June 2012 from non-Australian Government sources, it has to return the portion of the funding that exceeds the non-Australian Government funding.

Co-operative Research Centre for Eye Research and Technology (CRCERT) (Repeat Issue)

For five years, we reported that the University was conducting an investigation into matters relating to CRCERT. In 2008 the University completed this investigation which was conducted in accordance with clause 14.2 of the UNSW (Academic Staff) Enterprise Agreement 2003 'Initial Procedures for Dealing with Allegations of Misconduct or Serious Misconduct'.

The University considered the findings of the independent investigator in determining and taking disciplinary action against the staff member involved.

NewSouth Innovations Pty Limited (NS Innovations)

In 2006 and 2007 we reported that funding arrangements for NS Innovations needed to be reviewed as arrangements are not clear as to the quantity, timing and certainty of future funding. The University provided new letters of comfort to NSW Innovations in 2008 and 2009. These letters have a limit of $10.0 million covering all necessary entities. The arrangement is not part of the University's 2009 budget. The approved operating budgets of all controlled entities, including NS Innovations, are incorporated into the University's 2009 budget.

FINANCIAL INFORMATION

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

Abridged Income Statements

Year ended 31 December	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Australian Government grants	***470,867***	394,689	***470,586***	394,689
Higher Education Contribution Scheme	***126,243***	102,526	***126,243***	102,526
Fees and charges	***347,634***	309,810	***276,914***	237,037
Other	***209,732***	205,126	***189,791***	188,812
Deferred (expense)/income – superannuation	***364,769***	(50,669)	***364,769***	(50,669)
TOTAL REVENUE	***1,519,245***	961,482	***1,428,303***	872,395
Employee benefits and on-costs	***609,803***	556,380	***566,929***	515,668
Depreciation and amortisation	***85,217***	45,215	***83,557***	43,439
Other	***503,094***	369,830	***447,227***	375,180
Operating loss/(gain) from discontinued operation	***(72)***	47,036	***--***	--
Deferred expense/(income) - superannuation	***408,473***	(50,669)	***408,473***	(50,669)
TOTAL EXPENSES	***1,606,515***	967,792	***1,506,186***	883,618
Outside equity interest and income tax/(expense) benefit	***(69)***	(172)	***--***	--
DEFICIT	***(87,339)***	(6,482)	***(77,883)***	(11,223)

The majority of the increase in Australian Government grants of $76.2 million comprised grants of $20.5 million for Commonwealth Government Scheme basic grant and $7.8 million for Linkage Infrastructure and Discovery Projects. In addition, the University received $26.1 million for the Better University Renewal Funding Program.

The $37.8 million increase in fees and charges included additional international student fees of $30.0 million and additional domestic postgraduate and undergraduate students fees of $7.0 million. In 2008 there was a 13.1 per cent increase in international students and, a 5.1 per cent increase in domestic students.

The significant increase in deferred superannuation income and expense was due to an increase in net liabilities for the State Super Scheme and the State Authority Super Scheme. The amounts reflect movements in the actuarially assessed liability for employees who are members of these State Government's defined benefit superannuation schemes. These have little impact on the operating result because the Australian Government funds the majority of this liability.

The increase in employee benefits and on-cost expenses of $53.4 million was mainly due to a five per cent annual salary increase.

Other expenses increased by $133 million mainly due to a $68.1 million impairment of investments resulting from the global financial crisis. Depreciation and amortisation expenses increased by $38.1 million as a result of reviewing the useful lives of fixed assets.

Abridged Balance Sheets

At 31 December	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current assets	***243,346***	195,139	***202,259***	164,164
Non-current assets	***2,293,975***	1,940,836	***2,224,085***	1,861,856
TOTAL ASSETS	***2,537,321***	2,135,975	***2,426,344***	2,026,020
Current liabilities	***318,049***	286,951	***301,357***	276,553
Non-current liabilities	***886,516***	449,032	***887,863***	447,486
TOTAL LIABILITIES	***1,204,565***	735,983	***1,189,220***	724,039
NET ASSETS	***1,332,756***	1,399,992	***1,237,124***	1,301,981

The increase in the University's total assets is predominantly due to the increase in deferred government contribution for superannuation of $379 million and property, plant and equipment revaluation increments of $20.0 million.

UNIVERSITY ACTIVITIES

The University is constituted under the *University of New South Wales Act 1989*. It mainly:

- provides education and research facilities of university standard
- aids, by research and other suitable means, the advancement, development and practical application of science to industry and commerce
- provides instruction and carries out research in humane studies and medicine and other disciplines as the Council may determine.

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

CONTROLLED ENTITIES

UNSW Global Pty Limited (Global)

Global operates controlled entities in Singapore, Hong Kong, India and Thailand. The companies provide undergraduate preparation courses and various language programs and services, conduct educational testing, manage study abroad programs and facilitate technical assistance and training activities.

Year ended 31 December	Consolidated		Parent	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
Revenue	***84,077***	75,124	***82,241***	73,063
Expenses	***75,934***	68,451	***74,285***	67,456
Profit	***8,143***	6,673	***7,956***	5,607
Net assets (at 31 December)	***20,190***	19,370	***17,981***	18,025

Revenue rose mainly due to an increase in course fees and charges, which is attributable to a combination of a growth in the number of overseas enrolments and increases in course prices.

Expenses increased mainly due to an increase in employee related expenses resulting from an increase in casual teaching staff as a result of the increase in enrolments, average annual salary increases of 4.5 per cent and termination payments totalling $620,000 to two directors.

Net assets increased by $820,000 primarily due to an increase in cash and cash equivalents.

For further information on Global, refer to www.nsg.unsw.edu.au.

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

Entity Name	Website
ACN 125 694 546 Pty Ltd	*
Acyte Biotech Pty Ltd ***	*
AGSM Limited **	www.agsm.edu.au
Audio Nomad Pty Ltd **	*
Australian Education Consultancy Limited	www.aecl.com.hk
Cystemix Pty Limited	*
HepatoCell Therapeutics Pty Ltd **	*
John Lewis and Pamela Lightfoot Trust	*
NewSouth Eight Pty Ltd	*
NewSouth Five Pty Ltd	*
NewSouth Four Pty Ltd	*
NewSouth Global (Thailand) Limited	*
NewSouth Innovations Pty Ltd	www.nsinnovations.com.au
NewSouth One Pty Ltd	*
NewSouth Seven Pty Ltd	*
NewSouth Six Pty Ltd	*
Qucor Pty Ltd	www.qucor.com.au
The New South Wales Minerals Industry/University of New South Wales Education Trust	*
University of New South Wales Foundation Limited	*
University of New South Wales International House Limited	www.ihunsw.edu.au
University of New South Wales Press Limited	www.unswpress.com.au
UNSW & Study Abroad - Friends and U.S. Alumni, Inc	*
UNSW (Thailand) Limited	www.unswthailandoffice.com
UNSW Asia School Limited **	*
UNSW Global (Singapore) Pte Limited	www.singapore.unsw.edu.au
UNSW Global India Private Limited	www.unswindiaoffice.com
UNSW Hong Kong Foundation Limited	*
UNSW Hong Kong Limited	www.hongkong.unsw.edu.au

* These entities do not have websites.
** These entities are being liquidated.
*** Became non-controlled entity on 28 November 2008.

University of Newcastle

AUDIT OPINION

The audits of the University and its controlled entities' financial reports for the year ended 31 December 2008 resulted in unqualified Independent Auditor's Reports, except for the UON Foundation Trust. As is common for organisations such as the Trust it is impractical for these entities to maintain an effective system of internal controls over donation revenue until their initial entry in the financial records. I was therefore unable to express an opinion as to whether all donations have been recorded in the Trust's financial records.

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

KEY ISSUES

Impact of the global financial crisis

The global financial crisis and volatility in financial markets has the potential to significantly impact the University's operations and may result in:

- increased borrowings to fund operating and capital expenditure
- deferral or significant changes to the scope of capital works programs
- reduced spending on research grants, scholarships and prizes.

The University has advised that it does not believe the fall in the value of its investments from $97.4 million at 31 December 2007 to $76.1 million at 31 December 2008, will impact its operations or capital works programs.

However, despite an increase in total revenue, the group incurred an operating loss of $366,000 for 2008 compared to a surplus of $24.3 million in 2007, largely as a result of the global financial crisis and volatility in financial markets. The operating result was impacted by:

- the need to expense unrealised losses of $29.2 million, representing the fall below cost in the value of equity investments
- a fall of $4.4 million in investment income earned during the year, from $14.1 million to $9.7 million.

Another significant impact of the global financial crisis has been on superannuation investment earnings and benefit valuations. Liabilities for superannuation increased from $106 million in 2007 to $234 million in 2008 an increase of $128 million. The Australian Government funds the majority of these liabilities which has minimised the impact on the operating result.

Group Structure

> We recommend the University review the appropriateness of its group structure to ensure it meets its objectives effectively and efficiently.

The University has a significant number of trusts and companies that form the consolidated group, there were 9 controlled entities at year end.

Some Universities in the State have simplified their corporate structures or are in the process of doing so, by bringing activities previously housed in controlled entities within the University. This has the benefits of:

- reducing administration costs
- improving governance and controls over the operations of the group.

The University has raised concerns with the Audit Office over the cost of auditing its controlled entities on a number of occasions and this could be alleviated by reducing the number of controlled entities. Good corporate governance and control could still be maintained by setting the activities up as cost centres within the University and having regular reporting and review of the activities by management.

PERFORMANCE INFORMATION

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

The University’s current ratio (a measure of its financial liquidity) was 1.8 at 31 December 2008, an increase from the previous year’s ratio of 1.2. This ratio is now higher than the State average of 1.5 (1.6 at 31 December 2007) and now within the Australian Government’s Department of Education, Employment and Workplace Relations (DEEWR) ‘good practice’ parameter of 1.5 to 3.0.

Australian Government grants as a percentage of operating revenue increased from 42.6 per cent in 2007 to 44.7 per cent in 2008. This is higher than the State average of 41.2 per cent (38.6 per cent in 2007) but still meets the DEEWR ‘good practice’ parameter of less than 50 per cent.

Employee benefits and on-costs as a percentage of operating revenue increased from 53.2 per cent in 2007 to 53.8 per cent in 2008. This is lower than the State average of 55.3 per cent (54.2 per cent) and within DEEWR ‘good practice’ parameter of 50 per cent to 70 per cent.

OTHER INFORMATION

We identified a number of opportunities to improve accounting and internal control procedures at the University and its controlled entities and have reported them to management. A number of these issues have been raised previously, however the University has advised that they require a longer timeframe to resolve them. The University has instituted processes to monitor and report on progress in resolving issues raised.

FINANCIAL INFORMATION

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

Abridged Income Statements

Year ended 31 December	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Australian Government financial assistance	***302,836***	256,121	***302,836***	256,121
Fees and charges	***82,054***	75,307	***59,939***	55,051
Other	***89,272***	84,377	***88,463***	82,800
Deferred income – superannuation	***132,404***	(18,966)	***132,404***	(18,966)
TOTAL REVENUE	***606,566***	396,839	***583,642***	375,006
Employee benefits and on-costs	***255,224***	221,385	***241,633***	212,184
Depreciation and amortisation	***36,899***	30,942	***36,133***	30,332
Other	***182,405***	139,162	***174,839***	130,958
Deferred expense – superannuation	***132,404***	(18,966)	***132,404***	(18,966)
TOTAL EXPENSES	***606,932***	372,523	***585,009***	354,508
(DEFICIT)/SURPLUS	***(366)***	24,316	***(1,367)***	20,498

The deficit was adversely impacted by the global financial crisis mentioned earlier.

Abridged Balance Sheet

At 31 December	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current assets	***107,481***	73,516	***100,604***	56,621
Non-current assets	***994,074***	896,869	***991,318***	894,051
TOTAL ASSETS	***1,101,555***	970,385	***1,091,922***	950,672
Current liabilities	***89,374***	87,073	***89,828***	77,149
Non-current liabilities	***259,250***	131,160	***258,989***	130,915
TOTAL LIABILITIES	***348,624***	218,233	***348,817***	208,064
NET ASSETS	***752,931***	752,152	***743,105***	742,608

Non-current assets and non-current liabilities increased from movements in superannuation assets and liabilities.

UNIVERSITY ACTIVITIES

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

- provides educational and research facilities, having particular regard to the needs of the Hunter Region, the Central Coast and surrounding areas
- encourages the dissemination, advancement, development and application of knowledge
- provides courses of study and carries out research to meet the needs of the community
- confers degrees, including Bachelor, Master and Doctor, and awards diplomas and certificates.

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

CONTROLLED ENTITIES

UON, Singapore Pte Ltd

UON, Singapore Pte Ltd offers a number of the University's undergraduate and post graduate degree courses at campuses in Singapore. The University has an agreement with a Singaporean education provider to teach University degrees from their campuses. This means the University did not have to purchase infrastructure in Singapore and benefits from its partner's local knowledge.

We previously reported that the company was in the start up phase of its operations and planned to incur losses for the first two years before becoming profitable. This year the company made a profit of $573,755 as a result of an increase in students and a strengthening of the Singapore dollar against the Australian dollar.

UON Services Limited

UON Services Limited subsidiary company, Degrees in Catering Pty Limited, was wound up during the year. The Treasurer granted an exemption from the *Public Finance and Audit Act 1983* requirement to prepare a final financial report for this company.

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

Entity Name	Website
GraduateSchool.com Pty Limited	www.gradschool.com.au
Hunter Uni-Clinics Pty Ltd	*
- Cessnock Uni-Clinic Trust	*
Newcastle Innovation Limited	www.newcastleinnovation.com.au
- Probiotic Health Pty Limited	*
UON Foundation Ltd	www.newcastle.edu.au/foundation
- UON Foundation Trust	*
UON Services Limited	www.uonservices.org.au
UON, Singapore Pte Ltd	www.newcastle.edu.au/location/singapore

* These entities do not have websites

University of Technology, Sydney

AUDIT OPINION

The completed audits of the University and its controlled entities' financial reports for the year ended 31 December 2008 resulted in unqualified Independent Auditor's Reports.

The audit of a controlled entity, UTSM Services (Malaysia) Sbn Bhd, remains incomplete.

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

KEY ISSUES

Impact of the Global Financial Crisis

The global financial crisis and volatility in financial markets have the potential to significantly impact the University's operations and may result in:

- increased borrowings to fund operating and capital expenditure
- deferral or significant changes to the scope of capital works programs
- reduced spending on research grants, scholarships and prizes.

The University did not have any significant exposure in the financial markets at 31 December 2008. The University moved its investments to cash in August 2008 because of higher returns on offer from term deposits.

Significant impact of the global financial crisis has been on superannuation investment earnings and benefit valuations. Liabilities for superannuation increased from $130 million in 2007 to $301 million in 2008. The Australian Government funds the majority of these liabilities which has minimised the impact on the operating result.

Ku-ring-gai Campus Rezoning

The University's plan for a new site-specific land use zone for its Ku-ring-gai campus to permit a wider range of uses, including residential, is on hold. The New South Wales Education Minister requested suspension of the Expression of Interest for the sale of the campus in December 2008. This occurred because the New South Wales Government has claimed an interest in the Ku-ring-gai campus property.

The University had endorsed a strategy in July 2003 to review its options for the long term use of the Ku-ring-gai Campus. The preferred concept plan was submitted to the New South Wales Department of Planning under Part 3A of the *Environmental Protection Act 1997* and was approved.

PERFORMANCE INFORMATION

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

The University's current ratio (a measure of its financial liquidity) was 2.6 at 31 December 2008, an increase from the previous year's ratio of 1.8. This ratio is significantly higher than the state average of 1.5 (1.6 at 31 December 2007) and is towards the upper range of the Australian Government's Department of Education, Education, Employment and Workplace Relations (DEEWR) 'good practice' parameters of 1.5 to 3.

Australian Government grants as a percentage of total revenue increased, from 32.5 per cent in 2007 to 33.6 per cent in 2008. It remains lower than the State average of 41.2 per cent (38.6 per cent in 2007), and well within the DEEWR 'good practice' parameter of no more than 50 per cent.

Employee benefits and on-costs as a percentage of operating revenue decreased from 55.2 per cent in 2007 to 52.9 per cent in 2008. This is lower than the State average of 55.3 per cent (54.2 per cent) and within the DEEWR 'good practice' parameters of 50.0 to 70.0 per cent.

The University's operating result for the year was 11.1 per cent of total revenue (8.1 per cent). This was the highest return on total revenue of all universities and well above the State average of negative 1.2 per cent (positive 7.6 per cent). The higher return was mainly due to the University's timely exit from exposure to the financial markets and thereby avoiding impairment losses which had a significant impact on the other universities' results.

Backlog Maintenance

The University's back log maintenance program improved by 3.3 per cent, from $12.7 million in 2007 to $12.3 million in 2008. This improvement is a continuation of the efforts that began three years ago as shown below:

Year ended 31 December	Actual		
	2008 $'000	2007 $'000	2006 $'000
Backlog maintenance program requirement	***12,298***	12,700	19,800

OTHER INFORMATION

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

UTSM Services (Malaysia) Sdn Bhd

The University Council approved the winding up of UTSM Services (Malaysia) Sdn Bhd (UTS Malaysia) on 25 February 2009. UTS Malaysia, a controlled entity of the University, commenced operation in 2006 in a teaching partnership with Taylors University College, Malaysia (Taylors). UTS Malaysia deliver 'in country' services to support the university teaching programme with Taylors.

The entity will be wound up due to the University's Business Faculty achieving membership of the Association to Advance Collegiate Schools of Business. The partnership with Taylors is therefore no longer necessary.

FINANCIAL INFORMATION

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

Abridged Income Statements

Year ended 31 December	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Australian Government grants	***174,289***	150,064	***174,289***	150,064
Higher Education Contribution Scheme	***90,229***	81,923	***90,229***	81,923
Fees and charges	***166,519***	157,421	***130,641***	124,863
Other	***89,691***	74,551	***79,950***	69,878
Deferred income – superannuation	***166,755***	(24,179)	***166,755***	(24,179)
TOTAL REVENUE	***687,483***	439,780	***641,864***	402,549
Employee benefits and on-costs	***275,008***	256,025	***257,098***	238,609
Depreciation	***50,677***	49,768	***49,210***	47,881
Other	***133,474***	121,275	***116,368***	106,164
Deferred expense – superannuation	***170,785***	(24,898)	***170,785***	(24,898)
TOTAL EXPENSES	***629,944***	402,170	***593,461***	367,756
SURPLUS	***57,539***	37,610	***48,403***	34,793

Higher Education Contribution Scheme fees increased by 10.1 per cent due to the increase in student enrolments.

Australian Government grants increased mainly due to the receipt of 'Better Universities Renewal Funding' of $13.7 million.

Deferred income and deferred expenses reflect movements in the actuarially assessed liability for employees who are members of defined benefit superannuation schemes. The Australian Government funds the majority of these movements, therefore they do not materially impact the operating result.

Abridged Balance Sheets

At 31 December	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current assets	***207,249***	138,186	***172,367***	112,365
Non-current assets	***1,244,468***	1,101,402	***1,228,031***	1,090,181
TOTAL ASSETS	***1,451,717***	1,239,588	***1,400,398***	1,202,546
Current liabilities	***106,223***	101,655	***88,471***	87,787
Non-current liabilities	***352,048***	180,781	***350,423***	179,162
TOTAL LIABILITIES	***458,271***	282,436	***438,894***	266,949
NET ASSETS	***993,446***	957,152	***961,504***	935,597

Current assets increased by $69.1 million mainly due to:

- cash receipts from sale of shares of $3.7 million
- the transfer of managed funds investments into fixed term deposits with higher investment returns
- surplus operating results.

Non-current assets increased by $143 million mainly due to:

- an increase in non-current receivables of $167 million relating to the adjustment to deferred government contributions for superannuation
- a decrease of $23.8 million in land and building values as a result of a revaluation.

Non-current liabilities increased by $171 million, due to the increase in provisions for deferred Government benefits for superannuation.

UNIVERSITY ACTIVITIES

The University is constituted under the *University of Technology, Sydney Act 1989*. It mainly provides and is responsible for:

- educational facilities at university standard
- courses of study or instruction across a range of fields and carrying out of research to meet the needs of the community
- the encouragement of the dissemination, advancement, development and application of knowledge informed by free inquiry, and
- the conferring of degrees, including those of Bachelor, Master and Doctor, and the awarding of diplomas, certificates and other awards.

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

CONTROLLED ENTITIES

Insearch Limited

Insearch Limited operates controlled entities in China and Thailand. It has a branch in the United Kingdom and two joint ventures in China and Vietnam. It has also signed about 400 agency agreements worldwide to enrol students from various countries.

Year ended 31 December	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Revenue	***50,309***	40,988	***48,806***	39,577
Expenses	***41,467***	38,354	***43,531***	37,960
Profit	***8,842***	2,634	***5,275***	1,617
Net assets (at 31 December)	***27,442***	17,641	***19,973***	14,803

The increase in revenue was due to:

- the sale of the company's branch in the United Kingdom for $3.2 million
- an increase in the number of international and domestic students
- successful joint venture operations in China and Vietnam.

The increase in net assets was due to higher cash balances which increased by $8.4 million and higher non-current receivables, which increased by $2.4 million, comprising the present value of future receipts associated with the sale of the operations in the United Kingdom.

The company gave $4.0 million to the University as a contribution towards the University's operations.

Insearch Limited is a company limited by guarantee. It provides education courses in English language, business, information technology and other disciplines to Australian and international students. Insearch Limited also provides approximately 1,000 full fee paying students to the University annually. It is accredited as a higher education institution.

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

Entity Name	Website
accessUTS Pty Limited	www.accessuts.uts.edu.au
UTSM Services (Malaysia) Sdn Bhd	*

* This entity does not have a website

OTHER BODY ASSOCIATED WITH THE UNIVERSITY

The following body associated with the University has not been reported on separately as it is not considered material by its size or the nature of its operations.

Entity Name	Website
Sydney Educational Broadcasting Limited	www.2ser.uts.edu.au

University of Western Sydney

AUDIT OPINION

The audits of the University and 12 of its continuing controlled entities' financial reports for the year ended 31 December 2008 resulted in unqualified Independent Auditor's Reports. The audits of the following entities resulted in qualified Independent Auditor's Reports:

- University of Western Sydney Foundation Trust
- Whitlam Institute within the University of Western Sydney Trust.

As is common for entities that have donations and fundraising as sources of revenue, it is impracticable for the Trusts to maintain an effective system of internal control over donated and fundraising revenues they receive until their initial entry in the financial records. I was therefore unable to express an opinion as to whether all donations have been recorded in the Trusts' financial records.

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

KEY ISSUE

Impact of the global financial crisis

The global financial crisis and volatility in financial markets has the potential to significantly impact the University's operations and may result in:

- increased borrowings to fund operating and capital expenditure
- deferral or significant changes to the scope of capital works programs
- reduced spending on research grants, scholarships and prizes.

The University has advised that it does not believe the fall in the value of its investments from $94.0 million at 31 December 2007 to $57.0 million at 31 December 2008, will impact its operations or capital works programs. The majority of the reduction in value was adjusted through equity in the balance sheet and did not significantly impact the operating result.

Another significant impact of the global financial crisis has been on superannuation investment earnings and benefit valuations. Liabilities for superannuation increased from $43.0 million in 2007 to $164 million in 2008. The Australian Government funds the majority of these liabilities which has minimised the impact on the operating result.

PERFORMANCE INFORMATION

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

The University's current ratio (a measure of its financial liquidity) was 1.5 at 31 December 2008, down from the previous year's ratio of 2.0. At this level it is now equal to the State average of 1.5 (1.6 at 31 December 2007) and at the minimum level of the Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) 'good practice' parameter of 1.5 to 3.0.

Australian Government grants as a percentage of operating revenue increased from 45.2 per cent in 2007 to 46.2 per cent in 2008. Although higher than the State average of 41.2 per cent (38.6 per cent in 2007), it is still below the DEEWR 'good practice' parameter of no more than 50 per cent.

Employee benefits and on-costs as a percentage of operating revenue decreased from 60 per cent in 2007 to 57.9 per cent in 2008. Although it is still above the State average of 55.3 per cent (54.2 per cent), it is within the DEEWR 'good practice' parameter of 50 per cent to 70 per cent.

Higher education contributions as a percentage of total revenue decreased from 27.4 per cent in 2007 to 26.7 per cent in 2008. This represents the highest contribution of all universities and is significantly above the State average of 14.8 per cent (14.5 per cent). The University has advised us that this results from having a high percentage of Commonwealth Government Supported students combined with a low percentage of revenue from non-Government sources.

OTHER INFORMATION

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

School of Medicine

The Campbelltown campus of the University of Western Sydney now houses a School of Medicine. This major construction project was delivered in two stages commencing in 2005 with a total budget of $56.6 million. The first stage was the medical school comprising of administration, teaching and research facilities and was completed in January 2008. The second stage comprised teaching theatres and was completed in February 2009. To date $53.0 million has been spent on the project. It was funded by a $25.0 million Department of Education, Employment and Workplace Relations grant and the remainder was met by the University's cash flow. The School of Medicine has the capacity to accommodate up to 850 students at various times and will be used for both teaching and research as well as providing the Campbelltown campus with additional teaching theatre resources.

FINANCIAL INFORMATION

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

Abridged Income Statements

Year ended 31 December	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Australian Government grants	***216,596***	191,078	***216,596***	191,078
Higher Education Contribution Scheme	***125,322***	115,672	***125,322***	115,672
Fees and charges	***68,852***	62,986	***54,865***	50,082
Other	***57,777***	52,733	***46,305***	41,497
Deferred income – superannuation	***123,574***	(17,967)	***123,574***	(17,967)
TOTAL REVENUE	***592,121***	404,502	***566,662***	380,362
Employee benefits and on-costs	***271,291***	253,536	***255,535***	239,489
Depreciation	***26,117***	24,226	***25,597***	23,755
Other	***133,904***	115,127	***129,877***	114,986
Deferred expense – superannuation	***123,574***	(17,967)	***123,574***	(17,967)
TOTAL EXPENSES	***554,886***	374,922	***534,583***	360,263
SURPLUS	***37,235***	29,580	***32,079***	20,099

Australian Government grants reflect additional funding as part of the better universities renewal program of $15.8 million.

Fees and charges increased mainly due to higher revenue from fee-paying overseas students and continuing education courses.

Abridged Balance Sheets

At 31 December	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current assets	***107,982***	135,866	***75,148***	109,449
Non-current assets	***1,046,488***	874,633	***1,044,529***	872,701
TOTAL ASSETS	***1,154,470***	1,010,499	***1,119,677***	982,150
Current liabilities	***97,374***	93,123	***89,227***	87,868
Non-current liabilities	***172,527***	50,534	***171,204***	47,607
TOTAL LIABILITIES	***269,901***	143,657	***260,431***	135,475
NET ASSETS	***884,569***	866,842	***859,246***	846,675

The decrease in current assets was due primarily to the $27.5 million decline in value of available for sale financial assets.

UNIVERSITY ACTIVITIES

The University is constituted under the *University of Western Sydney Act 1997*. It mainly:

- provides educational facilities of a university standard, having particular regard to the needs and aspirations of the residents of Greater Western Sydney
- achieves excellence through a commitment to scholarship, teaching, learning and research and provides educational services in the regional, national and international community beginning in the community of Greater Western Sydney
- disseminates and increases knowledge, undertakes and promotes research and scholarship and contributes to the intellectual life of Greater Western Sydney
- develops consultancy and entrepreneurial activities, including research and development initiatives, that will contribute to the development of Greater Western Sydney
- awards diplomas and degrees of Bachelor, Master and Doctor and other certificates and awards.

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

CONTROLLED ENTITIES

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

Entity Name	Website
CADRE Design Pty Limited and CADRE Design Unit Trust	www.cadre.com.au
Education Training Community Television (ETC TV) Limited	*
- Television Sydney (TVS) Limited	www.tvs.org.au
SGSM Limited	*
TVS Limited	*
University of Western Sydney Foundation Limited and University of Western Sydney Foundation Trust	*
UWS College Pty Limited	www.uwscollege.edu.au
- Sydney West International College Pty Limited	*
UWS Conference and Residential Colleges Limited	*
uwsconnect Limited	www.uwsconnect.com.au
Whitlam Institute Within the University of Western Sydney Limited and Whitlam Institute Within the University of Western Sydney Trust	www.whitlam.org

* These entities do not have websites

University of Wollongong

AUDIT OPINION

The completed audits of the University and its controlled entities' financial reports for the year ended 31 December 2008 resulted in unqualified Independent Auditor's Reports. At the date of finalising this report the audit of four controlled entities had not been completed. These entities are not material to the University's consolidated financial report.

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

KEY ISSUES

Impact of the global financial crisis

The global financial crisis and volatility in financial markets has the potential to significantly impact the University's operations and may result in:

- increased borrowings to fund operating and capital expenditure
- deferral or significant changes to the scope of capital works programs
- reduced spending on research grants, scholarships and prizes.

The University has advised that it does not believe the fall in the value of its investments from $115 million at 31 December 2007 to $89.2 million at 31 December 2008, will impact its operations or capital works programs.

However, despite an increase in total revenue, the group's operating surplus has fallen to $5.6 million from $9.1 million in 2007, largely as a result of the global financial crisis and volatility in financial markets. The operating surplus was impacted by the need to expense unrealised losses of $23.7 million, representing the fall below cost in the value of equity investments.

Another significant impact of the global financial crisis has been on superannuation investment earnings and benefit valuations. Liabilities for superannuation increased from $55.4 million in 2007 to $146 million in 2008. The Australian Government funds the majority of these liabilities which has minimised the impact on the operating result.

Inappropriate use of the Illawarra Technology Corporation Limited's (ITC) bank account

> We recommend that ITC should not allow private transactions to pass through its bank account. This increases the risk of errors and/or inappropriate transactions occurring.

ITC is a wholly owned company of the University. During the year an officer benefited from ITC's banking arrangements, which in our view was inappropriate. On 17 September 2008, $1.2 million, personal funds of a senior officer based in Dubai, was deposited into ITC's Australian bank account. We understand the officer required funds to be transferred from Australia to Dubai in this manner, as a more attractive exchange rate could be obtained by transferring the money using the banking relationship ITC had with its bank.

On 23 September 2008, $950,000 was transferred from the Australian bank account to the officer in Dubai, with the balance of $200,000 being paid from Dubai campus funds. The Dubai campus funds were subsequently reimbursed from the Australian bank account.

ITC did not have a formal policy to preclude this type of transaction occurring. The ITC Group Finance Manager actioned the transaction and obtained the former Chief Executive's approval some time later. ITC has advised it will develop appropriate policy to cover similar transactions that may arise in the future.

Film School

We recommend that in future ITC ensures agreements to purchase interests in other companies specify details of all payment arrangements to be entered into.

In February 2008, ITC acquired a 60 per cent shareholding in the Film School, a private company based in Sydney specialising in the delivery of Advanced Diplomas in screen and media. The total cost of acquisition was a cash payment of $650,000. After acquisition a loan of $650,000 was provided to the Film School, repayable at the Film School's discretion. At the acquisition date, the Film School had net liabilities of $174,000.

Subsequent to ITC's acquisition of the Film School, it made a number of payments to a Film School staff member. We were advised the payments were part of the arrangements entered into for the purchase of its interest in the Film School. The payments totalled $15,600 and were made to compensate a staff member for pay cuts taken by the staff member between June 2006 and March 2007 prior to the acquisition.

Similarly, ITC paid $11,000 to the same staff member to compensate the staff member for business items purchased on a personal credit card prior to acquisition. The staff member could not provide receipts to support the claim. ITC made the payment after it received a signed statutory declaration from the staff member, vouching that the expenses had been incurred.

These payment arrangements were not included in the formal purchase agreement.

On 4 February 2009, ITC was issued with 296,969 additional shares in the Film School, increasing its total shareholding to 67 per cent.

The Film School did not submit a financial report for the year ended 31 December 2008 to the Auditor-General for audit. ITC sought to rely on the *Corporations Act 2001,* which allows for an 18 month period to align the financial statements of a subsidiary with the parent company. Under section 41A of the *Public Finance and Audit Act 1983*, however, the Film School was required to submit a financial report to the Auditor-General for audit within six weeks of the financial year end. Management has advised that a financial report will be submitted for audit by the end of May 2009.

PERFORMANCE INFORMATION

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

The University's current ratio (a measure of its financial liquidity) was 2.3 at 31 December 2008, the same as the previous year's ratio. At this level it is still significantly higher than the State average of 1.5 (1.6 at 31 December 2007) and well within the Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) 'good practice' parameter of 1.5 to 3.0.

Australian Government grants as a percentage of operating revenue decreased from 38.9 per cent in 2007 to 38.5 per cent in 2008. It is lower than the State average of 41.2 per cent (38.6 per cent in 2007) and continues to be below the DEEWR 'good practice' parameter of no more than 50 per cent.

Employee benefits and on-costs as a percentage of operating revenue have decreased from 56.5 per cent in 2007 to 53.5 per cent in 2008. At this level it is now below the State average of 55.3 per cent (54.2 per cent) and within the DEEWR ‘good practice’ parameter of 50.0 per cent to 70.0 per cent.

OTHER INFORMATION

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

Innovation Campus

Last year we reported that the University is developing and constructing the Innovation Campus via an arrangement with a private sector firm. The first stage of the campus opened in June 2008. Four buildings with a total value of $71.7 million were completed and became operational during the year.

The success of the campus will depend on the ability of the University to attract investors and tenants. By the end of December 2008 a number of commercial tenants had formally signed leases to occupy space at the Innovation Campus. The University advised it is considering plans for further commercial buildings on the site because of the demand for leases.

Future Capital Works

Last year we also reported that the University had commenced a significant capital works program. It plans to spend in excess of $150 million over the next few years on capital works on campus, as well as on buildings at the Innovation Campus. It will fund this program from a combination of internal funds, grants from the Australian Government and debt. The New South Wales Treasurer has given approval for the University to borrow up to $85.0 million. During 2008, the University obtained $42.5 million by issuing bonds.

FINANCIAL INFORMATION

The consolidated financial information comprises the financial reports of the University and its controlled entities.

Abridged Income Statements

Year ended 31 December	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Australian Government grants	***159,906***	136,154	***159,906***	136,154
Higher Education Contribution Scheme	***64,087***	55,512	***64,087***	55,512
Fees and charges	***140,273***	114,601	***92,601***	82,259
Other	***50,974***	43,814	***36,886***	26,572
Deferred income – superannuation	***77,101***	(9,006)	***77,101***	(9,006)
TOTAL REVENUE	***492,341***	341,075	***430,581***	291,491
Employee benefits and on-costs	***222,178***	197,698	***187,573***	167,653
Depreciation	***25,324***	21,917	***22,564***	20,015
Unrealised impairment of investment assets	***23,694***	--	***23,694***	--
Other	***138,140***	118,964	***120,855***	104,831
Deferred expense - superannuation	***77,101***	(9,006)	***77,101***	(9,006)
TOTAL EXPENSES	***486,437***	329,573	***431,787***	283,493
Income tax (expense)/benefit	***(434)***	106	**--**	--
Operating result from discontinued operations	***274***	(2,523)	**--**	--
Operating result attributable to minority interest	***(116)***	--	**--**	--
SURPLUS/(DEFICIT)	***5,628***	9,085	***(1,206)***	7,998

The increase in Australian Government grants was mainly due to an increase in Commonwealth Grants Support funding and $9.7 million received for the Better University Renewal program. Higher Education Contribution Scheme income increased, mainly due to an increase in funded places, together with an increased rate charge. Funded places in 2008 increased by 475 compared to 2007.

A major reason for the increase in fees and charges was an increase in student numbers and course fees.

Employee benefits and on-costs increased primarily because of salary increases and growth in staff numbers for both teaching and research activities.

Abridged Balance Sheets

At 31 December	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current assets	***177,067***	135,903	***147,814***	115,219
Non-current assets	***677,771***	551,105	***665,344***	544,522
TOTAL ASSETS	***854,838***	687,008	***813,158***	659,741
Current liabilities	***98,104***	78,949	***74,469***	62,254
Non-current liabilities	***222,856***	77,951	***229,334***	87,191
TOTAL LIABILITIES	***320,960***	156,900	***303,803***	149,445
NET ASSETS	***533,878***	530,108	***509,355***	510,296

The increase in current assets was mainly due to an increase in term deposits following the issue of bonds by the University, previously referred to under 'Future Capital Works'.

Non-current assets increased because of:

- an increase in property, plant and equipment on completion of the Innovation Campus buildings, and
- an increase in receivables from the Australian Government to fund the University's defined benefit superannuation liability.

The increase in non-current liabilities was mainly due to an increase in the University's defined superannuation liability following the actuarial reassessment, and the issue of bonds.

UNIVERSITY ACTIVITIES

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

- provides educational and research facilities of university standard, having particular regard to the needs of the Illawarra region
- provides courses of study across a range of fields and carries out research to meet community needs
- disseminates and increases knowledge, and
- confers degrees of Bachelor, Master and Doctor and awards diplomas and other certificates.

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

CONTROLLED ENTITIES

Illawarra Technology Corporation Limited (ITC)

ITC was established to support and add value to the strategic goals and objectives of the University. Its activities include marketing and recruiting for the University and delivering offshore and pre-university education.

ITC is a company limited by shares. To grow its business ITC pursues opportunities in Australia and overseas. It owns ITC Education Ltd, ITC (New Zealand) Limited (ITC New Zealand), ITC (Europe) Ltd, ITC (Middle East) Ltd, ITC Emirates Limited, and has majority ownership of the Sydney International Film School Pty Limited (Film School) and the Australian School of European Aviation (JAA) Pty Ltd (Aviation School).

ITC (Middle East) Ltd, ITC Emirates Limited and the Aviation School are currently dormant companies.

We expressed unmodified opinions on the financial reports of ITC, ITC Education Ltd, and ITC New Zealand. The audits of ITC Emirates Limited and ITC (Middle East) Ltd have been finalised, and we will be issuing unqualified Independent Auditor's Reports for them.

We have yet to receive a financial report for the Film School and we are awaiting further information regarding the Aviation School before we finalise the audit for that company. ITC Europe Ltd is currently being wound up and obtained an exemption in March 2009 from The Treasury from preparing further financial reports, including for the 2008 year. None of the three companies referred to are material to the ITC consolidated financial report.

Aviation School

On 4 September 2008, ITC acquired a 60 per cent shareholding in the Aviation School, a private company based in Victoria specialising in the delivery of a European pilot training course. The total cost of acquisition was a cash payment of $400,000. We are advised that this company did not trade in 2008. At the date of acquisition it had net assets of $300.

Debt release for ITC New Zealand

In December 2008, a deed of release was executed which formally and irrevocably released ITC New Zealand (ITCNZ) from repaying $3.3 million of its loan to ITC. The balance of the loan, $2.4 million, is not expected to be recovered.

ITCNZ ceased operations in June 2008 due to the poor state of the New Zealand economy and recent losses generated by the company. Apart from a profit in 2008 resulting from the partial forgiveness of the ITC debt, the company incurred losses for several years. At 31 December 2008 ITCNZ had retained losses and negative equity of NZ$3.0 million (NZ$7.1 million for 2007).

ITC's summarised consolidated financial information is:

Year ended 31 December	2008 $'000	2007 $'000
Revenue	***68,223***	55,675
Expenses	***57,793***	53,637
Income tax expense/(benefit)	***419***	(292)
Profit	***10,011***	2,330
Net assets (at 31 December)	***10,948***	5,575

The successful year, evidenced by the significant increase in profits, was largely due to an increase in student numbers and the sale of a shareholding in the International English Language Testing System Australia (IELTS) Pty Ltd for $3.2 million.

Given ITC's favourable financial results, management advised that staff bonuses are likely to be paid to all staff in 2009. Total bonus payments of $343,000 have been recorded as accrued expenses in the financial report.

Wollongong UniCentre Limited (UniCentre)

UniCentre, which is limited by guarantee, aims to complement the academic activities of the University of Wollongong by providing relevant products, services and facilities to meet the diverse social and cultural needs of the University population. In November 2004, the board of the company established a wholly owned subsidiary, UniCentre Conferences and Functions Pty Limited, to provide conference and functions services.

UniCentre's summarised consolidated financial information is:

Year ended 31 December	2008 $'000	2007 $'000
Revenue	***16,066***	14,491
Expenses	***15,912***	14,755
Income tax expense	***31***	15
Profit/(loss)	***123***	(279)
Net assets (at 31 December)	***8,950***	8,828

Revenue increased mainly because of an increase in income from childcare and food services, as well as book sales.

Expenses increased predominantly because of higher employee related expenses following the acquisition of the South Coast Workers Childcare Centre and wage rises.

Last year we noted UniCentre would need to closely monitor its financial situation after it incurred an operating loss and had forecast losses into the future. Management has stabilised the situation and has forecast an increase in profits. The UniCentre will need to continue to carefully manage and closely monitor its financial situation.

University of Wollongong Recreation and Aquatic Centre Limited

This company, limited by guarantee, principally provides aquatic and recreational facilities to the University community and the general public.

Year ended 31 December	2008 $'000	2007 $'000
Revenue	***2,304***	2,152
Expenses	***3,087***	3,082
Income tax expense	**--**	--
Loss	***783***	930
Net assets (at 31 December)	***4,662***	5,445

The operations of the company have been heavily impacted by the change to voluntary student unionism introduced by the Australian Government in July 2006. Consequently, revenue from student membership has fallen for the last two years. The company incurred an operating loss of $783,000 for the year ($930,000 loss in 2007). The loss, together with an unfavourable liquidity ratio and projected losses for the next few years, raises concerns over the company's ability to continue as a going concern. The University is committed to supporting the ongoing development of the company and as such, if required, will provide financial support to assist the company.

The company's long term viability will depend on its ability to attract members. It has implemented several strategies to address this matter.

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

Entity Name
Sydney Business School Pty Ltd

Minister for Primary Industries

Refer to Appendix 1 for:

Wine Grapes Marketing Board

Minister for Sport and Recreation

Refer to Appendix 1 for:

Parramatta Stadium Trust

Premier

State Plan

World Youth Day Co-ordination Authority

Refer to Appendix 1 for:

Trustees of the ANZAC Memorial Building

State Plan

I recommend that the State Plan Annual Report be finalised, approved by Cabinet and tabled in Parliament by the end of November each year.

In October 2008, I indicated in a Report to Parliament, that I would report the results of our work on verifying the accuracy of specific performance data included in the State Plan Annual Report for the year ended 30 June 2008, after it had been released by the Government.

At the time of finalising this Report to Parliament, the State Plan Annual Report has yet to be released by the Government.

I am advised that the Government will release the report in May 2009. Once this has occurred I will report the results of our work.

In November 2008 the Public Accounts Committee tabled a report on State Plan Reporting listing 15 recommendations. These include recommendations that:

- the Government table the State Plan Annual Report in Parliament
- the Government continue to refer the State Plan Annual Report to the Auditor-General
- on tabling of the Auditor-General's report on the State Plan Annual Report, the Government move a motion for the Legislative Assembly to:
    - request the Public Accounts Committee to examine the Auditor-General's report and associated State Plan Annual Report; and
    - take note of the Committee's report on its tabling, together with the State Plan Annual Report and Auditor-General's report as an item of Government business.
- the Government ask the Auditor-General to consider and compare complementary data from non-government organisations to indicate if Government information sources are reflecting the experience of service recipients. Further, the Government should ensure that the Auditor-General is provided with adequate resources to do this.

The Government has advised me that a response to the Public Accounts Committee recommendations will be submitted by the end of May 2009.

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

World Youth Day Co-ordination Authority

AUDIT OPINION

The audits of the Authority and its controlled entity's financial reports for the period ended 31 December 2008 resulted in unqualified Independent Auditor's Reports.

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

KEY ISSUES

Cost of World Youth Day Event

Actual expenses incurred by the Authority on the World Youth Day event totalled $114.5 million. The major costs were $41.1 million paid in 2007-08 to secure access to Randwick Racecourse, and $41.5 million paid to other government agencies for services provided to the Authority. The net cost of the event to New South Wales was $84.2 million, after contributions of $18.8 million from the Federal Government and $10.0 million from WYD2008 (the Catholic Church), and sundry income of $1.5 million.

Cost of Surplus Turf

In 2007-08 the Authority contracted a supplier to grow special turf as a major risk mitigation strategy, to rectify any damage to the racing and training track surfaces at Randwick Racecourse as a result of World Youth Day. The net cost of the turf was $2.1 million.

A turf protection program undertaken by the Authority was successful in minimising the damage to the track surfaces. As a result, approximately 70 per cent of the special turf was surplus to the Authority's rectification requirements. The Authority agreed to sell the surplus turf back to the supplier for a total of $8,030 ($1.10 per square metre). We have been advised this was the current market price at the time.

The Authority has advised us that:

- the State Contracts Control Board approved of it disposing of the surplus turf by direct negotiation with Racing NSW or to proceed to open market if the negotiations did not realise a satisfactory market price. Negotiations in October/November 2008 were unsuccessful, despite Racing NSW expressing a prior interest in purchasing the surplus turf. Another racecourse was also approached without success.
- it contacted the turf supplier with the intention of conducting an open market sale. The supplier did not believe there was a sale opportunity for the turf in its 'thick cut' profile (as used in the racing industry). In its view the only other marketing alternative was to sell the turf as conventional 'roll out' turf for domestic or commercial use, which has a significantly lower value than 'thick cut' racing turf.

The Authority was not able to provide us with documentary evidence in relation to the above and we are therefore unable to determine if the best outcome was achieved.

OTHER INFORMATION

Australian Jockey Club Compensation

The Access Agreement for World Youth Day 2008 included a defects liability period to 31 December 2008, in the event that racing could not be held at Randwick Racecourse from 6 September 2008 to 31 December 2008. A Deed of Release (the Deed) with the Australian Jockey Club (AJC) was signed on 25 November 2008 and the defects liability period ceased from that date.

As part of the Deed, the Authority paid $3.7 million to the AJC for costs associated with relocating horses and trainers to allow for preparation of the Racecourse and $253,000 for various other agreed costs. These payments were made in accordance with the Deed and effectively released the Authority from any further claims and actions relating to the Access Agreement.

Wind Up of the Authority

The Authority ceased operations on 31 December 2008 as the *World Youth Day Act 2006* was repealed on 1 January 2009. The financial report has therefore been prepared on a realisation basis and not on a going concern basis.

In accordance with the *World Youth Day Act 2006*, all assets, rights and liabilities in existence at 31 December 2008 were transferred to the Department of Premier and Cabinet (the Crown). The net assets transferred amounted to $6.3 million. We understand the Crown will handle any ongoing issues following the Authority's dissolution.

FINANCIAL INFORMATION

Abridged Operating Statements

Period ended	Consolidated		Authority	
	31 December 2008* $'000	30 June 2008 $'000	31 December 2008 $'000	30 June 2008 $'000
Employee related	***1,620***	3,138	**--**	--
Personnel services expenses	**--**	--	***1,620***	3,138
Grants and subsidies	***8,891***	42,024	***8,891***	42,024
Payments to other government agencies	***30,748***	9,564	***30,748***	9,564
Other expenses	***8,022***	8,081	***8,022***	8,081
TOTAL EXPENSES	***49,281***	62,807	***49,281***	62,807
TOTAL REVENUE	***1,020***	10,537	***1,078***	10,739
NET COST OF SERVICES	***48,261***	52,270	***48,203***	52,068
Government contributions	***37,954***	68,877	***37,896***	68,675
(DEFICIT)/SURPLUS	***(10,307)***	16,607	***(10,307)***	16,607

* Six month period

Employee related expenses decreased mainly due to the Authority being in operation for six months as opposed to a full 12 months in 2007-08.

The increase in payments to other government agencies, for the period to 31 December 2008, reflects the timing of the event, which took place from 15 to 20 July 2008.

Grants and subsidies include payments made to the AJC as part of the Deed previously referred to earlier in this report. In the year to 30 June 2008, grants and subsidies included payments of $41.1 million to secure access to the Racecourse. In the same period revenue of $10.0 million was received from WYD2008 as a contribution for the use of various venues during the event. The Authority advised that as agreed with WYD2008, this was applied to risk mitigation measures undertaken at the Racecourse.

Abridged Balance Sheets

As at	Consolidated		Authority	
	31 December 2008 $'000	30 June 2008 $'000	31 December 2008 $'000	30 June 2008 $'000
Current assets	***7,810***	18,899	***7,810***	18,899
Non-current assets	**--**	266	**--**	266
TOTAL ASSETS	***7,810***	19,165	***7,810***	19,165
Current liabilities	***1,504***	2,552	***1,504***	2,552
Non-current liabilities	**--**	--	**--**	--
TOTAL LIABILITIES	***1,504***	2,552	***1,504***	2,552
NET ASSETS	***6,306***	16,613	***6,306***	16,613

Net assets mainly comprise cash of $6.8 million ($9.1 million in 2007-08), receivables of $1.0 million ($9.8 million) and a liability to the consolidated fund of $1.4 million. This liability will be repaid to Treasury as part of the wind up of the Authority by the Department of Premier and Cabinet.

AUTHORITY ACTIVITIES

The principal function of the Authority was to develop policies, strategies and plans for the delivery of, and to coordinate and manage the delivery of, integrated government services for World Youth Day events.

The Authority was established under the *World Youth Day Act 2006*. The Act was repealed on 1 January 2009.

CONTROLLED ENTITY

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

Entity Name
Office of the World Youth Day Co-ordination Authority

Section Four

Performance Auditing

Performance Audit Reports Tabled in Parliament since Volume One of 2009

Performance Audits in Progress

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

Performance Audit Reports Tabled in Parliament since Volume One of 2009

We have tabled two performance audit reports in Parliament since Volume One 2009 of our New South Wales Auditor-General's Report on financial audits.

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

SUSTAINING NATIVE FOREST OPERATIONS

This audit aimed to assess whether Forests NSW manages the supply of hardwood to meet wood supply commitments and sustain our native forests.

We found that Forests NSW should have sufficient timber to meet its wood supply commitments which are fixed for periods up to 2023 using both native and plantation hardwood. However, the cost and difficulty of harvesting and hauling this timber is likely to increase over time. This presents a significant challenge for Forests NSW to manage.

This is due in part to the actions of Government in negotiating a new wood supply agreement for the north coast in 2003 and the loss of forest estate.

In this new agreement, the Government waived its rights to reduce commitments without compensating industry for any loss. This removed Forests NSW's ability to better manage supply risks by adjusting commitments. In addition, timber volumes were more or less maintained despite the loss of forest estate to national park and reserves.

To meet wood supply commitments, the native forest managed by Forests NSW on the north coast is being cut faster than it is growing back. This is especially the case for the blackbutt species. This does not mean that the forest will not regrow but there will be a reduction in yield in the future.

After the current agreements cease, Forests NSW plans to fill the shortfall on the north coast with plantation hardwood. However, we found it is currently sourcing significantly more from plantations than anticipated to meet its commitments, which may place this strategy at risk.

Forests NSW continue to look for new sources of hardwood timber to meet existing commitments including private property and leasehold land. As timber haulage distances increase and yields decrease, the overall cost of production will rise. These additional costs will have to be borne by both Forest NSW and the industry.

Given that native forest operations ran at loss of $14.4 million in 2007-08, this raises concerns about how much worse this financial burden may get.

The report was tabled in Parliament on 29 April 2009.

GRANTS ADMINISTRATION

The report examined how grants are defined and administered, and what recipients think of the grant system.

Each year the New South Wales Government spends over $5.0 billion dollars in grants to fund services, invest in communities and support worthy causes. These grants range from very small community grants to large amounts for health and disability providers.

We did not find evidence that government held electorates received more than opposition electorates.

However, agencies do not explain why they distribute money the way they do or what is achieved with grants. Without evaluation of funding programs, the people of New South Wales can't be sure that money is spent wisely.

Grant applicants are unhappy about a lack of transparency around grants. They find it hard to get information about funding opportunities. And recipients complained about the amount of paperwork required by agencies.

Agencies need to spend wisely to maximise the benefits to the State. Agencies need to achieve an appropriate balance between accountability, transparency and value for money. Risk has to be managed and multi-million dollar grants require more rigorous controls than modest grants to community groups. It is encouraging that some agencies are improving their grant administration.

The report was tabled in Parliament on 6 May 2009.

Performance Audits in Progress

The planned tabling dates for audits in progress are:

Title	Planned Tabling Date
Heavy Vehicle Safety	13 May 2009
Tackling Cancer with Radiotherapy	23 June 2009
Environmental Grants	3rd quarter of 2009
Diverting Adult Aboriginal Defendants into Treatment	3rd quarter of 2009
Private Waterfront Tenancies on Public Land	3rd quarter of 2009
Government Licensing Project	3rd quarter of 2009
Privately Financed Projects – taking over the M4	4th quarter of 2009
School Zones	1st quarter of 2010
State Investment in V8 Supercar Races at Sydney Olympic Park	TBA

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

Appendices

Appendix 1
Agencies not reported elsewhere in this Volume

Appendix 2
Financial Reports not received
by Statutory Date (as at 5 May 2009)

Appendix 3
Financial Reports received but Audit Incomplete
by Statutory Date (as at 5 May 2009)

Appendix 1 – Agencies not reported elsewhere in this Volume

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

Entity Name	Website	Period/Year Ended
Jenolan Caves Reserve Trust	www.jenolancaves.org.au	30 June 2008
- Jenolan Caves Reserve Trust Division	*	30 June 2008
Parramatta Stadium Trust	www.parramattastadium.com.au	31 December 2008
- Parramatta Stadium Trust Division	*	31 December 2008
Technical Education Trust Funds	*	31 December 2008
Trustees of the ANZAC Memorial Building	www.rslnsw.com.au	31 December 2008
UNILINC Limited	www.unilinc.edu.au	31 December 2008
Wild Dog Destruction Board	*	31 December 2008
- Wild Dog Destruction Board Division	*	31 December 2008
Wine Grapes Marketing Board	www.wgmb.net.au	31 December 2008

* These entities do not have websites

Appendix 2 - Financial Reports Not Received by Statutory Date (as at 5 May 2009)

Entity Name	Year Ended	Due Date	Date Financial Report Received
Insearch (Shanghai) Limited	31 December 2008	11 February 2009	Not yet received
Insearch Education International Pty Ltd	31 December 2008	11 February 2009	Not yet received
International Livestock Resources and Information Centre Ltd	31 December 2008	11 February 2009	12 February 2009
Macquarie University Medical Research Foundation Limited	31 December 2008	11 February 2009	Not yet received
Macquarie University Medical Research Trust	31 December 2008	11 February 2009	Not yet received
National Marine Science Centre Pty Ltd	31 December 2008	11 February 2009	12 February 2009
Rural Lands Protection Boards Division	31 December 2008	11 February 2009	Not yet received
State Council of Rural Lands Protection Boards	31 December 2008	11 February 2009	Not yet received
State Council of Rural Lands Protection Boards Division	31 December 2008	11 February 2009	Not yet received
Sydney International Film School Pty Limited	31 December 2008	11 February 2009	Not yet received
UNE Vision Pty Ltd	31 December 2008	11 February 2009	12 February 2009
UNSW & Study Abroad – Friends and U.S. Alumni, Inc.	31 December 2008	11 February 2009	12 March 2009
UTSM Services (Malaysia) Sdn Bhd	31 December 2008	11 February 2009	Not yet received
Wine Grapes Marketing Board	31 December 2008	11 February 2009	13 February 2009

Appendix 3 - Financial Reports Received but Audit Incomplete by Statutory Date (as at 5 May 2009)

The *Public Finance and Audit Act 1983* requires that we issue an audit opinion within ten weeks of receiving an agency's financial report. The Act also states that we cannot issue our opinion until the agency has signed its financial report.

Australian School of European Aviation (JAA) Pty Ltd

The audit of the financial report for the year ended 31 December 2008 is in progress. The delay in the audit is due to the Company not having provided workpapers to support its dormant status.

Cessnock Uni-Clinic Trust

We received the signed financial report on the 27 April 2009. We issued the Independent Auditor's Report on 27 April 2009.

Controlled Entities of Macquarie University

Australian Proteome Analysis Facility Limited

The audit is nearing completion. The company revised its approach in its dealings with the University. This altered what the company recognised as income and expense.

Macquarie University Private Hospital Trust
Macquarie University Property Investment Company No. 2 Pty Limited
Macquarie University Property Investment Company Pty Limited
Macquarie University Property Investment Trust
MU Private Hospital Pty Limited
MUPIT Sub-Trust No. 1
MUPIT Sub-Trust No. 2
MUPIT Sub-Trust No. 3
MUPIT Sub-Trust No. 4
MUPH Clinic Pty Limited
MUPH Clinic Sub-Trust
MUPH Hospital Pty Limited
MUPH Hospital Sub-Trust
MUPI Holding Trust No. 1
MUPI Holding Trust No. 2
MUPI Holding Trust No. 3
MUPI Holding Trust No. 4
MUPI Holding Trust No. 5
MUPI Holding Trust No. 6

The private hospital and clinic transaction is conducted through the above entities. At 5 May 2009, the financial reports for all entities were with the Director's and Trustees for signature. The delay in completing the audits of these entities was due to the income recognition matters and other amendments to the financial reports.

Controlled Entities of the University Of New South Wales

Acyte Biotech Pty Ltd

The audit of the financial report for the period ended 27 November 2008 is almost complete. The delay in the audit was caused by issues identified, including no formal budget for 2009. We expect to issue the opinion soon.

NewSouth Innovations Pty Ltd

The audit of the financial report for the year ended 31 December 2008 is nearing completion. We expect to issue the opinion soon.

University of New South Wales Foundation Limited

The audit of the financial report for the year ended 31 December 2008 is nearing completion. The delay in the audit was caused by extra procedures being undertaken by the Foundation to confirm revenues from donors.

UNSW & Study Abroad – Friends and U.S. Alumni, Inc.

The audit of the financial report for the year ending 31 December 2008 is nearing completion. The Independent Auditor's Report will be issued once external confirmations are received from the United States.

Trustees of The Farrer Memorial Research Scholarship Fund

The audit of the financial report for the year ended 31 December 2008 is nearing completion. We expect to issue the opinion soon.

Hunter Uni-Clinics Pty Ltd

We received the signed financial report on the 27 April 2009. We issued the Independent Auditor's Report on 27 April 2009.

ITC (Middle East) Ltd

The audit of the financial report for the year ended 31 December 2008 is complete. The delay in the audit was due to the unavailability of the Company's Directors to pass resolution on the financial report. We expect to issue the opinion soon.

ITC Emirates Limited

The audit of the financial report for the year ended 31 December 2008 is complete. The delay in the audit was due to the unavailability of the Company's Directors to pass resolution on the financial report. We expect to issue the opinion soon.

Newcastle International Sports Centre Trust

The audit of the financial report for the period ended 11 July 2008 is incomplete. This Trust was dissolved on 11 July 2008 and we expect to issue an audit opinion soon.

Sports Knowledge Australia Pty Limited

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

University of Newcastle

We received the signed financial report on the 27 April 2009. We issued the Independent Auditor's Report on 28 April 2009.

UON Foundation Ltd

We received the signed financial report on the 27 April 2009. We issued the Independent Auditor's Report on 28 April 2009.

UON Foundation Trust

We received the signed financial report on the 27 April 2009. We issued the Independent Auditor's Report on 28 April 2009.

UON Singapore Pte Ltd

We received the signed financial report on the 27 April 2009. We issued the Independent Auditor's Report on 28 April 2009.

Index

A

Page

A.C.N. 093 230 374 Pty Limited .... Vol 4 2008
Aboriginal Affairs, Department of .... Vol 5 2008
Aboriginal Affairs, Minister for .... Vol 1 2009
Aboriginal Housing Office .... Vol 5 2008
Aboriginal Housing Office Group of Staff .... Vol 5 2008
Aboriginal Land Council, New South Wales .... Vol 1 2009
Access Macquarie Limited 64
accessUTS Pty Limited 99
ACN 125 694 546 Pty Limited 90
Acyte Biotech Pty Ltd 90
Adult Migrant English Service, NSW .... Vol 4 2008
Ageing, Minister for .... Vol 5 2008
Ageing, Disability and Home Care,
Department of .... Vol 5 2008
Agencies not reported elsewhere in this Volume 131
Agricultural Business Research Institute 80
Agricultural Scientific Collections Trust .... Vol 5 2008
AGSM Limited 90
Ambulance Service of New South Wales .... Vol 1 2009
ANZAC Health and Medical Research Foundation . Vol 1 2009
ANZAC Health and Medical Research Foundation
Trust Fund .... Vol 1 2009
Architects Registration Board, NSW .... Vol 4 2008
Art Gallery of New South Wales Foundation .... Vol 4 2008
Art Gallery of New South Wales Trust .... Vol 5 2008
Arts Education Foundation Trust .... Vol 4 2008
Arts, Minister for .... Vol 5 2008
Arts, Sport and Recreation, Department of the ... Vol 5 2008
Asbestos Diseases Research Foundation, The ...... Vol 5 2008
Attorney General 17
Attorney General's Department .... Vol 5 2008
Audio Nomad Pty Ltd 90
Aus Health International Pty Limited .... Vol 6 2007
Australian Centre for Advanced Computing and
Communications Pty Ltd .... Vol 5 2008
Australian Education Consultancy Limited 90
Australian Institute of Asian Culture and Visual
Arts Limited, The .... Vol 5 2008
Australian Museum Trust .... Vol 5 2008
Australian Plant DNA Bank Limited 68
Australian Proteome Analysis Facility Limited 65
Australian School of European Aviation
(JAA) Pty Ltd 109
Australian Technology Park Precinct
Management Ltd .... Vol 5 2008
Australian Water Technologies Pty Ltd .... Vol 5 2008
AWT International (Thailand) Limited .... Vol 5 2008

B

Banana Industry Committee .... Vol 5 2008
Belgenny Farm Agricultural Heritage Centre
Trust .... Vol 1 2009
Biobank Pty Limited 68
Board of Studies, Office of the .... Vol 5 2008
Board of Studies, The .... Vol 4 2008
Board of Studies Casual Staff Division .... Vol 4 2008
Board of Surveying and Spatial Information .... Vol 5 2008
Board of Vocational Education and Training,
NSW .... Vol 4 2008
Border Rivers-Gwydir Catchment Management
Authority .... Vol 4 2008
Bosch Institute, The 74
Brett Whiteley Foundation, The .... Vol 4 2008
Building and Construction Industry Long Service
Payments Corporation .... Vol 5 2008
Building Insurers' Guarantee Corporation .... Vol 6 2008
Building Professionals Board .... Vol 4 2008
Buroba Pty Ltd .... Vol 5 2008
Businesslink Pty Ltd, NSW .... Vol 5 2008

C

C.B. Alexander Foundation .... Vol 5 2008
CADRE Design Pty Limited 103
CADRE Design Unit Trust 103
Cancer Institute Division ....Vol 1 2009
Cancer Institute NSW ....Vol 1 2009
Casino Control Authority, New South Wales........Vol 5 2008
Casino Control Authority Division ....Vol 5 2008
Centennial Park and Moore Park Trust ....Vol 6 2008
Centennial Parklands Foundation ....Vol 6 2008
Central West Catchment Management Authority ..Vol 4 2008
Centre for United States Studies Pty Limited 74
Cessnock Uni-Clinic Trust 94
Charles Sturt Foundation Limited 58
Charles Sturt Foundation Trust 57
Charles Sturt Services Limited 58
Charles Sturt University 53
Chief Investigator of the Office of Transport
Safety Investigations ....Vol 4 2008
Children, Office for ....Vol 5 2008
Chipping Norton Lake Authority ....Vol 4 2008
Citizenship, Minister for ....Vol 5 2008
Chiropractors Registration Board ....Vol 5 2008
City West Housing Pty Limited ....Vol 5 2008
Climate Change and the Environment,
Minister for 25
Clinical Excellence Commission ....Vol 1 2009
Clinical Excellence Commission Special
Purpose Service Entity ....Vol 1 2009
CMBF Limited 65
Coal Compensation Board, New South Wales ......Vol 5 2008
Cobar Water Board ....Vol 5 2008
Cobar Water Board Division ....Vol 5 2008
Coffs Harbour Technology Park Limited ....Vol 4 2008
Commerce, Department of ....Vol 6 2008
Commerce, Minister for ....Vol 6 2008
Commission for Children and Young
People, NSW ....Vol 5 2008
Community Relations Commission, Office of the ..Vol 5 2008
Community Relations Commission for a
Multicultural New South Wales ....Vol 5 2008
Community Services, Department of ....Vol 5 2008
Community Services, Minister for ....Vol 5 2008
Cooks Cove Development Corporation ....Vol 5 2008
Corporate Governance Arrangements
in Large Government Agencies and Universities 3
Corporation Sole 'Minister Administering the
Environmental Planning and Assessment
Act, 1979' ....Vol 5 2008
Corporation Sole 'Minister Administering the
Heritage Act, 1977' ....Vol 5 2008
Corrective Services, Department of ....Vol 5 2008
Country Energy ....Vol 4 2008
Country Energy Gas Pty Limited ....Vol 4 2008
Cowra Japanese Garden Maintenance
Foundation Limited ....Vol 5 2008
Cowra Japanese Garden Trust ....Vol 5 2008
Crime Commission, New South Wales ....Vol 4 2008
Crime Commission, Office of the New South
Wales ....Vol 4 2008
Crime Commission Division, New South Wales .....Vol 4 2008
Crown Employees (NSW Fire Brigades
Firefighting Staff, Death and Disability)
Superannuation Fund ....Vol 5 2008
Crown Entity ....Vol 5 2008
Crown Lands Homesites Program ....Vol 5 2008
Crown Leaseholds Entity ....Vol 5 2008
Cystemix Pty Limited 90

D

Dams Safety Committee ....Vol 4 2008
Delta Electricity ....Vol 4 2008
Delta Electricity Australia Pty Ltd ....Vol 4 2008
Dental Board of New South Wales ....Vol 1 2009
Dental Technicians Registration Board ....Vol 5 2008
Director of Public Prosecutions, Office of the .....Vol 5 2008
Disability Services, Minister for ....Vol 5 2008
Downtown Utilities Pty Limited ....Vol 4 2008
Dumaresq-Barwon Border Rivers Commission ......Vol 4 2008
Duquesne Utilities Pty Ltd ....Vol 5 2008

E

Education and Training, Department of .... Vol 4 2008
Education and Training, Minister for........................ 31
Education Training Community Television (ETC TV) Limited 103
Elastagen Pty Limited 74
Election Funding Authority of New South Wales .. Vol 5 2008
Electoral Commission, New South Wales........... Vol 5 2008
Electricity Industry Overview .... Vol 4 2008
Electricity Tariff Equalisation Ministerial Corporation .... Vol 5 2008
Emergency Services, Minister for.................... Vol 6 2008
Emergency Services Overview .... Vol 6 2008
Emergency Services, Office for .... Vol 6 2008
Energy, Minister for .... Vol 4 2008
Energy Industries Superannuation Scheme......... Vol 5 2008
Energy Investment Fund .... Vol 5 2008
EnergyAustralia... Vol 4 2008
EnergyAustralia Pty Limited.......................... Vol 4 2008
Environment and Climate Change, Department of..................................... Vol 6 2008
Environment Protection Authority .... Vol 5 2008
Environmental Trust................................... Vol 6 2008
Eraring Energy.. Vol 4 2008
Events New South Wales Pty Limited .... Vol 5 2008

F

Fair Trading Administration Corporation........... Vol 5 2008
Festival Development Corporation .... Vol 4 2007
Film and Television Office, New South Wales..... Vol 4 2008
Finance, Minister for .... Vol 1 2009
Financial Counselling Trust Fund.................... Vol 5 2008
Financial Reports Not Received by Statutory Date (as at 5 May 2009)................................ 132
Financial Reports Received but Audit Incomplete by Statutory Date (as at 5 May 2009).................... 133
Fire Brigades, New South Wales .... Vol 6 2008
Fire Brigades Superannuation Pty Limited, NSW .... Vol 5 2008
Follow-up Review of CityRail Passenger Security.. Vol 4 2008
Food Authority, NSW .... Vol 5 2008
Food Authority, Office of the NSW .... Vol 5 2008
Forestry Commission of New South Wales (Trading as Forests NSW) .... Vol 1 2009
Forestry Commission Division .... Vol 1 2009
Foundation for the Historic Houses Trust of New South Wales............................... Vol 5 2008
Foundation for the Historic Houses Trust of New South Wales Limited .... Vol 5 2008

G

Game Council of New South Wales.................. Vol 5 2008
Game Council Division .... Vol 5 2008
Gaming and Racing, Minister for .... Vol 5 2008
Gosford Water Supply Authority .... Vol 5 2008
Government Telecommunications Authority (Telco) , New South Wales .... Vol 6 2008
GraduateSchool.com Pty Limited............................ 94
Greater Southern Area Health Service .... Vol 1 2009
Greater Southern Area Health Service Special Purpose Service Entity.................. Vol 1 2009
Greater Western Area Health Service .... Vol 1 2009
Greater Western Area Health Service Special Purpose Service Entity.................. Vol 1 2009
Greyhound and Harness Racing Regulatory Authority .... Vol 5 2008
Greyhound and Harness Racing Regulatory Authority Division .... Vol 5 2008
Growth Centres Commission .... Vol 4 2008

H

Hamilton Rouse Hill Trust .... Vol 5 2008
Hawkesbury-Nepean Catchment Management Authority .... Vol 4 2008
Health Administration Corporation ....Vol 1 2009
Health Administration Corporation Special Purpose Service Entity ....Vol 1 2009
Health Care Complaints Commission ....Vol 5 2008
Health Care Complaints Commission, Office of the.......................................Vol 5 2008
Health Foundation, New South Wales...............Vol 6 2008
Health, Department of ....Vol 1 2009
Health, Minister for ....Vol 1 2009
Health Overview.......................................Vol 1 2009
HealthQuest ....Vol 1 2009
HealthQuest Special Purpose Service Entity ....Vol 1 2009
HepatoCell Therapeutics Pty Ltd............................ 90
Historic Houses Trust of New South Wales ....Vol 5 2008
Home Care Service of New South Wales ....Vol 5 2008
Home Care Service Division...........................Vol 5 2008
Home Purchase Assistance Fund ....Vol 5 2007
Housing, Minister for..................................Vol 5 2008
Housing NSW ....Vol 5 2008
Housing NSW's $7.0 million Grant to Canterbury City Council, Review of...........................Vol 5 2008
Hunter Development Corporation....................Vol 4 2008
Hunter New England Area Health Service ....Vol 1 2009
Hunter New England Area Health Service Special Purpose Service Entity ....Vol 1 2009
Hunter Uni-Clinics Pty Limited 94
Hunter Water Australia Pty Limited. ....Vol 5 2008
Hunter Water Corporation ....Vol 5 2008
Hunter-Central Rivers Catchment Management Authority ....Vol 4 2008

I

Illawarra Technology Corporation Limited 109
Independent Commission Against Corruption ......Vol 5 2008
Independent Pricing and Regulatory Tribunal .....Vol 5 2008
Independent Pricing and Regulatory Tribunal Division..Vol 5 2008
Independent Transport Safety and Reliability Regulator ....Vol 4 2008
Independent Transport Safety and Reliability Regulator Division ....Vol 4 2008
Industrial Relations, Minister for.....................Vol 5 2008
Infrastructure Implementation Corporation........Vol 5 2008
Ingham Health Research Institute ....Vol 1 2009
Insearch Limited 99
Institute for Magnetic Resonance Research 74
Institute of Psychiatry, New South Wales ....Vol 5 2008
Institute of Sport, New South Wales.................Vol 5 2008
Institute of Sport Division ....Vol 5 2008
Institute of Teachers, NSW ....Vol 4 2008
Institute of Teachers, Office of the ....Vol 4 2008
Integral Energy Australia ....Vol 4 2008
Internal Audit Bureau of New South Wales ....Vol 5 2008
Internal Audit Bureau Division........................Vol 5 2008
International Livestock Resources and Information Centre Ltd.. 80
ITC (Europe) Ltd 109
ITC (Middle East) Ltd..109
ITC (New Zealand) Limited 109
ITC Education Ltd...109
ITC Emirates Limited..109

J

Jenolan Caves Reserve Trust 131
Jenolan Caves Reserve Trust Division.....................131
John Lewis and Pamela Lightfoot Trust 90
Judicial Commission of New South Wales...........Vol 5 2008
Justice Health..Vol 1 2009
Justice Health Special Purpose Service Entity .....Vol 1 2009
Justice, Minister for....................................Vol 5 2008
Juvenile Justice, Department of ....Vol 5 2008
Juvenile Justice, Minister for.........................Vol 5 2008

L

Lachlan Catchment Management Authority ....Vol 4 2008
Lake Illawarra Authority...............................Vol 4 2008

LAMS Foundation Limited **65**
LAMS International Pty Limited **65**
Land Development Working Account................ Vol 5 2008
Landcom.. Vol 5 2008
Lands, Department of .... Vol 6 2008
Lands, Minister for..................................... Vol 6 2008
Law and Order Overview............................. Vol 5 2008
Legal Aid Commission of New South Wales .... Vol 5 2008
Legal Aid Commission, Office of the................ Vol 5 2008
Legal Aid Temporary Staff Division.................. Vol 5 2008
Legal Opinions Provided by the Crown Solicitor .. Vol 1 2007
Legal Profession Admission Board .... Vol 5 2008
Legislature, The.. Vol 5 2008
Legislature (Audit of Members' Additional Entitlements), The.. **11**
Liability Management Ministerial Corporation..... Vol 5 2008
Library Council of New South Wales .... Vol 5 2008
Lifetime Care and Support Authority of New South Wales.................................. Vol 6 2008
Liquor Administration Board .... Vol 5 2008
Local Government, Department of.................. Vol 5 2008
Local Government, Minister for...................... Vol 5 2008
Lord Howe Island Board............................... Vol 5 2008
Lotteries Corporation, New South Wales........... Vol 5 2008
Lower Murray-Darling Catchment Management Authority .... Vol 4 2008
Luna Park Reserve Trust .... Vol 5 2008

M

Macquarie Generation................................. Vol 4 2008
Macquarie Graduate School of Management Pty Limited **63**
Macquarie University Medical Research Foundation Limited **65**
Macquarie University Medical Research Trust **65**
Macquarie University Private Hospital Trust **65**
Macquarie University Professorial Superannuation Scheme **65**
Macquarie University Property Investment Company No. 2 Pty Limited **65**
Macquarie University Property Investment Company Pty Limited..................................... **65**
Macquarie University Property Investment Trust **64**
Macquarie University... **59**
Marine Parks Authority................................ Vol 5 2008
Maritime Authority of NSW .... Vol 5 2008
Maritime Authority of NSW Division................. Vol 5 2008
Medical Board, New South Wales.................... Vol 5 2008
Milk Marketing (NSW) Pty Limited................... Vol 5 2008
Mine Subsidence Board................................ Vol 1 2009
Mineral Resources, Minister for...................... Vol 1 2009
Minerals Industry/University of New South Wales Education Trust, The New South Wales **90**
Ministerial Corporation for Industry................. Vol 5 2008
Mitchell Services Limited..................................... **58**
Motor Accidents Authority of New South Wales... Vol 1 2009
Motor Accidents Authority of New South Wales, Office of the .... Vol 5 2008
Motor Vehicle Repair Industry Authority .... Vol 5 2008
MU Private Hospital Pty Limited **65**
MUPH Clinic Pty Limited...................................... **65**
MUPH Clinic Sub-Trust **65**
MUPH Hospital Pty Limited................................... **65**
MUPH Hospital Sub-Trust **65**
MUPI Holding Trust No. 1 .... **65**
MUPI Holding Trust No. 2...................................... **65**
MUPI Holding Trust No. 3...................................... **65**
MUPI Holding Trust No. 4...................................... **65**
MUPI Holding Trust No. 5...................................... **65**
MUPI Holding Trust No. 6...................................... **65**
MUPIT Sub-Trust No. 1 .... **65**
MUPIT Sub-Trust No. 2 .... **65**
MUPIT Sub-Trust No. 3 .... **65**
MUPIT Sub-Trust No. 4 .... **65**
Murray Catchment Management Authority......... Vol 4 2008
Murrumbidgee Catchment Management Authority .... Vol 4 2008

N

Namoi Catchment Management Authority ....Vol 4 2008
National Marine Science Centre Pty Ltd **80**
Natural Resources Commission ....Vol 4 2008
Natural Resources Commission Division ....Vol 4 2008
Newcastle Innovation Limited **94**
Newcastle International Sports Centre Trust.......Vol 1 2008
Newcastle Port Corporation...........................Vol 5 2008
Newcastle Showground and Exhibition Centre Trust ....Vol 1 2009
NewSouth Eight Pty Ltd **90**
NewSouth Five Pty Ltd **90**
NewSouth Four Pty Ltd.. **90**
NewSouth Global (Thailand) Limited **90**
NewSouth Innovations Pty Ltd **90**
NewSouth One Pty Ltd... **90**
NewSouth Seven Pty Ltd **90**
NewSouth Six Pty Ltd **90**
Norsearch Limited... **68**
North Coast Area Health Service ....Vol 1 2009
North Coast Area Health Service Special Purpose Service Entity...................Vol 1 2009
Northern Rivers Catchment Management Authority ....Vol 4 2008
Northern Sydney and Central Coast Area Health Service......................................Vol 1 2009
Northern Sydney and Central Coast Area Health Service Special Purpose Service Entity ....Vol 1 2009
NorthPower Energy Services Pty Limited ....Vol 4 2008
Nurses and Midwives Board ....Vol 5 2008

O

Ombudsman's Office...................................Vol 5 2008
Optical Dispensers Licensing Board..................Vol 5 2008
Optometrists Registration Board ....Vol 5 2008
Osteopaths Registration Board ....Vol 5 2008
Ovine Johne's Disease Transaction Based Contribution Scheme, NSW.......................Vol 5 2008

P

Pacific Industry Services Corporation Pty Limited.Vol 5 2008
Pacific Power (Subsidiary No 1) Pty Ltd............Vol 2 2008
Pacific Solar Pty Limited ....Vol 2 2008
Pacific Western Pty Limited ....Vol 4 2008
Parklands Foundation Limited........................Vol 5 2008
Parliamentary Contributory Superannuation Fund ....Vol 5 2008
Parramatta Park Trust ....Vol 5 2008
Parramatta Stadium Trust **131**
Parramatta Stadium Trust Division.........................**131**
Payments to other Government Bodies under the control of the Minister..Vol 5 2008
Performance Audit Reports Tabled in Parliament since Volume One of 2009 ....**125**
Performance Audits in Progress **127**
Performance Audits Otherwise Acquitted ....Vol 1 2009
Pharmacy Board of New South Wales................Vol 1 2009
Physiotherapists Registration Board ....Vol 5 2008
Planning, Department of ....Vol 5 2008
Planning, Minister for ....Vol 5 2008
Podiatrists Registration Board ....Vol 5 2008
Police Force, NSW ....Vol 5 2008
Police Integrity Commission ....Vol 5 2008
Police Integrity Commission, Office of the ....Vol 5 2008
Police Integrity Commission Division ....Vol 5 2008
Police, Minister for ....Vol 5 2008
Police, Ministry for ....Vol 4 2008
Port Kembla Port Corporation ....Vol 5 2008
Ports and Waterways, Minister for...................Vol 5 2008
Premier **117**
Premier and Cabinet, Department of ....Vol 5 2008
Primary Industries, Department of ....Vol 1 2009

Primary Industries, Minister for 113
Probiotic Health Pty Limited 94
Protective Commissioner – Common Fund, Office of the 19
Protective Commissioner and Public Guardian, Office of the .... Vol 5 2008
Psychologists Registration Board .... Vol 5 2008
Public Transport Ticketing Corporation .... Vol 5 2008
Public Transport Ticketing Corporation Division .... Vol 5 2008
Public Trustee NSW.................................... Vol 5 2008

Q

Qualified Independent Audit Reports Issued....... Vol 5 2008
Qucor Pty Ltd 90

R

Rail Corporation New South Wales .... Vol 4 2008
Rail Infrastructure Corporation .... Vol 4 2008
Rail Services Overview .... Vol 4 2008
Redfern and Waterloo, Minister for .... Vol 5 2008
Redfern-Waterloo Authority.......................... Vol 5 2008
Redfern Waterloo Authority, Office of the .... Vol 5 2008
Regional Land Management Corporation Pty Ltd . Vol 5 2008
Remarkspdf Pty Ltd.. 80
Rental Bond Board .... Vol 5 2008
Rental Housing Assistance Fund .... Vol 5 2008
Residual Business Management Corporation .... Vol 2 2008
Responsible Gambling Fund .... Vol 5 2008
Rice Marketing Board for the State of New South Wales .... Vol 5 2008
Risk Frontiers Flood (Australia) Pty Limited 65
Risk Frontiers Group Pty Limited 65
Riverina Citrus.. Vol 5 2008
Rivservices Limited 58
Roads, Minister for.................................... Vol 6 2008
Roads and Traffic Authority of New South Wales . Vol 6 2008
Roads and Traffic Authority Division................ Vol 6 2008
Rouse Hill Hamilton Collection Pty Limited .... Vol 5 2008
Royal Alexandra Hospital for Children.............. Vol 1 2009
Royal Alexandra Hospital for Children Special Purpose Service Entity .... Vol 1 2009
Royal Botanic Gardens and Domain Trust .... Vol 5 2008
Rural Assistance Authority, New South Wales ..... Vol 6 2008
Rural Assistance Authority, Office of the .... Vol 6 2008
Rural Australia Foundation Limited .... Vol 2 2008
Rural Fire Service, NSW.............................. Vol 6 2008

S

SAS Trustee Corporation .... Vol 5 2008
SAS Trustee Corporation - Pooled Fund .... Vol 5 2008
SAS Trustee Corporation Division.................... Vol 5 2008
Self Insurance Corporation, NSW .... Vol 5 2008
Services UNE Ltd 80
Sesquicentenary of Responsible Government Trust Fund.. Vol 5 2008
SGSM Limited 103
Small Business, Minister for .... Vol 5 2008
Small Business Development Corporation of New South Wales.............................. Vol 5 2008
South Eastern Sydney and Illawarra Area Health Service .... Vol 1 2009
South Eastern Sydney and Illawarra Area Health Service Special Purpose Service Entity .... Vol 1 2009
Southern Cross University..................................... 66
Southern Rivers Catchment Management Authority .... Vol 4 2008
Sport and Recreation, Minister for 115
Sporting Injuries Committee .... Vol 5 2008
Sports Knowledge Australia Pty Limited 74
State and Regional Development, Department of Vol 5 2008
State Council of Rural Lands Protection Boards... Vol 2 2007
State Council of Rural Lands Protection Boards Division .... Vol 2 2007
State Development, Minister for .... Vol 5 2008
State Emergency Service .... Vol 6 2008
State Library of New South Wales Foundation ..... Vol 5 2008
State Plan 119
State Property Authority .... Vol 5 2008
State Property Authority, Office of the............. Vol 5 2008
State Rail Authority Residual Holding Corporation .... Vol 5 2008
State Records Authority of New South Wales ...... Vol 5 2008
State Rescue Board.................................... Vol 6 2008
State Sports Centre Trust .... Vol 4 2008
State Sports Centre Trust Division .... Vol 4 2008
State Super Financial Services Australia Limited .. Vol 5 2008
State Transit Authority of New South Wales .... Vol 5 2008
State Transit Authority Division .... Vol 5 2008
State Water Corporation .... Vol 5 2008
Statement of the Budget Result...................... Vol 3 2008
Superannuation Administration Corporation (trading as Pillar Administration) .... Vol 5 2008
Sydney 2009 World Masters Games Organising Committee... Vol 5 2008
Sydney 2009 World Masters Games Organising Committee Division............................... Vol 5 2008
Sydney 2009 World Masters Games Organising Committee Division, Office of the .... Vol 5 2008
Sydney Business School Pty Ltd 111
Sydney Catchment Authority .... Vol 5 2008
Sydney Catchment Authority Division .... Vol 5 2008
Sydney Cricket and Sports Ground Trust............ Vol 4 2008
Sydney Cricket and Sports Ground Trust Division .... Vol 4 2008
Sydney Desalination Plant Pty Limited.............. Vol 5 2008
Sydney Educational Broadcasting Limited 65
Sydney Ferries Corporation .... Vol 5 2008
Sydney Harbour Foreshore Authority .... Vol 5 2008
Sydney Harbour Foreshore Authority, Office of the....................................... Vol 5 2008
Sydney Harbour Foreshore Authority Casual Staff Division, ... Vol 5 2008
Sydney Institutes of Health and Medical Research, The 74
Sydney International Film School Pty Limited........... 109
Sydney Metropolitan Catchment Management Authority... Vol 4 2008
Sydney Olympic Park Authority .... Vol 5 2008
Sydney Olympic Park Authority, Office of the ..... Vol 5 2008
Sydney Olympic Park Authority Sydney Olympic Park Aquatic and Athletic Centres Division .... Vol 5 2008
Sydney Opera House Trust .... Vol 5 2008
Sydney Pilot Service Pty Ltd .... Vol 5 2008
Sydney Ports Corporation .... Vol 5 2008
Sydney South West Area Health Service .... Vol 1 2009
Sydney South West Area Health Service Special Purpose Service Entity .... Vol 1 2009
Sydney Talent Pty Limited.................................... 74
Sydney Water Corporation .... Vol 5 2008
Sydney West Area Health Service .... Vol 1 2009
Sydney West Area Health Service Special Purpose Service Entity .... Vol 1 2009
Sydney West International College Pty Limited 103
SydneyLearning Pty Limited 74

T

TCorp Nominees Pty Limited .... Vol 4 2008
Teacher Housing Authority of New South Wales... Vol 5 2008
Technical and Further Education Commission, New South Wales .... Vol 4 2008
Technical and Further Education Commission Division, New South Wales .... Vol 4 2008
Technical Education Trust Funds 131
Television Sydney (TVS) Limited 103
Total State Sector Accounts .... Vol 3 2008
Tourism, Minister for .... Vol 5 2008
TransGrid .... Vol 4 2008
Transport, Minister for .... Vol 5 2008
Transport, Ministry of................................. Vol 5 2008

Transport Infrastructure Development Corporation .... Vol 4 2008
Transport Services Overview .... Vol 5 2008
Treasurer .... Vol 5 2008
Treasury, The .... Vol 5 2008
Treasury Corporation, New South Wales .... Vol 4 2008
Treasury Corporation Division .... Vol 4 2008
Trustees of the ANZAC Memorial Building 131
Trustees of the Farrer Memorial Research Scholarship Fund .... Vol 2 2008
Trustees of the Museum of Applied Arts and Sciences .... Vol 5 2008
TVS Limited 103

U

U@MQ Limited 65
Ucom Fifteen Pty Limited 74
Ucom Sixteen Pty Limited 74
UNE Partnerships Pty Limited 80
UNE Vision Pty Ltd 80
UniCentre Conferences and Functions Pty Limited 110
UNILINC Limited 131
Uniprojects Pty Limited .... Vol 5 2008
United States Studies Centre Limited 74
Universities Admissions Centre (NSW & ACT) Pty Limited .... Vol 5 2008
Universities Overview 33
University of New England 76
University of New England Professorial Superannuation Fund 80
University of New England Sports Association 80
University of New South Wales 81
University of New South Wales Foundation .... Vol 2 2008
University of New South Wales Foundation Limited 90
University of New South Wales International House Limited 90
University of New South Wales Press Limited 90
University of Newcastle 91
University of Sydney, The 69
University of Sydney Professorial Superannuation System 74
University of Technology, Sydney 95
University of Western Sydney 100
University of Western Sydney Foundation Limited 103
University of Western Sydney Foundation Trust 103
University of Wollongong 104
University of Wollongong Recreation Aquatic Centre Limited 110
UNSW & Study Abroad – Friends and U.S. Alumni, Inc. 90
UNSW (Thailand) Limited 90
UNSW Asia School Limited 90
UNSW Global (Singapore) Pte Limited 90
UNSW Global India Private Limited 90
UNSW Global Pty Limited 89
UNSW Hong Kong Foundation Limited 90
UNSW Hong Kong Limited 90
UTSM Services (Malaysia) Sdn Bhd 99
UON Foundation Ltd 94
UON Foundation Trust 94
UON Services Limited 94
UON, Singapore Pte Ltd 94
Upper Parramatta River Catchment Trust .... Vol 4 2008
Upper Parramatta River Catchment Trust Division .... Vol 4 2008
UWS College Pty Limited 103
UWS Conference and Residential Colleges Limited 103
uwsconnect Limited 103

V

Valley Commerce Pty Limited .... Vol 5 2008
Veterinary Practitioners Board .... Vol 5 2008
Vocational Education and Training Accreditation Board, NSW .... Vol 4 2008

W

Warren Centre for Advanced Engineering Limited, The 74
Waste Recycling and Processing Corporation 27
Water and Energy, Department of .... Vol 5 2008
Water Industry Overview .... Vol 5 2008
Water, Minister for .... Vol 5 2008
Wayahead Pty Limited 74
Wentworth Annexe Limited 74
Wentworth Park Sporting Complex Trust .... Vol 4 2008
Western Catchment Management Authority .... Vol 4 2008
Western Research Institute Limited 58
Western Sydney Buses Division .... Vol 5 2008
Western Sydney Parklands Trust .... Vol 5 2008
Whitlam Institute Within the University of Western Sydney Limited 103
Whitlam Institute Within the University of Western Sydney Trust 103
Wild Dog Destruction Board 131
Wild Dog Destruction Board Division 131
Wine Grapes Marketing Board 131
Wollongong Sportsground Trust .... Vol 5 2008
Wollongong Sportsground Trust Division .... Vol 5 2008
Wollongong UniCentre Limited 110
WorkCover Authority, Office of the .... Vol 6 2008
WorkCover Authority of New South Wales .... Vol 6 2008
Workers Compensation Commission of New South Wales .... Vol 6 2008
Workers Compensation Nominal Insurer (trading as The NSW WorkCover Scheme)........
Workers' Compensation (Dust Diseases) Board .... Vol 5 2008
World Youth Day Co-ordination Authority 120
World Youth Day Co-ordination Authority, Office of 122
Wyong Water Supply Authority .... Vol 5 2008

Y

Youth, Minister for .... Vol 5 2008

Z

Zoological Parks Board of New South Wales .... Vol 5 2008
Zoological Parks Board Division .... Vol 5 2008

AUDITOR-GENERAL'S REPORT
FINANCIAL AUDITS
Volume Three 2009

focusing on Electricity

AUDITOR-GENERAL
NEW SOUTH WALES

The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

Pursuant to section 52A of the *Public Finance and Audit Act 1983*, I present Volume Three of my 2009 Report.

October 2009

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 contains an overview of the findings for this Volume's focus agencies. Section Two provides comments on financial audits of government agencies. It is divided into ministerial portfolios, each containing one or more government agencies.

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

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

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

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

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

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

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

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

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

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

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

Appendix 1 contains the names of agencies not reported elsewhere in this Volume. These agencies received unqualified audit opinions and have no significant issues to report.

Contents

Significant Items iii

SECTION ONE – Overview

Electricity Industry Overview 3

SECTION TWO – Commentary on Government Agencies

Minister for Energy 25

Electricity Generators:

Delta Electricity 27

Eraring Energy 33

Macquarie Generation 38

Electricity Distributors:

Country Energy 43

EnergyAustralia 47

Integral Energy Australia 52

TransGrid 57

Minister for Planning 61

Minister for Primary Industries 63

Minister for Sport and Recreation 65

Treasurer 67

Residual Business Management Corporation 69

APPENDIX

Appendix 1 – Agencies not reported elsewhere in this Volume 73

INDEX **75**

Significant Items

	Page
Electricity Industry Overview	
Restructure of the Electricity Industry	
In September 2009 the Government released its approach to implementing transactions for reforming the electricity industry. Expressions of Interest from potential bidders for the purchase of assets close on 18 November 2009.	4
New Coal Mine	
A new coal mine in the Central West of New South Wales is being developed to provide some certainty over coal supplies and costs for the State owned generators.	5
Renewable Energy	
Approximately six per cent of New South Wales' electricity is sourced from renewable energy sources. The Council of Australian Governments has set a target for 20 per cent of energy production in Australia to come from renewable sources by 2020.	8
Supply and Demand Outlook	
The Australian Energy Market Operator has indicated that projected electricity demand in New South Wales will exceed supply in 2015-16.	11
Distribution to Government	
Electricity entities accrued distributions to the Government of $1.0 billion ($1.5 billion in 2008-09).	18
Increase in Debt	
External debt for electricity entities increased from $12.1 billion to $14.8 billion to largely fund significant capital works programs. Capital works expenditure totalled $3.6 billion in 2008-09.	18

Section One

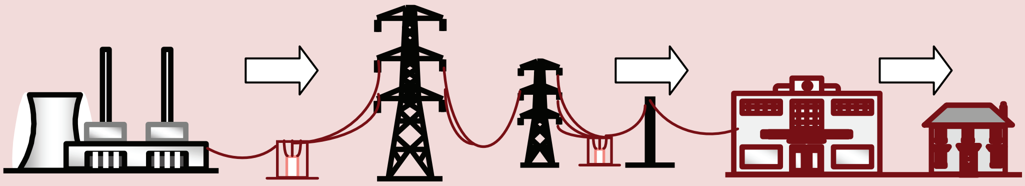
Electricity Industry Overview

Electricity Industry Overview

ELECTRICITY CORPORATIONS AND AUDIT OPINIONS

There are seven State owned corporations involved in the production and distribution of electricity:

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



The audits of these corporations' financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports. The Independent Auditor's Reports for the three generators drew attention to significant uncertainty in the value of power station assets due to the unknown impacts of the Federal Government's proposed Carbon Pollution Reduction Scheme.

KEY ISSUES

Restructure of Electricity Industry

In September 2009, the Government announced further details on the restructure of the New South Wales electricity industry when it released the 'New South Wales Energy Reform Strategy: Approach to transaction implementation' (the Strategy) and outlined the framework for the restructure.

The Strategy comprises the following key elements:

- continued Government ownership and operation of existing power stations and all electricity networks (the pole and wires) in New South Wales
- contracting the electricity trading rights of power stations to the private sector, commonly referred to as the ‘Gentrader’ model
- selling the retail arms of EnergyAustralia, Integral Energy Australia and Country Energy
- selling the following key power station development sites around the State.

Development Site	Size (MW)*	Fuel	Progress
Bamarang (Delta)	300-400	Gas	Full Development Approval obtained
Tomago (Macquarie Generation)	500-790	Gas	Full Development Approval obtained
Marulan (EnergyAustralia)	350	Gas	Director-General’s requirements issued(1)
Marulan (Delta)	350-450	Gas	Director-General’s requirements issued(1)
Munmorah (Delta)	700	Gas/coal	Planning process underway
Bayswater B (Macquarie Generation)	2000	Gas/coal	Planning process underway
Mt Piper extension (Delta)	2000	Gas/coal	Planning process underway

(1) On 8 October 2007 the Director-General of the New South Wales Department of Planning declared the Marulan Gas Turbine Facilities Projects of EnergyAustralia and Delta Electricity were considered as Major Projects and would be assessed under Part 3A of the *Environmental Planning and Assessment Act 1979*.

* MW = Megawatts

The Strategy’s completion date is mid 2010. The Government retains the discretion to offer particular assets as part of an Initial Public Offering (IPO) should the first phase of the bid process not deliver the Strategy’s objectives.

In September 2009 the Government called for Expressions of Interest (EOI) from national and international electricity industry operators and investors. The EOI closes on 18 November 2009. Those offering an appropriate EOI will be invited to submit bids for the assets.

The Government’s Strategy is intended to significantly increase private sector investment in new generation capacity for New South Wales. Achieving this objective may require a trade-off between maximising the financial return to the Government and minimising potential ongoing Government liabilities.

There are a number of challenges associated with implementing the Strategy. Two of the more significant are uncertainty of the Federal Government’s proposed Carbon Pollution Reduction Scheme and the current global financial climate.

Our 2008 report to Parliament ‘Oversight of Electricity Industry Restructuring’, included consideration points that are relevant to the current Strategy. Most of the consideration points are reflected in the current Strategy. The following table provides a comparison between the consideration points and the current Strategy:

Consideration points from ‘Oversight of Electricity Industry Restructuring’, August 2008	**Items included in the ‘New South Wales Energy Reform Strategy: Approach to transaction implementation, September 2009’**
Encourage new entrants and new investment to promote competition in electricity generation and retail markets by: ▪ using simultaneous rather than sequential Generator/Retailer transactions ▪ holding separate tender(s) for a generation development site(s)	The Strategy proposes that it will separately and on a simultaneous basis: ▪ contract the electricity trading rights of Government-owned power stations ▪ sell the retail arms of EnergyAustralia, Integral Energy Australia and Country Energy ▪ sell key power station development sites around the State.
Treasury continuously evaluate the restructuring process after the marketing effort and before the first transaction.	Treasury advised that it has conducted a considerable consultation process which included potential trade purchasers prior to announcing the strategy.
Treasury continuously evaluate the likelihood of the success of transactions and whether contingency plans require executing	The implementation process advises that if the trade sale process does not deliver the Government’s objectives, the Government retains the discretion to offer particular assets as part of an Initial Public Offering.
Reserve Price and Retention Value: ▪ Treasury documents contingency plans prior to commencing the first transaction which inter alia include the setting of a reserve price for each transaction and considerations if the reserve price is not achieved ▪ Treasury calculating a retention value for each Generator and Retailer using consistent assumptions prior to commencing each transaction.	The Strategy does not publically articulate Treasury’s approach to either of these points.

Access to fuel supply

To support the sale by providing some certainty over coal supplies and coal costs, a new coal mine (Cobbora) will be developed to supply State owned generators.

The Cobbora open-cut coalfield covers a 320 kilometre area in the Cobbora and Laheys Creek area of Warrumbungle Shire.

The Government has approved an initial development budget of about $170 million for New South Wales generators to implement the project. Of the seven State owned power stations five are in the Hunter region and can receive coal from the Cobbora mine by rail. Existing rail infrastructure is to be enhanced and expanded.

Expressions of interest have been invited from parties interested in building and operating a large scale coalmine. Indicative offers are due by 5 February 2010 with initial deliveries of coal due to commence from early in 2013.

Electricity Prices

Electricity wholesale prices in the National Electricity Market (NEM) decreased during 2009. The average spot price for 2009 in New South Wales was $38.85 per megawatt hour, a fall of 6.75 per cent from the 2008 average of $41.66.

The wholesale (spot) price of electricity has been subject to volatility since the inception of the National Electricity Market in 1997. Despite this volatility, the average spot price has remained around $40-$45 per megawatt hour.

A report by IPART in 2004, 'The Long Run Marginal Cost of Electricity Generation in New South Wales', estimated the long run marginal cost (LRMC) for base load thermal generators to be an average of $36.33 per megawatt hour. The same report concluded that the LRMC for two other technologies, combined cycle gas turbines and open cycle gas turbines, to be $41.77 and $58.99 per megawatt hour respectively. These costs currently do not include the cost of carbon.

Renewable energy targets and carbon reduction schemes seek to use market forces to encourage investment in renewable and low carbon energy sources. Both State and Commonwealth governments have progressively introduced renewable energy targets and carbon reduction schemes.

Under the existing market rules for the NEM average spot prices can range between a minimum of negative $1,000 and a maximum of $10,000 per megawatt hour. The price volatility initially impacted the valuation of generation assets by introducing uncertainty to cash flows and returns to investors. In response, larger market participants manage the impact of price volatility through the use of electricity fixed price contracts (derivative financial instruments).

The following tables relate to the average annual wholesale spot prices of electricity:

Year ended 30 June	NSW $/MWh	Vic $/MWh	Qld $/MWh	SA $/MWh	Tas $/MWh
2009	***38.85***	***41.82***	***34.00***	***50.98***	***58.48***
2008	41.66	46.79	52.34	73.50	54.68
2007	58.72	54.80	52.14	51.61	49.56
2006	37.24	32.47	28.12	37.76	56.76
2005	39.33	27.62	28.96	36.07	190.38
2004	32.37	25.38	28.18	34.86	(a)

Source: AEMO price statistics average annual prices per financial year.
(a) Tasmania entered the National Electricity Market on 29 May 2005, and became an active participant on 29 April 2006.

The average price per megawatt hour for June 2009 of $34.15 was lower than the June 2008 price of $41.82.

The June 2009 average prices per megawatt hour were:

June	NSW $/MWh	Vic $/MWh	Qld $/MWh	SA $/MWh	Tas $/MWh
2009	***34.15***	***30.07***	***30.76***	***31.29***	***173.80***
2008	41.82	42.04	41.13	40.11	55.96
2007 (a)	230.66	143.28	192.45	102.63	77.81

Source: AEMO average regional reference price per region for the month.
(a) The average price per MWh for June 2007 was affected by constraints (including drought) on generating capacity.

The highest and lowest electricity prices recorded in New South Wales in the year to 30 June 2009 were:

- lowest average daily price was $17.06 per Megawatt hour on 18 January 2009 ($18.42 on 25 December 2007)
- highest average daily price was $2,207.11 per Megawatt hour on 31 October 2008 ($336.22 on 22 October 2007)
- lowest half-hour price was negative $170.76 on 18 January 2009 at 5:30 am (positive $7.58 on 19 October 2007 at 3:30 am)
- highest half-hour price was $10,000.00 per Megawatt hour on 31 October 2008 at 1:00 pm and 1:30 pm ($7,858.07 on 22 October 2007 at 10 am).

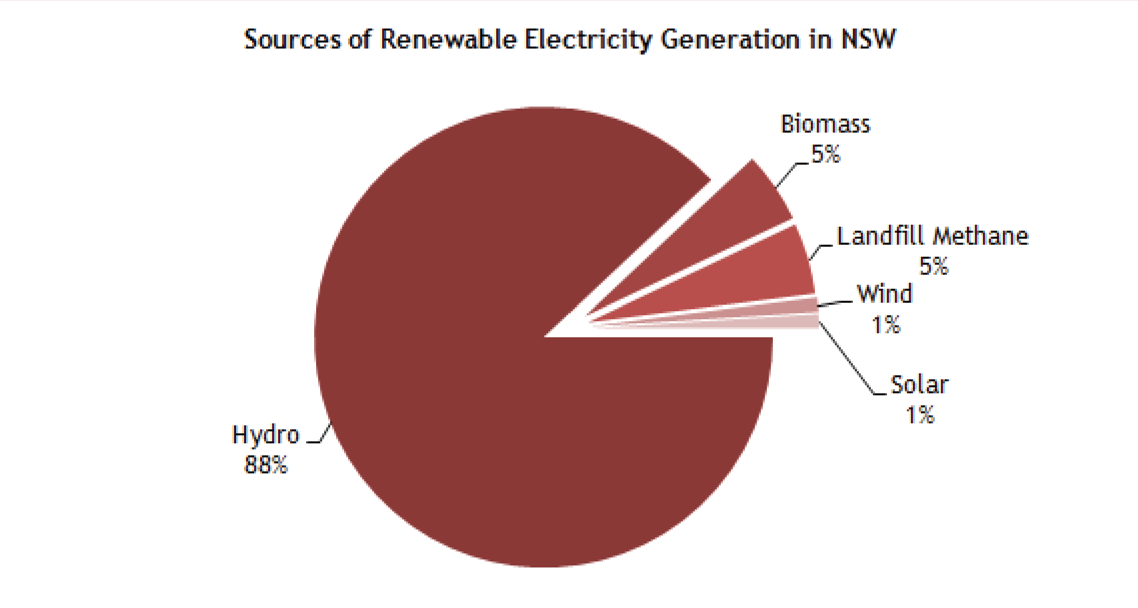
Sustainable Energy

The Government is developing and encouraging initiatives to promote the growth of sustainable energy sources. Initiatives in this area are detailed below.

Renewable Energy

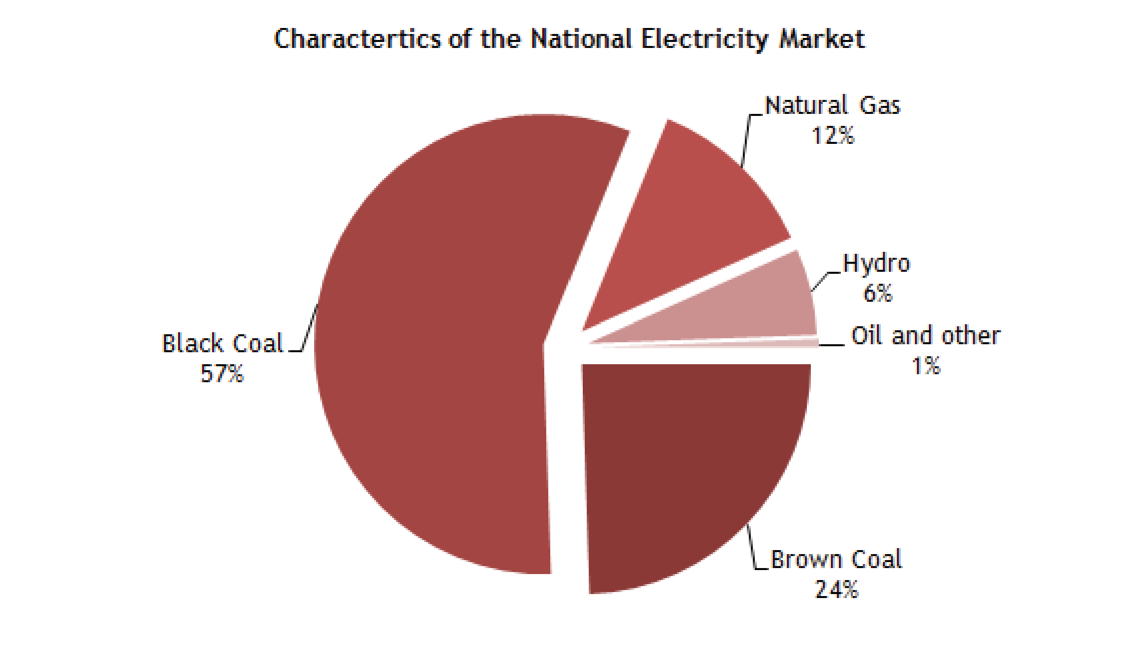
The relatively higher cost of providing renewable generation has been a barrier to any large scale investment. Renewable energy is energy sourced from alternative sources such as water, biomass, landfill methane, wind, organic matter and the sun.

Sourcing renewable energy reduces greenhouse gas emissions. Approximately six per cent of New South Wales electricity is sourced from renewable energy sources. The New South Wales Government has set a target of 15 per cent renewable energy consumption by 2020. This target has been largely superseded by the expanded national Renewable Energy Target (RET), which was developed through COAG and mandates that 20 per cent of energy production in Australia come from renewable sources by 2020.



Source: Department of Industry and Investment NSW – October 2009

Coal continues to be the major source of electricity generation in Australia as shown below.



Source: NEMMCO, An Introduction to Australia's National Electricity Market July 2009

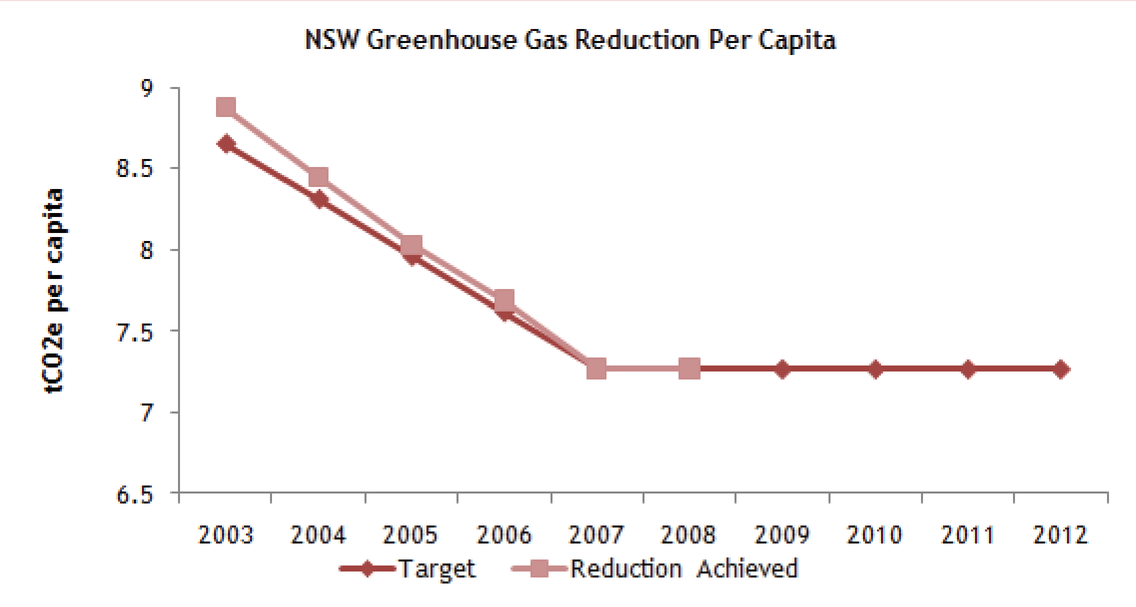
Greenhouse Gas Reduction Scheme

The New South Wales Greenhouse Gas Reduction Scheme (GGAS), formerly known as Greenhouse Gas Abatement Scheme, pioneered emissions trading in Australia and is one of the first emissions trading schemes in the world. The objectives of the GGAS are to:

- reduce greenhouse gas emissions associated with the production and use of electricity
- develop and encourage activities to offset the production of greenhouse gas emissions.

GGAS requires retailers and other parties (benchmark participants) to meet mandatory targets set under the *Electricity Supply Act 1995* for reducing emission of greenhouse gases from the production of the electricity they supply or use.

The State's greenhouse gas benchmarks under the *Electricity Supply Act 1995* are as follows:



Source: Independent Pricing and Regulatory Tribunal, 'Compliance and Operation of the NSW Greenhouse Gas Reduction Scheme during 2008', July 2009
tCO2e = tonnes of carbon dioxide equivalent. It is a measure used to compare different greenhouse gasses.

The benchmark dropped to 7.27 tonnes in 2007 which represents a reduction of five per cent below the Kyoto Protocol baseline year of 1989-90.

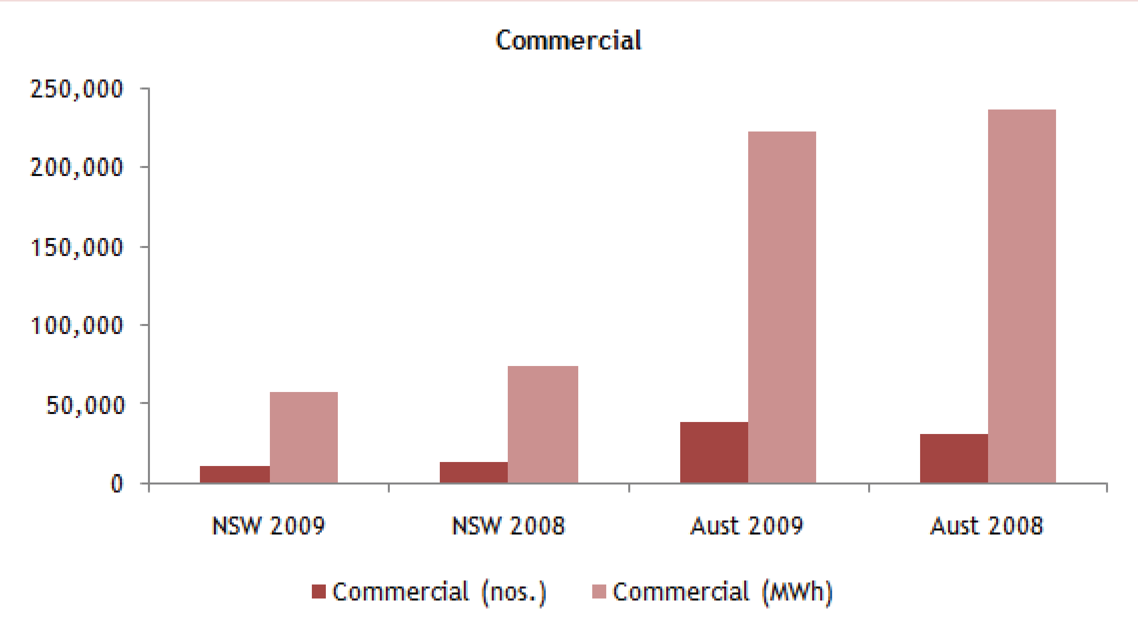
The GGAS is expected to transition into the Federal Government's Carbon Pollution Reduction Scheme (see below). Most of the demand side abatement aspects of the GGAS were incorporated into the New South Wales Energy Savings Scheme on 1 July 2009, with the exception of on-site generation which remains an eligible activity under GGAS.

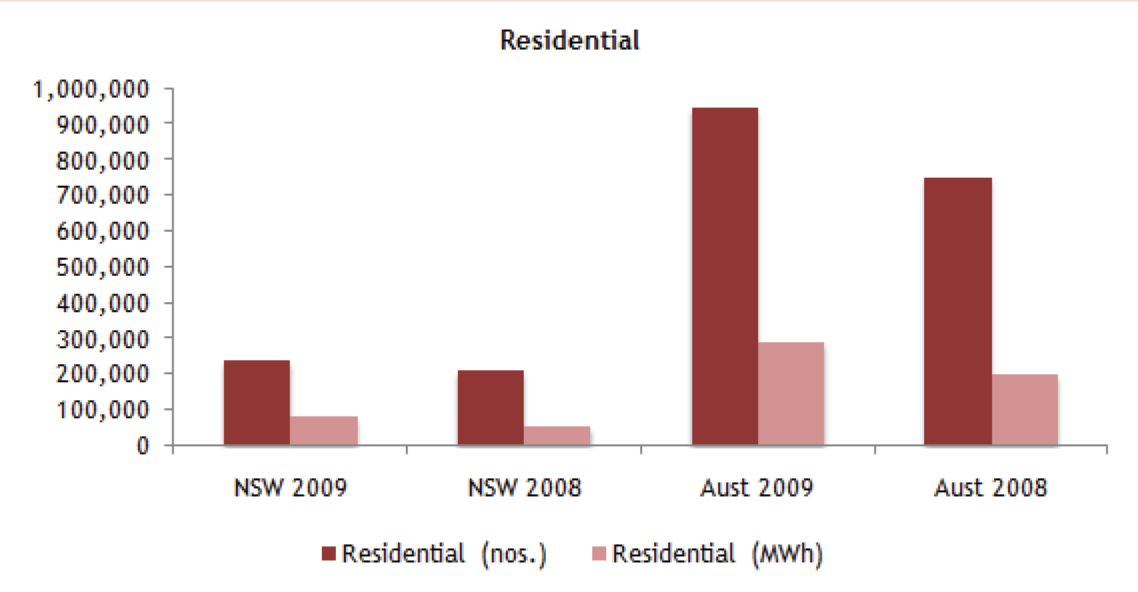
Customer initiatives - GreenPower

GreenPower is a national accreditation program that sets stringent environmental and reporting standards for renewable energy products offered by electricity suppliers to households and businesses across Australia. When customers choose to buy a GreenPower product through their electricity retailer the extra price they pay is invested in the renewable energy sector.

Data sourced from the National Greenhouse Accreditation Program shows considerable growth in the number of customers opting to purchase green energy. In New South Wales for the nine month period to 31 March 2009, GreenPower customers increased by 26,069 or 11.8 per cent from 30 June 2008.

The increase in green energy purchases was not spread equally between residential and commercial customers. The two graphs appearing below highlight that residential customers in New South Wales increased from 207,801 to 236,242 or 13.7 per cent at 31 March 2009, while commercial customer numbers decreased from 13,021 to 10,649 or 18.2 per cent for the same period. The decline in green energy purchase by commercial customers may in part be indicative of the overall global financial crisis and its impact on the businesses in the economy.





Source: data extracted from the National GreenPower Accreditation Program Status Reports for the quarters ended 30 June 2008 and 31 March 2009 'Greenhouse Gas Reduction Scheme'

Solar Feed-in Tariff Scheme

The New South Wales Government announced its intention to introduce a Solar Feed-in Tariff (FiT) Scheme from 1 January 2010. The FiT will apply to small scale, grid connected, solar photovoltaic (PV) systems. A tariff of 60 cents per kilowatt hour will be paid to PV system owners for electricity produced by the systems that are fed back into the electricity grid (a 'net' tariff).

Electricity distributors are expected to bear the costs of the scheme with the costs being passed onto electricity customers. Households are expected to pay on average between $2 and $9 per year over the life of the scheme to fund the Scheme.

Carbon Pollution Reduction Scheme (CPRS)

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

In December 2008, the Federal Government released a White Paper outlining its policy for a national CPRS emissions trading scheme. On 4 May 2009, the Federal Government announced a number of adjustments to the scheme to address public concerns and help manage the impacts of the global recession.

The key variations included: delaying the scheme's commencement by one year to 1 July 2011; establishing a fixed price of carbon of $10 for the first year of the scheme; a global recession buffer, providing additional assistance to emission intensive trade-exposed industries (EITE) for the first five years of the scheme; announcement of a new emissions reduction target in the event of an ambitious international agreement; and measures to account for the impact of voluntary action to reduce abatement. After the first year of the scheme, carbon prices will revert to being set by the market.

Depending on the outcome of international negotiations, the CPRS will help achieve emission reductions of between 5 and 25 per cent below 2000 levels. From the scheme's outset it will cover around 75 per cent of Australia's emissions, including those from stationary energy, industrial processes, transport, fugitive emissions, waste and forestry.

Draft legislation was released earlier this year to implement this policy. As at October 2009 this has been passed by the House of Representatives, but voted down in the Senate. It is expected to be brought before the Senate again in November 2009.

Electricity Supply and Demand Outlook

Projected electricity demand in New South Wales is currently expected to exceed supply by 2015-16.

The AEMO provides the supply and demand outlook for each State, which includes:

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

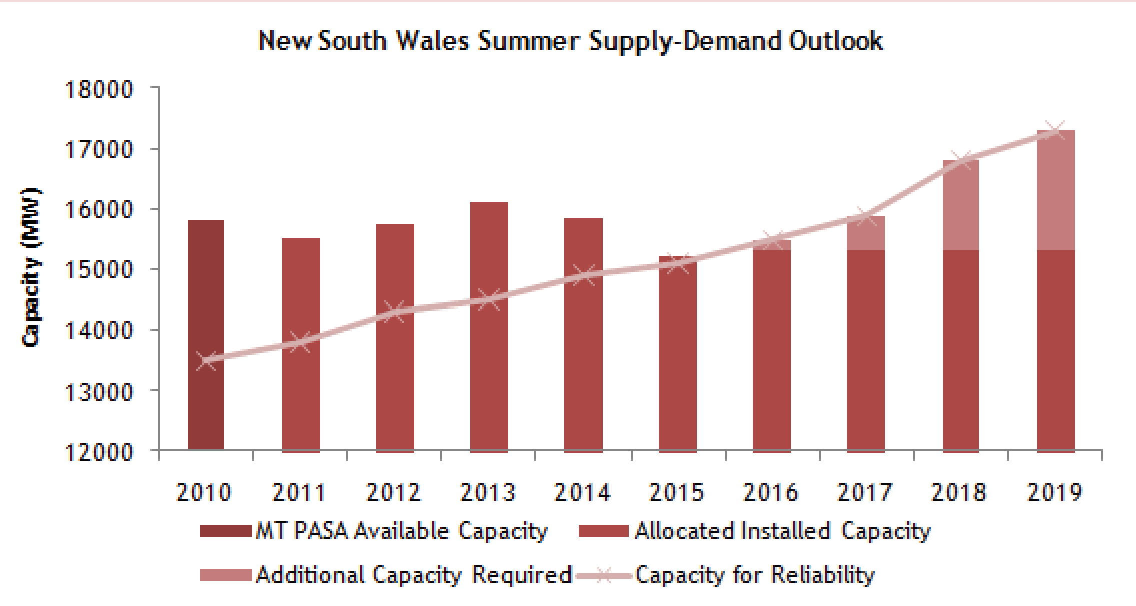
Summary Overview of LRC and Reserve Deficit

State	LRC Point	Reserve Deficit (MW)
New South Wales	2015-16	182
Queensland	2014-15	34
Victoria and South Australia (combined)	2013-14	17
South Australia (local)	2012-13	68
Tasmania	Beyond 2018-19	

Source: AEMO Statement of Opportunities 2009.

Highest Demand in Summer

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



Source: Extracted from AEMO Electricity Statement of Opportunities for the National Electricity Market 2009.

(a) Allocated Installed Capacity: Represents the current projection of installed generation capacity allocated to meet the reliability requirement for the region (Capacity for Reliability). It includes the available capacity within a region plus the allocated net import from neighbouring regions.

(b) Additional Capacity Required: Represents the difference between the Capacity for Reliability and the Allocated Installed Capacity or the MT PASA (Medium Term Projected Assessment of System Adequacy) Available Capacity. This also represents the reserve deficit.

(c) MT PASA Available Capacity: Represents the operational projection of installed generation capacity available to meet the scheduled maximum demand. This projection is taken from the preliminary MT PASA calculation performed using available capacity bid into MT PASA as at 24 July 2007.

(d) Capacity for Reliability: represents the capacity that needs to be allocated to meet the minimum reserve level.

The New South Wales low reserve condition point occurs in 2016 when the additional capacity required is 182 megawatts. If this additional capacity is not created by this time, supply will fall below minimum reserve levels (as indicated by the solid line), which may necessitate load shedding and periods of blackouts for some customers.

The projected LRC point does not necessarily mean generating capacity will be insufficient to meet expected demand at this time, but it provides investors with an indication of the opportunities that may exist for future investment.

Peak and Average Demand Growth Rates

The Australian Energy Market Operator (AEMO) projects the following peak and average demand growth rates per year for electricity in New South Wales.

Demand growth rate per year	2009	2008	2007
Peak increase/(decrease) (%)	***(1.3)***	2.3	2.5
Average increase/(decrease) (%)	***(4.3)***	0.8	1.6

Source: AEMO Electricity Statement of Opportunities for the National Electricity Market 2009, and NEMMCO Statement of Opportunities 2007 energy and demand projections for 2008 and 2009.

The reduction in peak demand and energy growth rates in 2009 is due to:

- a poorer economic outlook
- additional efficiency allowances, including tightened Minimum Energy Performance Standards on appliance efficiency and accelerated uptake of solar hot water and small-scale photovoltaic generation
- a revision of non-scheduled energy projections.

Existing Capacity in New South Wales

The table below provides a list of major existing New South Wales power stations with an installed capacity equivalent to or larger than 30 megawatts:

Power station	Location	Owner	Technology	Capacity (MW)
Major Existing NSW Government Power Stations				
Mount Piper	Central West	Delta Electricity	Steam/Coal	1,400
Vales Point	Central Coast	Delta Electricity	Steam/Coal	1,320
Wallerawang	Central West	Delta Electricity	Steam/Coal	1,000
Munmorah	Central Coast	Delta Electricity	Steam/Coal	600
Broadwater	North Coast	Delta Electricity(1)	BaGasse	30
Condong	North Coast	Delta Electricity(1)	BaGasse	30
Eraring	Lower Hunter	Eraring Energy	Steam/Coal	2,640
Shoalhaven	Nowra	Eraring Energy	Hydro	240
Warragamba	Sydney	Eraring Energy	Hydro	50
Bayswater	Hunter	Macquarie Generation	Steam/Coal	2,720
Liddell	Hunter	Macquarie Generation	Steam/Coal	2,080
				12,110
(1) Joint venture between Delta Electricity Australia Pty Ltd and Sunshine Renewable Energy Pty Ltd				
Non NSW Government Owned				
Tallawarra	Wollongong	TRUenergy	CCGT(a)	435
Tumut	Snowy	Snowy Hydro*	Hydro	2,116
Blowering	Snowy	Snowy Hydro*	Hydro	80
Guthega	Snowy	Snowy Hydro*	Hydro	60
Redbank	Hunter	Redbank Project	Coal Tailings	145
Uranquinty	Wagga Wagga	Origin Energy	OCGT (b)	648
Cullerin	Upper Lachlan	Origin Energy	Wind	30
Smithfield	Smithfield	Marubeni	Gas Cogen	160
Appin Mine	Illawarra	EDL Group	CSM(c)	56
Tower Mine	Illawarra	EDL Group	CSM(c)	41
				3,771
Total - Major existing NSW power stations				**15,881**

Source: Department of Industry and Investment NSW.
(a) CCGT = Combined Cycle Gas Turbine
(b) OCGT = Open Cycle Gas Turbine
(c) CSM = Coal Seam Methane
* Partly owned by New South Wales Government.

Committed and Proposed Additional Capacity

Allocated and installed capacity increases as significant, new, committed and scheduled generation capacity enters the NEM. The table below provides a list of major New South Wales power stations that are either under construction or proposed and have an installed capacity of more than 30 megawatts.

The Department of Industry and Investment NSW has reported that new power plants with a capacity of more than 16,000 megawatts (including over 3,800 megawatts from renewable sources) are at various stages of development from concept to construction.

Power station	Location	Owner	Technology	Capacity (MW)
Projects under construction				
NSW Government Owned				
Colongra	Central Coast	Delta Electricity	OCGT	668
Non NSW Government Owned (1 project by 1 proponent)				141
Total - Projects under construction				**809**
Projects with development approval				
NSW Government Owned				
Bamarang Stage 1*	Nowra	Delta Electricity	OCGT	400
Bamarang Stage 2	Nowra	Delta Electricity	conversion to CCGT	--
Eraring Upgrade	Lower Hunter	Eraring Energy	Coal	360
Tomago	Newcastle	Macquarie Generation	OCGT/CCGT	790
Non NSW Government Owned (11 projects by 8 proponent)				3,180
Total - Projects with development approval				**4,730**
* Amendment being sought for 450MW, subject to transmission connection amendment.				
Projects in the planning system				
NSW Government Owned				
Marulan	Marulan	Delta Electricity	OCGT/CCGT	450
Mount Piper Power Station Extension	Mount Piper Power Station	Delta Electricity	CCGT or Ultra-supercritical Coal	2,000
Munmorah Power Station Rehabilitation	Munmorah Power Station	Delta Electricity	Coal and/or Gas	700
Bayswater B	Bayswater Power Station	Macquarie Generation	CCGT or Ultra-supercritical Coal	2,000
Marulan	Marulan	EnergyAustralia	OCGT/CCGT	350
Non NSW Government Owned (22 projects by 15 proponent)				4,110
Total - Projects in the planning system				**9,610**

Source: Department of Industry and Investment NSW; it is a summary of information contained in the AEMO 2009 'Electricity Statement of Opportunities for the National Electricity Market' where a full list of current New South Wales generators registered with the AEMO can be found on the AEMO website.

PERFORMANCE INFORMATION

Financial Performance

Revenue for the New South Wales electricity industry increased by $552 million to $11.3 billion for 2009. Expenses, including tax, also increased, resulting in a $472 million decrease in profit after tax.

The New South Wales electricity industry's returns on equity and assets have fallen from the previous year and are below the latest national electricity industry figures. Debt levels have increased ahead of national figures.

Year ended 30 June	NSW 2009	NSW 2008	National Industry*	NSW 2007
Return on average equity (%) (a)	***8.7***	17.6	16.1	15.7
Return on average assets (%) (b)	***6.0***	9.4	11.5	8.7
Interest cover (times) (c)	***2.4***	3.3	4.3	3.5
Debt to equity ratio (d)	***1.6***	1.3	0.9	1.5

* Latest available July 2008 Productivity Commission Report, whole of electricity sector performance indicators.
Calculated as:
(a) profit after income tax expense divided by average equity.
(b) profit before tax and interest expense divided by average assets.
(c) operating profit plus interest and tax expense divided by interest expense.
(d) external debt divided by equity (net assets).
Profit in 2008 and 2009 does not include superannuation actuarial adjustments due to a change in accounting policy.

Targets for these key ratios are not set for the New South Wales electricity industry. However, targets for individual agencies are detailed in the comment for each agency elsewhere in this report.

The change in ratios from 2008 to 2009 reflects reduced earnings and increases in asset values. There were significant unrealised losses associated with movements in the fair value of electricity derivatives.

Generators and Distributors

Pre-tax profits of the distributors decreased marginally from $663 million in 2008 to $661 million in the current year. Pre-tax profits from generators decreased from $977 million to $307 million for the same period.

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

	Generators			Distributors/Retailers		
	2009	2008	2007	2009	2008	2007
Return on average equity (%) (a)	***5.6***	29.7	30.5	***12.4***	14.5	13.6
Return on average assets (%) (b)	***4.6***	11.2	9.8	***6.5***	8.7	8.5
Interest cover times (c)	***3.5***	8.8	6.5	***2.1***	2.2	2.8
Debt to equity ratio (%) (d)	***68.3***	48.8	342.8	***287.8***	218.7	147.5
Net assets $m	***3,850***	4,036	538	***3,533***	3,937	5,003
Pre-tax net profit $m	***307***	977	484	***661***	663	844

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).
Profit in 2008 and 2009 does not include superannuation actuarial adjustments due to a change in accounting policy.

Generation

Financial performance achieved during the year was generally lower than the previous year. The major factors affecting financial performance were:

- increases in generating costs without equivalent increases in the average spot price for electricity sales
- significant unrealised losses associated with movements in the fair value of electricity derivatives (unrealised gains were recorded in the previous year)
- increases in employee entitlement provisions brought about by unrealised superannuation actuarial losses for superannuation.

Overall debt levels for generators increased to finance construction activity. Delta Electricity reported asset additions for the year of $484 million, largely representing construction costs associated with the Colongra open cycle gas turbine and gas pipeline.

Distributors/Retailers

Overall financial performance for the year met or exceeded all financial performance targets. This was largely due to lower than expected electricity purchase prices.

The increase in total assets was primarily due to increased capital expenditure programs for distribution networks. Debt levels increased significantly to finance capital expenditure programs.

Profits after taxes while similar to the previous year, were affected by unrealised losses from the fair value movements in electricity forward price contracts as well as increases in employee entitlement provisions brought about by unrealised actuarial losses from superannuation. The amounts paid as dividends by the distributors were lower than previous years.

Transmission

TransGrid has generally performed well against its targets. It made a profit before tax of $217 million in 2009 ($190 million in 2008) enabling it to return contributions to Government totalling $187 million. These comprised a dividend of $120 million and taxation of $67.1 million.

Capital expenditure increased significantly on the completion of major capital projects including the Western 500kV Development Project and the Wollar-Wellington 330kV Transmission Line projects.

FINANCIAL INFORMATION

Distribution to Government

Electricity entities' accrued distributions to the Government were $1.0 billion ($1.5 billion), comprising $351 million ($524 million) of tax and $696 million ($972 million) of dividends.

After the restructure of the electricity industry, dividends and tax equivalents will continue to be received from the Government owned entities.

Industry Debt

Borrowing costs for the year were $844 million compared to $789 million in the previous year. The industry's debt at 30 June 2009 was $14.8 billion ($12.1 billion at 30 June 2008). The table below highlights the trend of debt levels, which have increased in line with the significant capital works projects being undertaken.

	2009 $m	2008 $m	2007 $m
Generators			
Borrowing costs	***123***	125	125
External debt	***2,631***	1,971	1,864
Distributors			
Borrowing costs	***616***	562	470
External debt	***10,170***	8,611	7,377
TransGrid			
Borrowing costs	***105***	102	101
External debt	***1,989***	1,532	1,454
TOTAL BORROWING COSTS	***844***	789	696
TOTAL EXTERNAL DEBT	***14,790***	12,114	10,695

OTHER INFORMATION

Asset Acquisition

In the 2008-09 State Budget, the electricity industry's asset acquisition program was allocated $3.5 billion ($2.9 billion), $660 million or 23 per cent above the 2007-08 budget. The focus has been to replace or refurbish assets reaching the end of their economic life, to meet demand growth and ensure network reliability and security. Upgrades to the high voltage electricity network across New South Wales are also being undertaken to meet the growing demand for electricity.

Actual expenditure for 2009 was $3.6 billion, of which $3.0 billion or 82.4 per cent was spent on the State's distribution and transmission networks.

Electricity Tariff Equalisation Fund (the Fund)

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

The Fund manages the retailers' exposure to the variability of wholesale electricity prices only for the load that supplies regulated customers. At 30 June 2009, the Fund was $48.9 million in surplus, ($82,000 in 2008). This resulted from lower electricity wholesale prices during the year leading to less reliance on the Fund from retailers.

The Fund's transactions were:

Payments	Generators		Distributors/Retailers	
	2009 $m	2008 $m	2009 $m	2008 $m
Into the Fund	***136***	92	***271***	161
From the Fund	***197***	151	***152***	102

In the prior year, the New South Wales Government announced that the Fund would be abolished by 30 June 2010. As part of the restructure of the electricity industry, ETEF will be phased.

Regulatory Pricing

The Australian Energy Regulator (AER) is the regulator for electricity distribution under a new national regulatory regime. Its regulatory pricing role was previously undertaken by the New South Wales Independent Pricing and Regulatory Tribunal (IPART). On 30 April 2009, AER made a five year determination under the National Electricity Rules, which established the revenue requirements for each electricity distributor from 1 July 2009 until 30 June 2014. The determination is estimated to have increased the average retail customer's annual electricity bill between $1.41 to $1.50 per week.

While no longer responsible for electricity distribution pricing, IPART continues to regulate electricity prices for small retail customers choosing to remain on a regulated tariff in New South Wales. The current price determinations were made on 1 July 2007 and affect the regulated retail electricity tariffs and charges that apply from 1 July 2007 to 30 June 2010. The Minister for Energy has IPART to review and determine the regulated retail electricity tariffs and charges that will apply from 1 July 2010 to 30 June 2013.

The AER is responsible for the regulation of transmission network charges. A determination for TransGrid's transmission services was issued on 28 April 2009, allowing a nominal return of four per cent on the weighted average cost of capital. This determination covers a five year period from 1 July 2009 to 30 June 2014.

The AER regulates the wholesale electricity market and is responsible for the economic regulation of the electricity transmission and distribution networks in the national electricity market (NEM). The AER is also responsible for the economic regulation of gas transmission and distribution networks and enforcing the national gas law and national gas rules in all jurisdictions except Western Australia.

The Australian Energy Market Commission (AEMC) is responsible for developing the Rules and providing policy advice on how best to develop energy markets over time in relation to the NEM and elements of natural gas markets.

BACKGROUND

All New South Wales public sector electricity entities are statutory State owned corporations.

The entities have common objectives of:

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

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

INDUSTRY FINANCIAL TABLES

Following are abridged income statement and balance sheet tables for generators and distributors for 2008–09 and the previous year. Comments on each entity and TransGrid follow this section.

GENERATORS

	Delta Electricity		Macquarie Generation		Eraring Energy		Total	
	2009 $m	**2008 $m**	**2009 $m**	**2008 $m**	**2009 $m**	**2008 $m**	**2009 $m**	**2008 $m**
Abridged Income Statements (year ended 30 June)								
Total revenue	***1,004.6***	1,016.9	***1,217.2***	1,162.4	***644.3***	745.2	***2,866.1***	2,924.5
Profit before income tax	***100.7***	169.2	***117.5***	640.1	***89.1***	168.1	***307.3***	977.4
Income tax equivalent	***25.4***	55.6	***35.3***	191.7	***26.7***	50.8	***87.4***	298.1
Dividends paid and provided	***59.2***	124.4	***150.0***	270.0	***60.4***	114.6	***269.6***	509.0
Abridged Balance Sheets (at 30 June)								
Total assets	***3,280.2***	2,738.9	***4,118.8***	4,450.1	***1,911.3***	2,439.6	***9,310.4***	9,628.5
Total liabilities	***2,280.6***	1,841.9	***2,233.7***	2,650.3	***945.3***	1,100.4	***5,459.6***	5,592.6
Net assets/net liabilities	***999.6***	897.0	***1,885.1***	1,799.8	***966.0***	1,339.2	***3,850.8***	4,035.9
Retained earnings (at 30 June)	-	48.5	***139.2***	252.9	***5.5***	42.4	***144.6***	343.8
Financial Performance Indicators* (year ended 30 June)								
Return on average equity (%)	***7.9***	20.4	***4.5***	51.5	***5.4***	13.6	***5.6***	29.7
Return on average assets (%)	***4.9***	7.1	***4.0***	16.9	***5.3***	7.0	***4.5***	11.2
Debt/equity	***1.3***	0.9	***0.4***	0.5	***0.5***	0.3	***0.7***	0.5
Interest cover (times)	***3.2***	4.9	***3.3***	11.2	***4.4***	9.6	***3.5***	8.8

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

DISTRIBUTORS

	Energy Australia		Integral Energy		Country Energy		Total	
	2009 $m	2008 $m	2009 $m	2008 $m	2009 $m	2008 $m	2009 $m	2008 $m
Abridged Income Statements (year ended 30 June)								
Total revenue	***3,339.2***	3,136.3	***1,998.4***	1,848.1	***2,491.3***	2,314.1	***7,828.9***	7,298.5
Profit before income tax	***330.7***	373.4	***205.6***	239.1	***125.0***	50.2	***661.3***	662.7
Income tax equivalent	***99.4***	105.3	***63.4***	66.7	***(34.0)***	4.5	***128.9***	176.5
Dividends paid and provided	***172.9***	183.5	***103.6***	125.0	***29.2***	49.1	***305.7***	357.6
Abridged Balance Sheets (at 30 June)								
Total assets	***8,948.1***	7,920.7	***4,305.7***	3,918.7	***4,974.3***	4,642.2	***18,228.1***	16,481.6
Total liabilities	***7,164.9***	5,986.0	***3,394.7***	2,880.5	***4,135.1***	3,678.0	***14,694.7***	12,544.4
Net assets	***1,783.2***	1,934.7	***911.0***	1,038.2	***839.2***	964.2	***3,533.4***	3,937.1
Retained earnings (at 30 June)	***422.6***	467.0	***168.4***	179.5	***426.3***	430.1	***1,017.3***	1,076.6
Financial Performance Indicators* (year ended 30 June)								
Return on average equity (%)	***12.4***	23.6	***14.6***	14.6	***10.1***	5.0	***12.4***	14.5
Return on average assets (%)	***7.1***	11.6	***8.7***	9.2	***6.8***	4.9	***6.5***	8.7
Debt/equity	***2.8***	2.1	***2.5***	1.9	***3.5***	2.7	***2.9***	2.2
Interest cover (times)	***2.2***	2.5	***2.4***	2.9	***1.6***	1.3	***2.1***	2.2

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

Section Two

Commentary on Government Agencies

Minister for Energy

Electricity Generators:

Delta Electricity

Eraring Energy

Macquarie Generation

Electricity Distributors:

Country Energy

EnergyAustralia

Integral Energy Australia

TransGrid

Refer to Appendix 1 for:

Cobbora Unincorporated Joint Venture

Cobbora Management Company Pty Limited

Cobbora Coal Unit Trust

CCP Holdings Pty Limited

Delta Electricity

AUDIT OPINION

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

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

The Independent Auditor's Reports for Delta Electricity and Delta Electricity Australia Pty Ltd drew attention to significant uncertainty regarding forecast cash flows which may impact asset values.

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

KEY ISSUES

Restructure of Electricity Industry

The Government is proposing to contract Delta Electricity's electricity trading rights to the private sector and to sell four of Delta Electricity's development sites. See the 'Electricity Industry Overview' section appearing earlier in this report for details on the sale and the Government's final policy position on its 'Energy Reform Strategy' announced in September 2009.

PERFORMANCE INFORMATION

Delta Electricity provided the following information regarding its performance:

Year ended 30 June	Target	Actual			
	2009	2009	2008	2007	2006
Generation of electricity - gigawatt hours sent out	***24,801***	***23,746***	24,054	21,952	21,948
Plant availability - total all stations (%)	***82.0***	***86.8***	77.3	75.5	86.5
Thermal efficiency - total all stations (%)	***35.6***	***34.6***	35.0	35.2	35.0
Earnings before interest and tax ($m)	***226.8***	***146.4***	212.1	244.9	282.6
Return on equity (%) (a)	***12.8***	***7.5***	12.7	64.9	22.5
Return on assets (%) (b)	***7.6***	***4.5***	7.7	7.6	13.2
Interest cover (times)	***4.7***	***3.2***	4.9	5.6	5.9
Debt to equity (%)	***114.2***	***130.3***	86.5	306.2	79.9
Total distributions to government ($m)	***178.3***	***84.6***	180.0	174.7	201.9
Capital expenditure ($m)	***409.4***	***379.5***	251.8	150.4	97.4

(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 2008-09 was higher due to a lower number of unexpected technical difficulties.

Thermal efficiency is a performance measure commonly used by power stations. The thermal efficiency percentages above indicate the average percentage of energy contained in the coal used by Delta's Electricity's power station to produce the electricity. That is, a measure of the overall fuel conversion efficiency for the electricity generation process.

Thermal efficiency is influenced by the design, age and condition of a power plant, as well as by the quality of coal used. New South Wales government owned coal fired power stations outperform reported worldwide averages for thermal efficiency. A brand new state of the art power station could expect to achieve a thermal efficiency in excess of 45 per cent.

Most financial performance measures were below target, driven by increases in generating costs, mostly relating to coal purchases, and lower prices and volumes for electricity sold.

Debt to equity during 2008-09 increased due to an increase in borrowings from New South Wales Treasury Corporation to finance construction of the Colongra gas turbine. In addition, a finance lease relating to the Colongra gas pipeline was also recognised for the first time. In the absence of these two developments the debt to equity ratio would have been 92.8 per cent.

Distributions to government comprised a dividend of $59.2 million ($124 million in 2007-08) and taxation of $25.4 million ($55.6 million). As Delta Electricity's retained earnings have reduced to zero, its ability to pay dividends in the future will be limited to future earnings.

OTHER INFORMATION

Valuation and Remaining Life of Power Station Assets

The carrying value of power stations represents 26.7 per cent of the power stations' gross replacement cost, which indicates on average the power stations have slightly over one quarter of their service potential remaining.

Delta Electricity's power stations have a gross replacement cost of $10.4 billion. After deducting accumulated depreciation of $7.4 billion and accumulated impairment of $225 million, the carrying value of Delta Electricity's power stations was $2.8 billion.

The remaining lives for most of Delta Electricity's power stations range from 21 to 31 years. Munmorah has an estimated remaining life of four to five years, with a generation capacity of 600 megawatts. The retirement of Munmorah will be offset by the commissioning of Colongra, due for 2009-10 which will add 667 megawatts to the State's generation capacity.

Major Projects

Colongra Gas Turbine Power Station

Delta Electricity is finalising construction of a $574 million 667 megawatt gas turbine power station near its existing Munmorah coal fired power station. The new station will operate as a peaking plant supplying electricity at short notice during times of high demand. The plant is scheduled for completion in November 2009.

Colongra Gas Pipeline - Public Private Partnership

Delta Electricity entered into a public private partnership for the gas pipeline supplying the Colongra gas turbine. The private sector partner owns and operates the gas pipeline, and has responsibility for its financing and construction. Construction of the pipeline was completed this year.

Delta Electricity pays a monthly fee in return for the availability of gas transportation and storage services over a period of 20 years. Upon commencement of the lease, Delta Electricity recognised a lease asset and liability of $104 million.

Joint Venture Co-generation Plants

In 2002 Delta Electricity, through its controlled entity Delta Electricity Australia Pty Ltd, entered into a joint development to design, construct and operate two 30 megawatt renewable energy electricity co-generation plants at Condong and Broadwater in northern New South Wales. Construction reached practical completion in October and November 2008 for Condong and Broadwater respectively.

These plants predominately burn bagasse, the waste material left after crushing sugar cane, to produce electricity to power nearby sugar mills and homes.

Following completion of the plants, the joint venture began earning revenue from electricity and steam sales. The joint venture also earns income from the sale of renewable energy certificates obtained from the production of renewable energy.

Potential Development Sites

Delta Electricity has identified four sites for new generation capacity. Proposals have been developed for construction of new gas turbines at Marulan (near Goulburn) and Bamarang (near Nowra), the rehabilitation of Munmorah as a gas or coal fired plant, and construction of new generation facilities at Mount Piper using either coal or gas.

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

The Government's revised energy reform strategy, introduced to help secure the future supply of electricity in New South Wales, has identified these sites as suitable for the sale to the private sector.

Coal Supply

Coal prices have increased significantly in recent years. This has increased the risk for Delta Electricity in securing supplies of coal at competitive prices. To mitigate this risk Delta Electricity, through its subsidiary Mid West Primary Pty Ltd, has entered into a joint venture with the other State owned generators to explore for and purchase coal resources in Central West New South Wales. Further details appear in the Energy Industry Overview earlier in this report.

FINANCIAL INFORMATION

Abridged Consolidated Income Statements

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
TOTAL REVENUE	***1,004,587***	1,016,923	***997,375***	1,016,896
PROFIT BEFORE FINANCE COSTS, DEPRECIATION AND TAX	***242,680***	309,944	***250,955***	311,688
Finance costs	***45,654***	42,861	***42,156***	42,861
Depreciation	***96,308***	97,831	***93,556***	97,831
PROFIT BEFORE TAX	***100,718***	169,252	***115,243***	170,996
Income tax equivalent expense	***25,369***	55,560	***29,684***	56,083
PROFIT AFTER TAX	***75,349***	113,692	***85,559***	114,913
Dividend provided	***59,221***	124,422	***59,221***	124,422

Total revenue included $983 million in electricity sales compared to $1.0 billion in the previous year. The decrease was due to a combination of a reduction in electricity sales and a decrease in the average price for electricity from $41.66 to $38.85 per megawatt hour. Profit before tax also decreased due to an increase in generation costs of $70.8 million, largely driven by coal price increases.

Abridged Consolidated Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***292,490***	208,032	***337,332***	248,350
Non-current assets	***2,987,732***	2,530,834	***2,883,100***	2,418,680
TOTAL ASSETS	***3,280,222***	2,738,866	***3,220,432***	2,667,030
Current liabilities	***417,094***	565,351	***407,512***	561,645
Non-current liabilities	***1,863,497***	1,276,545	***1,797,447***	1,207,302
TOTAL LIABILITIES	***2,280,591***	1,841,896	***2,204,959***	1,768,947
NET ASSETS	***999,631***	896,970	***1,015,473***	898,083

Current assets increased mainly due to a $33.6 million increase in financial assets. This relates to changes in the value of derivative instruments used to manage energy price risk driven by changes in the forecast price of electricity.

Non-current assets increased mainly due to purchases of property, plant and equipment. Asset additions for the year totalled $484 million, which included construction costs associated with Colongra and initial recognition of the finance lease asset for the Colongra gas pipeline ($104 million).

Total liabilities increased as a result of additional borrowings of $424 million from New South Wales Treasury Corporation for the construction of Colongra and the finance lease over the gas pipeline for $103 million. This increase was partially offset by a $130 million decrease in financial liabilities, resulting from changes in the value of electricity derivative instruments.

The parent entity has advanced $71.4 million ($42.1 million) to its controlled entities at 30 June 2009 on an interest free basis. The recovery of these advances is dependent upon the controlled entities ability to generate future profits.

ENTITY ACTIVITIES

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

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

Delta Electricity operates the Mount Piper, Vales Point, Wallerawang and Munmorah coal-fired power stations, and three mini hydro generators. It provides around 12 per cent of electricity to the National Electricity Market. The Colongra gas turbine power station is under construction and is scheduled for completion in November 2009.

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

CONTROLLED ENTITIES

Delta Electricity Australia Pty Ltd

Year ended 30 June	2009 $'000	2008 $'000
Revenue	***10,904***	27
Loss after tax	***10,304***	1,377
Total assets	***109,151***	113,797
Total liabilities	***125,242***	115,066
Net liabilities (at 30 June)	***16,091***	1,269

The company began earning revenue after completion of plant construction during the year. The Company expects to significantly increase revenue in 2009-10 following the resolution of issues associated with commissioning the plants and allowing for a full year's production.

Revenue includes sales of electricity and green certificates of $10.7 million. Expenses include generating costs of $9.7 million, and impairment write-downs and depreciation on the co-generation plant of $8.2 million and $2.7 million respectively.

Total assets decreased due to impairment and depreciation on the co-generation plant. Total liabilities increased largely due to $8.0 million in advances from Delta Electricity. The advances totalled $50.2 million at balance date and are on an interest free basis. The advances are repayable on demand, but only after the company's private sector borrowing repayments are met.

The Company has advised that it will review its funding and capital structure during 2009-10.

Mid West Primary Pty Ltd

Period ended 30 June	**2009 $'000**
Revenue	***1***
Loss after tax	***617***
Total assets	***22,797***
Total liabilities	***23,414***
Net liabilities (at 30 June)	***617***

* Comparative information is not available as this is the first period of company operation.

Mid West Primary Pty Ltd was formed on 7 August 2008. The Company is a participant in a joint venture to explore, investigate and operate coal resources in New South Wales. The Company has a 38.3 per cent interest in the joint venture and is entitled to 38.3 per cent of the output.

Total assets are mainly $21.0 million in advances made from the company to the joint venture and related entities. Total liabilities mainly comprise interest free advances of $21.3 million received from Delta Electricity.

Eraring Energy

AUDIT OPINION

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

The auditor's report included an emphasis of matter paragraph drawing attention to Eraring Energy's power station equipment and buildings valuation. The carrying value of Eraring Energy's power station equipment and buildings is determined using estimated discounted cash flows. These estimations are subject to volatility, particularly from the potential impacts of the Federal Government's proposed Carbon Pollution Reduction Scheme (the Scheme). The ultimate extent of the impact of the Scheme cannot presently be determined and this creates a significant uncertainty as to whether the estimated discounted cash flows will be realised.

KEY ISSUES

Restructure of Electricity Industry

The Government is proposing to contract Eraring Energy's electricity trading rights to the private sector. See the 'Electricity Industry Overview' section appearing earlier in this report for details on the Government's final policy position on its 'Energy Reform Strategy' announced in September 2009.

PERFORMANCE INFORMATION

Operational Performance

Eraring Energy operates a diverse portfolio of generating assets comprising thermal coal, hydro and wind. Most of its generation comes from Eraring Power Station, which uses thermal coal. Eraring Power Station produced 15,426 gigawatt hours of electricity in 2009.

Generation was down on recent record levels. High generation occurred at Eraring Power Station in the previous two years because of the drought conditions. Eraring Power Station uses relatively little water in its electricity production processes, whereas some of its competitors, who use fresh water for cooling, had to curtail production during the drought. This provided Eraring Power Station with opportunities for increased generation. With the easing of the drought, competitors' generation levels have returned to normal.

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

Year ended 30 June	Target	Actual				
	2009	2009	2008	2007	2006	2005
Generation of electricity (gigawatt hours)						
Thermal coal	***17,600***	***15,426***	17,283	17,530	14,216	12,703
Hydro	***254***	***101***	92	114	309	202
Wind	***28***	***30***	24	24	26	28
Total	***17,882***	***15,557***	17,399	17,668	14,551	12,933
Plant availability (%)	***90.2***	***86.1***	92.5	93.0	86.9	85.9
Thermal efficiency as generated (%)	***38.0***	***37.8***	37.9	37.9	37.9	37.9

Source: Eraring Energy.

Plant availability measures the total time Eraring Power Station's generating units were producing electricity or able to produce electricity over a given period. Plant availability is directly impacted by the amount of time required for maintenance and capital improvements. Eraring's plant availability was adversely impacted by increased maintenance in 2009.

Thermal efficiency is a performance measure commonly used by power stations. The thermal efficiency percentages above indicate the percentage of energy contained in the coal used by Eraring Power Station to produce the electricity. That is, a measure of the overall fuel conversion efficiency for the electricity generation process.

Thermal efficiency is influenced by the design, source of cooling water, age and condition of a power plant, as well as by the quality of coal used. New South Wales government owned coal fired power stations outperform reported worldwide averages for thermal efficiency. A brand new state of the art power station could achieve a thermal efficiency in excess of 45 per cent. Eraring Power Station's thermal efficiency is better than other New South Wales government owned coal fired power stations because it is one of the most recent designs in the State, benefits from coastal cooling and is well maintained.

Consolidated Financial Performance

	Target	Actual				
	2009	2009	2008	2007	2006	2005
Earnings before interest, tax, and depreciation from normal operations ($m)(a)	***342.6***	***215.5***	270.2	272.4	182.4	181.4
Return on equity (%) (b)	***9.0***	***6.0***	8.3	34.6	11.0	6.9
Return on assets (%) (c)	***8.6***	***5.7***	7.3	6.9	7.1	8.0
Interest cover (times)	***5.0***	***4.2***	9.1	13.8	7.2	10.0
Total distributions to government ($m) (d)	***188.4***	***95.4***	159.1	193.8	97.0	115.7
Debt/equity (%) (e)	***37.5***	***52.5***	27.9	77.7	23.5	14.5
Capital expenditure ($m)	***187.0***	***189.1***	55.0	38.0	36.3	43.4

(a) Excludes fair value movements in electricity derivatives, superannuation and insurance provision movements.
(b) Net profit after tax (excluding fair value movements in electricity derivatives, superannuation and provision movements) divided by total equity.
(c) Earnings before interest and tax from normal operations divided by total assets.
(d) Total distribution before adjustment for Community Service Obligation.
(e) Total interest bearing liabilities divided by total equity

This is the first year since Eraring Energy commenced operations that the entity did not meet agreed targets. The 2009 results reflect lower than expected electricity prices, as well as lower generation levels as drought conditions eased.

Capital expenditure has increased significantly in 2009 to fund major projects, some of which are discussed below. Further significant capital expenditure is expected in coming years.

Eraring Energy's 2007 return on equity ratio was impacted by a significant fluctuation in equity levels that particular year. The Corporation's equity levels were adversely impacted by the entity's position on electricity derivatives at year end.

OTHER INFORMATION

Major Project Expenditure

Work continues on the Eraring Power Station capacity upgrade. The project will increase the nominal capacity of each of the Eraring Power Station's four units from 660 megawatts to 720 megawatts. This will increase the Station's capacity to generate electricity.

During the upgrade process, plant availability will reduce because units will be out of service. Accordingly, Eraring Power Station's electricity generation target for 2009-10 is less than 17,000 gigawatt hours. The upgrade is scheduled for completion by December 2011 and the generation target for 2011-12 is almost 19,000 gigawatt hours (as generated). After the upgrade, Eraring Power Station will have the largest capacity of all New South Wales public sector power stations.

Performance improvements are also underway with the construction of an 800 megalitre cooling water reservoir. Eraring Power Station uses salt water from Lake Macquarie for cooling. This means that Eraring Power Station performs favourably in terms of fresh water usage compared to many stations. However, because the water is returned to the lake after use, the exit temperature of the used water is a constraint on production. The cooling water reservoir will reduce water exit temperatures and permit higher levels of generation in hotter months. The reservoir is due for completion by January 2010.

Coal Supply

Coal represents the highest expenditure category and presents challenges for the organisation to manage future costs. Contracts are in place for a significant proportion of future years' coal requirements.

As part of its strategy to minimise risks associated with increasing coal costs, Eraring Energy is a participant in the Cobbora Unincorporated Joint Venture with other State owned power generators, Macquarie Generation and Delta Electricity.

Eraring Energy incurred capital expenditure of $9.9 million on land purchases for the Cobbora mine through its subsidiary company Rocky Point Holdings Pty Limited.

Further detail on the Cobbora Coal Project appears in the 'Electricity Industry Overview' earlier in this report.

FINANCIAL INFORMATION

The following consolidated financial information is for Eraring Energy and its controlled entities. Controlled entities are considered immaterial.

Abridged Income Statements

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
REVENUE				
Electricity sales and other	***628,501***	732,155	628,501	732,884
Electricity Tariff Equalisation Fund	***16,506***	16,111	16,506	16,111
PROFIT BEFORE BORROWING COSTS, DEPRECIATION AND TAX	***222,402***	280,422	225,377	281,687
Borrowing costs	***25,845***	19,528	25,845	19,528
Depreciation	***107,457***	92,794	107,457	92,794
PROFIT BEFORE TAX	***89,100***	168,100	92,075	169,365
Income tax equivalent expense	***26,728***	50,773	27,584	50,932
PROFIT AFTER TAX	***62,372***	117,327	64,491	118,433
Dividend provided	***60,398***	114,594	60,398	114,594

Revenue included $618 million in electricity sales compared to $714 million in the previous year. The decrease was largely due to lower spot prices and lower generation levels.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***117,156***	136,371	***115,335***	136,746
Non-current assets	***1,794,152***	2,303,157	***1,796,663***	2,303,157
TOTAL ASSETS	***1,911,308***	2,439,528	***1,911,998***	2,439,903
Current liabilities	***310,331***	320,285	***308,902***	320,285
Non-current liabilities	***634,948***	780,134	***634,948***	780,134
TOTAL LIABILITIES	***945,279***	1,100,419	***943,850***	1,100,419
NET ASSETS	***966,029***	1,339,109	***968,148***	1,339,484

The reduction in Eraring Energy's non-current assets value is attributable to movements in the valuation of electricity generation assets. These assets are valued based on estimated discounted cash flows. Expectations about future cash flows from the sale of electricity have reduced as a result of lower price expectations. Reductions in the forward price of electricity have influenced the long term pricing assumptions used by Eraring Energy in the estimations.

Eraring Energy holds electricity and foreign exchange derivatives that it records at fair value. An improvement in the Corporation's net position on electricity and foreign exchange derivatives of $102 million partly offsets the lower electricity generation asset values.

CORPORATION ACTIVITIES

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

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

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

CONTROLLED ENTITIES

Rocky Point Holdings Pty Limited

Period ended 30 June	2009 $'000
Revenue	--
Expenses	*2,975*
Income tax benefit	*856*
Loss after tax	*2,119*
Total assets	*14,001*
Total liabilities	*16,120*
Net liabilities (at 30 June)	*2,119*

Rocky Point Holdings Pty Limited was established during the year to manage Eraring Energy's involvement in the Cobbora Coal Project.

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

Eraring Retail Pty Limited was established during the year as part of the Government's previous energy restructure strategy. This company was to acquire Integral Energy's retail business effective 1 August 2008. Following the Government's decision not to proceed with that strategy, The Treasury issued a policy instruction terminating integration agreements between Eraring and Integral.

Eraring Retail Pty Limited recorded no transactions during the 2009 financial year. As such, Eraring Energy's consolidated financial report does not reflect any retail operations. A liquidator has been appointed to voluntarily wind up Eraring Retail Pty Limited.

Macquarie Generation

AUDIT OPINION

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

The Independent Auditor's Report for Macquarie Generation included a 'significant uncertainty' paragraph regarding the effect of the Federal Government's proposed Carbon Pollution Reduction Scheme.

Impact of the Carbon Pollution Reduction Scheme

Macquarie Generation supports the carrying value of its power stations using a valuation model based on estimated discounted cash flows. The cash flows are subject to significant uncertainties arising from the Federal Government's proposed Carbon Pollution Reduction Scheme (Scheme). Macquarie Generation did not take into account the impact of the Scheme on its valuation due to the uncertainty of the final terms and the timing of implementation of the legislation.

KEY ISSUES

Restructure of Electricity Industry

The Government is proposing to contract Macquarie Generation's electricity trading rights to the private sector and to sell two of Macquarie Generation's development sites. See the 'Electricity Industry Overview' section appearing earlier in this report for details on the sale and Government's final policy position on its 'Energy Reform Strategy' announced in September 2009.

Major Projects

Macquarie Generation is undertaking a range of developments aimed at meeting the increasing need for power, environmental improvements and the exploration of renewable energy options.

Water Treatment Plan Upgrade

Macquarie Generation recently invested over $50.0 million to upgrade water capture and treatment facilities at Bayswater Power Station. The upgrade will increase the capture of water from the Hunter River and improve efficiency of water use and quality in Lake Liddell because of improved technology.

Liddell Turbine Upgrade

Macquarie Generation recently completed a $100 million technology upgrade of Liddell Power Station to provide additional capacity and significantly reduce greenhouse gas emissions. All the generating turbines were replaced, improving efficiency of the power station by approximately three per cent.

Tomago Gas-Fired Power Station

Macquarie Generation currently has approval for the construction of a gas-fired power station at Tomago, north of Newcastle, in three phases. The first two phases include two open cycle gas turbines with a capacity of 250 megawatts each to assist in meeting short run peaks in demand for electricity. The third phase will use combined cycle technology to capture heat generated by the two open cycle gas turbines powering an additional steam-driven unit, for a total output of 790 megawatts.

PERFORMANCE INFORMATION

Operational Performance

Year ended 30 June	2009	2008	2007	2006
Generation of electricity (gigawatt hours sent out)				
Bayswater	***15,864***	15,430	14,310	16,540
Liddell	***11,135***	10,851	10,825	10,057
Total	***26,999***	26,281	25,135	26,597
Plant availability				
Bayswater (%)	***92.3***	91.5	89.8	90.1
Liddell (%)	***79.4***	78.9	85.5	76.9
Thermal efficiency				
Bayswater (%)	***35.2***	35.4	34.9	35.8
Liddell (%)	***32.5***	33.2	33.2	32.6
Equivalent forced outages (%)	***6.3***	5.4	4.9	5.1

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

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

Thermal efficiency is a performance measure of the percentage of energy contained in the coal used in electricity production. New South Wales government owned coal fired power stations outperform reported worldwide averages for thermal efficiency.

Macquarie Generation's market share of the National Electricity Market was 13 per cent in June 2009 (13 per cent in June 2008).

Financial Performance

Year ended 30 June	Target*	Actual	
	2009	2009	2008
Earnings before interest and tax ($'m)	***274.3***	***156.8***	660.1
Return on equity (%)	***12.5***	***6.2***	34.2
Return on assets (%)	***6.5***	***3.8***	14.8
Interest cover (times)	***5.8***	***4.0***	15.0
Debt to equity (%)	***43.5***	***43.6***	45.6
Total distributions to government ($'m)	***218.0***	***185.5***	454.4
Capital expenditure ($'m)	***106.0***	***80.0***	83.0

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

Most of the financial ratios were below prior year because of an adverse movement of $427 million in financial instruments valuation. The adverse movement was mainly caused by a fall in value of an electricity contract linked to the price of aluminium, which fell in 2008-09 and an increase in the electricity forward price curve.

Distributions to government decreased by $269 million (59 per cent) this year. Dividends decreased by $120 million while income tax decreased by $150 million.

OTHER INFORMATION

Coal Supply

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

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

The three New South Wales State owned generators including Macquarie Generation have undertaken a joint venture to develop a new domestic coal resource. The joint venture, Cobbora Coal, will further improve coal supply from 2014.

FINANCIAL INFORMATION

Abridged Income Statements

	Consolidated		Parent	
Year ended 30 June	**2009 $'000**	**2008 $'000**	**2009 $'000**	**2008 $'000**
TOTAL REVENUE	***1,217,232***	1,162,402	***1,217,232***	1,162,402
PROFIT BEFORE BORROWING COSTS, DEPRECIATION AND TAX	***332,137***	814,371	***332,137***	814,371
Borrowing costs	***51,832***	62,557	***51,832***	62,557
Depreciation	***161,305***	111,663	***161,305***	111,663
PROFIT BEFORE TAX	***119,000***	640,151	***119,000***	640,151
Income tax equivalent expense	***35,270***	191,707	***35,503***	191,707
PROFIT AFTER TAX	***82,867***	448,444	***82,867***	448,444
Dividend provided	***150,000***	270,000	***150,000***	270,000

Profit after tax decreased by $366 million compared to the previous year mainly due to a fall in value of an electricity contract linked to the price of aluminium, which fell in 2008-09 and an increase in the electricity forward price curve. Increased depreciation charges followed a revaluation of assets at the end of 2007-08.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***524,253***	750,965	***522,924***	750,965
Non-current assets	***3,594,569***	3,699,109	***3,596,069***	3,699,109
TOTAL ASSETS	***4,118,822***	4,450,074	***4,188,993***	4,450,074
Current liabilities	***458,198***	856,465	***457,749***	856,465
Non-current liabilities	***1,775,497***	1,793,764	***1,775,497***	1,793,764
TOTAL LIABILITIES	***2,233,695***	2,650,299	***2,233,246***	2,650,229
NET ASSETS	***1,885,747***	1,799,845	***1,885,747***	1,799,845

Current assets decreased by $228 million, largely due to the adverse movement in financial instruments valuation.

CORPORATION ACTIVITIES

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

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

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

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

CONTROLLED ENTITY

Midwest Development Corporation Pty Limited

Period ended 30 June	2009 $'000
Revenue	***1***
Expenses	***854***
Income tax benefit	***233***
Loss after tax	***620***
Total assets	***21,671***
Total liabilities	***22,291***
Net liabilities (at 30 June)	***620***

Total assets are mainly comprised of $21.1 million in advances made from Midwest Development Corporation Pty Limited to the joint venture. Total liabilities include $21.6 million received from Macquarie Generation as interest free advances.

Corporate Activities

Midwest Development Corporation Pty Limited was incorporated on 13 August 2008 under the *Corporations Act 2001* as a special purpose venture to participate in the Cobbora Project.

Cobbora Joint Venture

Macquarie Generation and Midwest Development Corporation Pty Limited have approval from the New South Wales Treasurer under the *Public Authorities (Financial Arrangements) Act 1987* to participate in the Cobbora Joint Venture. The Cobbora Project is an Unincorporated Joint Venture between the special purpose subsidiaries of the New South Wales State Owned Electricity Generators to source, develop and operate a coal resource in New South Wales.

Country Energy

AUDIT OPINION

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

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

KEY ISSUES

Restructure of Electricity Industry

The Government is proposing to sell Country Energy's retail operations. See the 'Electricity Industry Overview' section appearing earlier in this report for details on the sale and the Government's final policy position on its 'Energy Reform Strategy' announced in September 2009.

PERFORMANCE INFORMATION

Operational Performance

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

	Target*	Actual			
	2009	2009	2008	2007	2006
System average interruption duration index (SAIDI) - customer minutes without supply	*<332*	***267***	225	242	301
Corporate reputation survey – service meeting and exceeding customer expectation	***75***	***86***	92	88	86
Lost time injury frequency rate (LTIFR) – lost time injuries per one million hours worked	***2.0***	***1.7***	2.8	5.8	6.7

* Targets provided by Country Energy.

The increase in customer minutes without supply reflects the high levels of storm activity during the year compared to the previous year. The target for 2009 was derived from the targets mandated by New South Wales Government licence conditions imposed on distribution network service providers. Country Energy's performance against this target reflects the effectiveness of network investment and improvement programs in recent years.

Country Energy's lost time injury frequency rate continued to decline, in line with its goal of achieving 'zero harm' in the work place.

Financial Performance

	Target	Actual	
	2009	**2009**	**2008**
Earnings before interest and tax* ($m)	***292.7***	***349.2***	267.0
Return on equity* (%) (a)	***5.2***	***13.4***	7.1
Return on assets* (%) (b)	***6.3***	***7.3***	5.8
Interest cover** (times)	***1.3***	***1.8***	1.3
Debt to equity** (%)	***328.5***	***350.0***	272.8
Total distributions to government** ($m)	***43.2***	***76.1***	54.2
Capital expenditure* ($m)	***663.2***	***658.4***	579.2

* Targets provided by Country Energy.
** Calculated from target as agreed with shareholding Ministers.
(a) Profit after tax divided by average equity.
(b) Earnings before interest and tax divided by average total assets.
Note: Earnings and ratios exclude the impact of fair value gains and losses on financial instruments and superannuation actuarial gains and losses.

Country Energy's earnings before interest and tax exceeded its target. Capital contributions from developers and customers were $31.7 million higher than anticipated, while operating expenditure and depreciation charges were slightly lower than budget.

The higher earnings before interest and tax increased Country Energy's return on equity. This ratio also improved because of a decline in average equity as result of unrealised losses on cash flow hedges which were recognised directly in equity.

FINANCIAL INFORMATION

Abridged Income Statements

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
OPERATING REVENUE	***2,489,877***	2,313,058	***2,488,291***	2,310,974
OPERATING PROFIT BEFORE BORROWING COSTS, DEPRECIATION, OTHER GAINS/(LOSSES) AND TAX	***547,180***	420,008	***537,872***	410,980
Borrowing costs	***201,038***	176,671	***201,038***	176,671
Depreciation	***177,998***	161,029	***173,488***	156,701
Operating Profit before other gains and tax	***168,144***	82,308	***163,346***	77,608
Fair value (losses) on financial instruments	***(43,133)***	(32,117)	***(43,133)***	(32,117)
PROFIT BEFORE TAX	***125,011***	50,191	***120,213***	45,491
Income tax equivalent benefit/(expense)	***(33,983)***	4,512	***(32,118)***	6,347
PROFIT AFTER TAX	***91,028***	54,703	***88,095***	51,838
Dividend provided	***29,200***	49,100	***29,200***	49,100

Revenue includes $2.3 billion ($2.2 billion) from the sale and delivery of electricity and gas. Cost of sales was $2.1 billion ($2.0 billion).

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***629,932***	819,495	***686,262***	875,816
Non-current assets	***4,344,350***	3,822,658	***4,271,415***	3,750,374
TOTAL ASSETS	***4,974,282***	4,642,153	***4,957,677***	4,626,190
Current liabilities	***1,502,013***	1,259,945	***1,503,403***	1,259,391
Non-current liabilities	***2,633,039***	2,418,038	***2,630,171***	2,414,823
TOTAL LIABILITIES	***4,135,052***	3,677,983	***4,133,574***	3,674,214
NET ASSETS	***839,230***	964,170	***824,103***	951,976

The significant decrease in current assets was mainly due to a decrease of $183 million in the value of derivative financial instruments based on mark-to-market adjustments.

The increase in non-current assets included $658 million from the acquisition of property, plant and equipment and intangible assets during the year. Of this amount, system assets additions in 2008-09 totalled $540 million.

In April 2009, the Australian Electricity Regulator approved Country Energy's five year plan to invest almost $4.0 billion in its network. The plan includes $500 million to construct new sub-transmission lines and refurbish existing sub-transmission lines, $500 million to build new zone substations and refurbish existing zone substations, and $500 million in ongoing vegetation management.

Liabilities rose primarily due to an additional $307 million of debt, increasing the balance of loans outstanding to $2.9 billion ($2.6 billion). Country Energy's underfunded superannuation liability also increased by $89.3 million to $104 million ($14.7 million).

CORPORATION ACTIVITIES

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

Country Energy is a statutory State owned corporation constituted by the *Energy Services Corporation Act 1995*. Its principal function is to distribute electricity to the national electricity market. The voting shareholders are the Treasurer and the Minister for Finance.

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

CONTROLLED ENTITIES

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

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

EnergyAustralia

AUDIT OPINION

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

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

KEY ISSUES

Restructure of the Electricity Industry

The Government has initiated Expressions of Interest for purchasing the retail operations and development site of EnergyAustralia. See the 'Electricity Industry Overview' section appearing earlier in this report for details on the sale and the Government's final policy position on its 'Energy Reform Strategy' announced in September 2009.

PERFORMANCE INFORMATION

EnergyAustralia provided the following information regarding its performance.

Operational Performance

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

Year ended 30 June	Target*	Actual			
	2009	2009	2008	2007	2006
Customer satisfaction index (%) (a)	***60***	***45***	52	51	52
Minutes customers were without supply	***86-104***	***109***	100	102	90
Lost time injury frequency – (hours per million hours worked)	***<4.0***	***3.6***	3.9	2.9	3.8
Customers at year end (000's)	***--***	***1,591***	1,581	1,568	1,557

Source: EnergyAustralia Annual Report 2008-09.
* Target agreed with the Statement of Corporate Intent (SCI) 2008-09.
(a) Extremely or very satisfied only.

EnergyAustralia did not achieve its target level for customer satisfaction of 'very satisfied' or 'extremely satisfied'. However, 96 per cent (97 per cent in 2008) of its customers reported they were satisfied or more than satisfied with EnergyAustralia's service.

The target for customer minutes without electricity supply was not met this year due mainly to three significant supply interruptions in the Sydney CBD in March and April. Two of the interruptions were due to damage caused to power cables during private construction activity. The third incident related to an unexpected problem during sub-station maintenance.

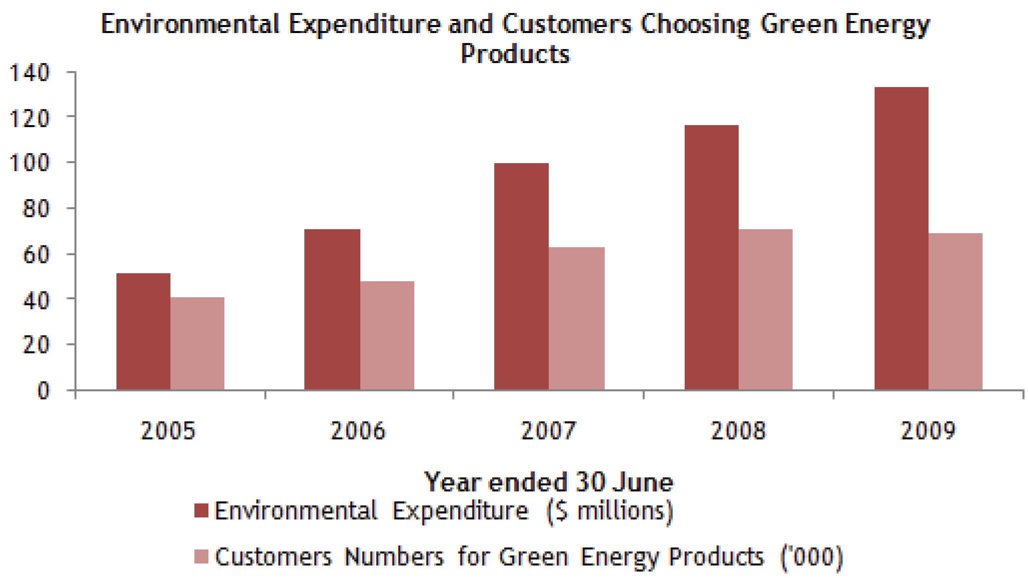
To provide greater protection to electricity supply, the *Energy Legislation Amendment (Infrastructure Protection) Act 2009* was introduced to protect vital power cables. The new legislation makes the 'Dial-Before-You-Dig' program compulsory. The legislation provides for increased penalties for cable damage of $440,000 for corporations, $22,000 for individuals and includes jail terms of up to five years.

Environmental Performance

EnergyAustralia has met its obligations under both the Commonwealth and New South Wales Government's renewable energy schemes for 2009. In complying with the Commonwealth's Mandatory Renewable Energy Target, EnergyAustralia surrendered certificates representing generation of 739,000 MWh of electricity from approved renewable generators. Under the New South Wales Greenhouse Gas Abatement Scheme, EnergyAustralia delivered 6.3 million tonnes of greenhouse gas savings associated with electricity use.

EnergyAustralia reported that it provided GreenPower to 68,724 customers during the year. GreenPower is provided through the four customer options – PureEnergy 10, PureEnergy 25, PureEnergy 50 and PureEnergy 100. For each customer who chooses one of these products, EnergyAustralia ensures that an amount of electricity (equal to 10, 25, 50, or 100 per cent respectively of the customer's electricity account) has been or will be delivered into the national electricity grid from GreenPower accredited generators.

EnergyAustralia owns a small portfolio of renewable electricity generators including the 600kW (kilowatt) Kooragang Wind Turbine and the 407 kW Singleton Solar Farm. A new renewable energy generator was installed at Bondi Sewerage Treatment Plant during the year. The amount spent on environmental expenditure increased to $133 million ($116 million in 2008).



* Sources: EnergyAustralia 2008-09 Annual Report

Financial Performance

Year ended 30 June	Actual			
	2009	2008*	2007	2006
Earnings before interest and tax ($m)	***596.0***	574.4	594.1	527.2
Return on average equity (%) (a)	***12.4***	12.1	12.4	14.4
Return on average assets (%) (b)	***7.1***	7.5	7.6	8.4
Debt to equity (%)	***276.9***	207.1	144.6	162.8
Interest cover (times)	***2.2***	2.5	2.7	2.9
Total distributions to government ($m) (c)	***272.0***	272.1	277.7	304.0
Capital expenditure ($m) (excluding capital contribution)	***1,291.0***	951.1	783.5	603.9

N.B. Targets from the 2008-09 Statement of Corporate (SCI) Intent have not been included due to the SCI excluding the retail business of the Corporation.
* 2008 has been adjusted for a change in accounting policy that recognises superannuation actuarial gains and losses directly in equity.
(a) Profit after income tax expense divided by average equity.
(b) Profit before tax and interest expense divided by average assets.
(c) Dividend + income tax expense

EnergyAustralia's results for 2009 exceeded the financial performance of the previous year. A significant contribution to the result came from lower than expected electricity wholesale purchases throughout the year.

FINANCIAL INFORMATION

Abridged Consolidated Income Statements

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008* $'000	2009 $'000	2008* $'000
TOTAL REVENUE	***3,339,200***	3,136,300	***3,339,200***	3,177,900
PROFIT BEFORE FINANCE COSTS, DEPRECIATION, AND TAX	***889,500***	907,600	***889,500***	949,200
Finance costs	***265,300***	256,600	***265,300***	256,600
Depreciation and amortisation	***293,500***	277,600	***293,500***	277,600
PROFIT BEFORE TAX	***330,700***	373,400	***330,700***	415,000
Income tax equivalent expense	***99,400***	105,300	***97,100***	120,100
PROFIT AFTER TAX	***231,300***	268,100	***233,600***	294,900
Dividend provided	***172,900***	183,500	***172,900***	183,500

* Revenue in 2008 has been adjusted for a change in accounting policy that recognises superannuation actuarial gains and losses directly in equity.

Total revenue of $3.3 billion ($3.1 billion in 2008) includes $3.2 billion ($2.9 billion) for the sale and delivery of energy (electricity and gas) to retail customers, public lighting system charges and community service obligation refunds. Revenue from the sale of electricity increased after regulatory network and retail price increases came into effect on 1 July 2009. Costs associated with the distribution of energy totalled $2.7 billion ($2.5 billion). The wholesale price of electricity was marginally lower than in the previous year.

Profit after tax declined mainly due to unrealised losses from the fair value movements in financial instruments, $22.7 million loss ($29.3 million gain in 2008). The profit after tax excluding the unrealised losses was $247 million ($248 million).

Abridged Consolidated Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***747,100***	761,500	***747,200***	761,600
Non-current assets	***8,201,000***	7,159,200	***8,201,000***	7,159,200
TOTAL ASSETS	***8,948,100***	7,920,700	***8,948,200***	7,920,800
Current liabilities	***2,110,700***	1,909,200	***2,110,700***	1,911,500
Non-current liabilities	***5,054,200***	4,076,800	***5,054,200***	4,076,800
TOTAL LIABILITIES	***7,164,900***	5,986,000	***7,164,900***	5,988,300
NET ASSETS	***1,783,200***	1,934,700	***1,783,300***	1,932,500

A decrease in current assets was largely due to the fair value movements of energy derivatives that saw their value decrease by $63.0 million to $43.0 million at 30 June. Non-current assets recorded an increase in the value of property, plant and equipment of approximately $995 million that largely related to expenditure on capital projects. Property, plant and equipment totalled $7.7 billion at year end.

Total liabilities increased mainly due to increased borrowings of $894 million required to fund capital projects. Borrowings increased to $4.9 billion at year end.

ENTITY ACTIVITIES

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

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

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

CONTROLLED ENTITIES

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

Entity Name
EnergyAustralia Pty Limited
Downtown Utilities Pty Limited

Integral Energy Australia

AUDIT OPINION

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

KEY ISSUES

Restructure of Electricity Industry

The Government is proposing to sell Integral's retail operations. See the 'Electricity Industry Overview' section appearing earlier in this report for details on the sale and the Government's final policy position on its 'Energy Reform Strategy' announced in September 2009.

PERFORMANCE INFORMATION

Operational Performance

Statistics provided by Integral show:

Year ended 30 June	Target	Actual		
	2009	2009	2008	2007
Customer satisfaction index (%)	***82-84***	***83.0***	83.0	83.4
Network reliability –average minutes customers were without supply	***93.0***	***89.3***	97.8	94.1
Lost time Incidents	***14***	***17***	19	na
Reportable environmental incidents	**--**	***2***	4	--
Total customer connections	***849,827***	***859,519***	853,328	842,315

The customer satisfaction index remained steady with the previous financial year and within the target range. This is the percentage of customers surveyed who rated Integral as 'good' or 'very good' in relation to certain aspects of its performance.

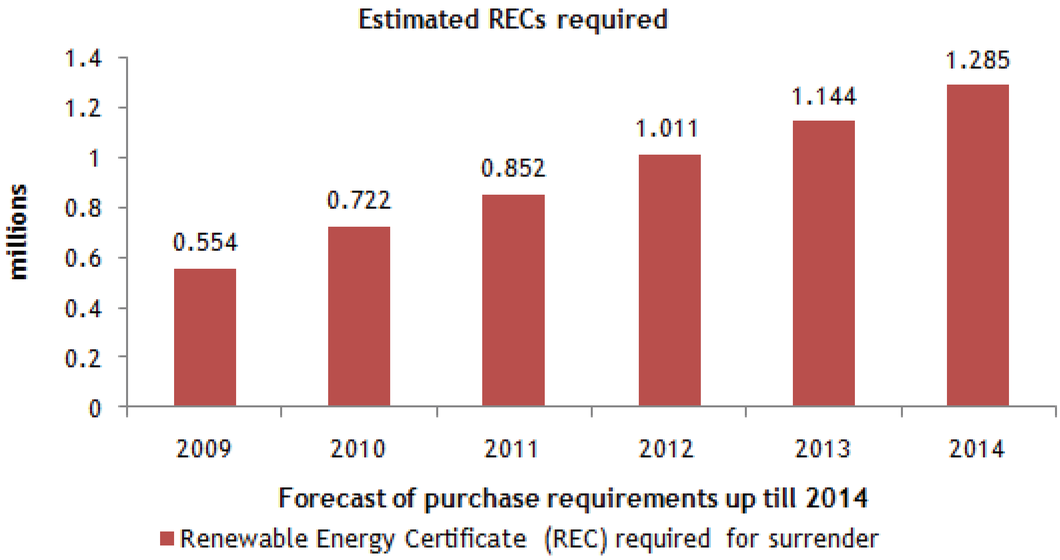
Network reliability measures the number of minutes customers are, on average, without electricity each year. In 2008-09, Integral reported a result of 89.3 minutes against a target of 93 minutes. This is an 8.7 per cent improvement over last year's 97.8 minutes. Integral advised its capital investment over the last five years has significantly contributed to the improvement in reliability. It is targeting a further improvement to 80 minutes by 2013-2014 to meet New South Wales Government licence conditions. There were 4,145 interruptions in 2008-09 (4,285 in 2007-08), 806 caused by adverse weather, 1,360 due to defective equipment, and 575 caused by lightning.

Environmental Performance

Integral's proportion of energy purchased from sources other than coal fired power stations has declined over the last four years from 15 per cent in 2005 to 12 per cent in 2009. The energy for these alternative sources is created from natural gas, land fill gas, methane gas from coal mines, wind and water. While the volume of energy purchased from sources other than coal fired powers stations has remained relatively stable the total volume of energy sold has increased. A supply problem also impacted on the proportion during 2008-09.

Under the Commonwealth's *Renewable Energy Electricity Act 2000*, Integral needs to comply with the Mandatory Renewable Energy Target (MRET). The aim of the MRET scheme is to ensure 20 per cent of Australia's electricity comes from renewable sources by 2020. In meeting its annual target, Integral acquires Renewable Energy Certificates (RECs) from third parties who create the RECs through the use of eligible energy sources such as solar, wind, biomass or hydroelectricity. As a retailer of electricity, Integral is unable to produce RECs through its own operations.

Integral will need to significantly increase its purchase of RECs over the next few years as shown in the following graph. As at 30 June 2009, Integral is already contracted to purchase a net 1.2 million RECs with a value of $62.0 million over the next two years.



Integral's obligations under the New South Wales Greenhouse Reduction Scheme (GGAS) are met through existing generation contracts.

The Commonwealth government has plans for a Carbon Pollution Reduction Scheme (CPRS) and a national Emission Trading Scheme (ETS). The proposed ETS scheme may commence in July 2011 but its exact structure is uncertain.

The GGAS scheme will be terminated when a national trading scheme is introduced. While the timing of this termination is still uncertain Integral considers it is ready to cope with any changes including the introduction of a national ETS scheme.

Financial Performance

Year ended 30 June	Target	Actual	
	2009	2009	2008
Earnings before interest and tax ($m)	***335.2***	***355.7***	367.3
Return on equity (%) (a)	***11.4***	***14.6***	14.6
Return on assets (%) (b)	***8.0***	***8.7***	9.2
Debt to equity (%)	***2.3***	***2.5***	1.8
Interest cover (times)	***2.8***	***2.4***	2.9
Total distributions to Government ($m)(c)	***131.3***	***167.1***	191.7
Capital expenditure ($m)	***542.7***	***442.9***	373.5

(a) Profit after tax divided by average equity.
(b) Earnings before interest and tax divided by average total assets.
(c) Dividend + income tax expense

Earnings before interest and tax are above the budget and the 2008 result due to tariff increases, customer mix, and increased volume of electricity sold, partly driven by increased customer numbers in Queensland.

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

While capital expenditure was below target, there was a significant increase on the prior year. Factors contributing to the increase in capital expenditure included pressure to meet increased demand from the New South Wales electricity industry generally.

OTHER INFORMATION

Integration and De-integration with Eraring

On 1 August 2008, Integral's retail business was transferred to a new subsidiary of Eraring Energy following receipt of a Ministerial Direction issued under section 20P of the *State Owned Corporations Act 1989 (NSW)* and the approval of the voting shareholders under section 20Y of the *State Owned Corporations Act 1989 (NSW)*.

On 1 September 2008, integration agreements were terminated with Eraring Energy with effect from 1 August 2008, thereby placing each party in the position they would have been in had the agreements not been executed.

Whilst there was a legal transfer of Integral's retail business on 1 August 2008, in substance control of the retail business was not passed from Integral to the Eraring Energy subsidiary. Therefore management prepared the financial statements for Integral for the year ended 30 June 2009 as though there was no transfer. We agreed that this treatment was appropriate as there was no effective transfer.

Entry into Queensland Market

On 14 May 2007, Integral entered the small retail energy market in Queensland. Since then Integral has gained more than 130,000 customers against an initial target of 73,000. In 2008-09 Queensland added approximately $112 million to Integral's revenue compared to $33.2 million in 2007-08.

Valuation of Property, Plant and Equipment

In accordance with Australian Accounting standards, Integral values its assets at market or fair value. Integral last revalued its physical assets on 1 July 2005 and will need to revalue its assets with effect from 1 July 2010.

Bad Debts

The Global Financial Crisis has had little impact on Integral's level of bad debts. Bad debts written off have increased by approximately $800,000 over the past three years, from $5.7 million to $6.5 million. However, bad debts written off have been falling as a percentage of sales revenue over the last three years.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2009 $'000	2008 $'000
TOTAL REVENUE	***1,998,374***	1,848,121
PROFIT BEFORE BORROWING COSTS, DEPRECIATION, AMORTISATION AND TAX	***492,817***	496,761
Borrowing costs	***150,075***	128,233
Depreciation and amortisation	***137,107***	129,456
PROFIT BEFORE TAX	***205,635***	239,072
Income tax equivalent expense	***63,445***	66,695
PROFIT AFTER TAX	***142,190***	172,377
Dividend provided	***103,619***	124,992

Total revenue included $1.5 billion in electricity sales ($1.4 billion in 2008) and $382 million in network use of system charges ($342 million).

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***583,396***	472,967
Non-current assets	***3,722,319***	3,445,746
TOTAL ASSETS	***4,305,715***	3,918,713
Current liabilities	***1,159,894***	922,417
Non-current liabilities	***2,234,841***	1,958,038
TOTAL LIABILITIES	***3,394,735***	2,880,455
NET ASSETS	***910,980***	1,038,258

The increase in total assets is due to Integral's capital expenditure program, $432 million was added to the electricity network in 2008-09 ($356 million).

Borrowings as at 30 June 2009 were $2.3 billion ($1.9 billion).The majority of the borrowings are from New South Wales Treasury Corporation. The increase in borrowing assisted in financing the capital expenditure program.

Total expenditure commitments as at 30 June 2009 were $2.5 billion ($2.6 billion). The majority of this amount is for an electricity purchase contract, due to expire in 2027.

CORPORATION ACTIVITIES

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

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

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

TransGrid

AUDIT OPINION

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

PERFORMANCE INFORMATION

TransGrid is responsible for providing accessible, efficient, safe and reliable facilities for transmitting electricity in New South Wales. The following are some of the key indicators it uses to assess its performance.

Operational Performance

Energy Maximum Demands

Energy use in New South Wales has increased at about 1,222 gigawatt hours (GWh) per annum over the past ten years. TransGrid reported a peak winter demand of 14,274 megawatts (MW) in July 2008 (14,054 MW 2007-08). In February 2009, it recorded a peak summer demand of 14,106 MW (12,954 MW in 2007-08).

TransGrid has spent $1.4 billion on its capital works program over the five year regulatory period from 1 July 2004 to 30 June 2009 to meet increasing electricity demand. A significant proportion of this amount, $620 million, was spent in 2008-09. TransGrid borrowed $457 million to fund the capital expenditure, increasing total debt to $2.0 billion.

Reliability of Transmission Network

The Australian Energy Regulator (AER) monitors the performance of transmission networks against AER targets set for the regulatory period 2004 to 2009. TransGrid's performance for the years ended 31 December 2006 to 2008 was:

Year ended 31 December	Target	Actual		
	2004-2009	2008	2007	2006
Transmission circuit availability (%)	***99.50***	***98.54***	99.38	99.57
Transformer availability (%)	***99.00***	***98.53***	97.46	98.84
Reactive plant availability (%)	***98.60***	***99.00***	99.23	98.92
Frequency of lost supply events greater than 0.05 mins	***5***	***2***	4	2
Frequency of lost supply events greater than 0.40 mins	***1***	***--***	1	--
Average outage duration (minutes)	***1,500***	***869***	788	824

Source: Australian Energy Regulator and TransGrid.

TransGrid has generally performed well against its targets. Actual circuit and transformer availability were below target due to TransGrid's upgrade and asset replacement capital works programs, and did not indicate a reduction in network reliability during the period.

Financial Performance

Year ended 30 June	Target*	Actual		
	2009	2009	2008	2007
Earnings before interest and tax ($m)	***318.1***	***320.5***	290.5	240.8
Return on equity (%) (a)	***7.8***	***8.0***	7.7	5.8
Return on assets (%) (b)	***7.1***	***6.8***	7.1	6.3
Interest cover (times)	***2.3***	2.4	2.4	2.3
Dividends to government ($m)	***114.2***	***120.2***	105.9	71.5
Capital expenditure	***537.9***	***619.9***	355.0	218.2

* Source: TransGrid 30 June 2009 Statement of Corporate Intent (SCI).
(a) net profit after tax divided by average equity.
(b) earnings before interest and tax divided by average assets.

Earnings increased because TransGrid received additional regulated revenue of approximately $30.0 million in 2008-09. This resulted from a correction to one of the parameters used in the Maximum Allowance Revenue calculation for the 2004-09 regulatory period.

Contributions to Government for 2008-09 were $187 million, comprising a dividend of $120 million ($106 million in 2008) and taxation of $67.1 million ($58.1 million).

Capital expenditure increased significantly from 2008 and a number of major capital projects were close to completion including the Western 500kV Development Project and Wollar-Wellington 330kV Transmission Line projects.

OTHER INFORMATION

Maximum Allowable Revenue

Every five years, the AER determines the maximum allowable revenue for TransGrid's operations for a five year regulatory period. The revenue proposal seeks sufficient funds from the regulator to allow TransGrid to continue to deliver network reliability.

A key challenge in the current regulatory period is the significant reduction in the regulated return on TransGrid's asset base resulting from a fall in bond yields used by the AER to determine the rate of return. Consequently, TransGrid's transmission charges will increase by 2.3 per cent, increasing the average residential customer bill by $2.80 per annum from 1 July 2009.

The approved regulated capital works program will increase to $2.4 billion for the 2009-14 regulatory period from $1.5 billion for the 2004-09 period.

TransGrid's performance targets, agreed with AER for the 2009-14 regulatory period, include:

- transmission circuit availability of 99.26 per cent
- transformer availability of 98.55 per cent
- reactive plant availability of 99.12 per cent
- frequency of lost supply events greater than 0.05 minutes is four
- frequency of lost supply events greater than 0.40 minutes is one
- average outage duration (minutes) is 824.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2009 $'000	2008 $'000
TOTAL REVENUE	***652,797***	572,987
PROFIT BEFORE BORROWING COSTS, DEPRECIATION AND TAX	***475,377***	434,430
Borrowing costs	***105,072***	101,882
Depreciation	***152,884***	141,996
PROFIT BEFORE TAX	***217,421***	190,552
Income tax equivalent expense	***67,130***	58,165
PROFIT AFTER TAX	***150,291***	132,387
Dividend provided	***120,233***	105,910

Revenue included $603 million from the transmission of electricity ($527 million). Increases in revenue were limited to the revenue cap set by the regulator and performance incentive amounts. The revenue cap is adjusted each year by indexing for inflation.

Revenue also included $18.5 million ($29.2 million) from non-cash capital contributions which predominately relates to the transfer of the transmission assets forming part of the Capital Wind Farm Substation project.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***163,904***	127,519
Non-current assets	***5,006,997***	4,093,095
TOTAL ASSETS	***5,170,901***	4,220,614
Current liabilities	***890,225***	557,116
Non-current liabilities	***2,293,139***	1,913,280
TOTAL LIABILITIES	***3,183,364***	2,470,396
NET ASSETS	***1,987,537***	1,750,218

Non-current assets increased by $914 million largely due an upward revaluation of Network Assets and the completion of major capital projects in 2008-09.

Total liabilities increased due to additional borrowings of $457 million to fund capital projects.

CORPORATION ACTIVITIES

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

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

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

For more information on TransGrid, refer to www.transgrid.com.au.

Minister for Planning

Refer to Appendix 1 for:

Festival Development Corporation

Minister for Primary Industries

Refer to Appendix 1 for:

State Council of Rural Lands Protection Boards

Trustees of the Farrer Memorial Research Scholarship Fund

Minister for Sport and Recreation

Refer to Appendix 1 for:

Newcastle International Sports Centre Trust

Treasurer

Residual Business Management Corporation

Residual Business Management Corporation

AUDIT OPINION

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

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

OTHER INFORMATION

Oversight and Delays in Financial Reporting

Delays in finalising the financial reports for 2008 were mainly due to the Group's desire to resolve uncertainty over the recoverability of future royalty payments. New contracts signed in early 2009 resolved this situation.

In Volume Two of the 2008 Report to Parliament we recommended The Treasury formalise its oversight of the Group. While a formal agreement has not proceeded a closer relationship was established between the Group and The Treasury.

FINANCIAL INFORMATION

Abridged Consolidated Income Statements

Year ended 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Total revenue	***998***	*3,871*	***441***	441
Total expenditure	***5,523***	*5,934*	***3,522***	1,993
Loss	***4,525***	*2,063*	***3,081***	1,552

The loss was mainly due to a $3.6 million reduction in estimated royalty payments to be received. The reduction was due to uncertainty whether the royalties would be received as the party responsible for the royalty payments was experiencing financial difficulties.

Abridged Consolidated Balance Sheets

At 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current assets	***15,148***	18,022	***1,790***	5,460
Non-current assets	***280***	5,605	***1,466***	4,093
TOTAL ASSETS	***15,428***	23,627	***3,236***	9,553
Current liabilities	***598***	4,147	***14***	3,250
Non-current liabilities	***345***	470	--	--
TOTAL LIABILITIES	***943***	4,617	***14***	3,250
NET ASSETS	***14,485***	19,010	***3,222***	6,303

Current assets include $13.1 million of cash and investments.

The decrease in total assets is mainly due to a $3.6 million decrease in superannuation assets, and the $3.6 million write down in royalties receivable. The decrease in current liabilities is mainly due to a decrease in superannuation liabilities of $3.0 million.

CORPORATION ACTIVITIES

The Corporation is a statutory authority constituted by the *Pacific Power (Dissolution) Act 2003*. It is responsible for managing of the residual assets, rights and liabilities of the former Pacific Power and has no role in undertaking new business activities.

For further information on the Corporation, refer to www.pacificpower.net.au.

CONTROLLED ENTITIES

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

Entity Name	Website
Pacific Power (Subsidiary No. 1) Pty Ltd	www.pacificpower.net.au
Pacific Solar Pty Limited	www.pacsolar.com.au

Appendix

Appendix 1
Agencies not reported elsewhere in this Volume

Appendix 1 – Agencies not reported elsewhere in this Volume

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

Entity Name	Website	Period/Year Ended
CCP Holdings Pty Limited	*	30 June 2009
Cobbora Coal Unit Trust	*	30 June 2009
Cobbora Management Company Pty Limited	*	30 June 2009
Cobbora Unincorporated Joint Venture	*	30 June 2009
Festival Development Corporation	www.mpp.nsw.gov.au	30 June 2008
Newcastle International Sports Centre Trust	*	30 June 2008
State Council of Rural Lands Protection Boards	www.lhpa.org.au	31 December 2007
- State Council of Rural Lands Protection Boards Division	*	31 December 2007
Trustees of the Farrer Memorial Research Scholarship Fund	www.agric.nsw.gov.au/reader/farrer-memorial	31 December 2008

* The entity does not have a website.

Index

A

Page
A.C.N. 093 230 374 Pty Limited .... Vol 4 2008
Aboriginal Affairs, Department of .... Vol 5 2008
Aboriginal Affairs, Minister for .... Vol 1 2009
Aboriginal Housing Office .... Vol 5 2008
Aboriginal Housing Office Group of Staff .... Vol 5 2008
Aboriginal Land Council, New South Wales .... Vol 1 2009
Access Macquarie Limited .... Vol 2 2009
accessUTS Pty Limited .... Vol 2 2009
ACN 125 694 546 Pty Limited .... Vol 2 2009
Acyte Biotech Pty Ltd .... Vol 2 2009
Adult Migrant English Service, NSW .... Vol 4 2008
Ageing, Minister for .... Vol 5 2008
Ageing, Disability and Home Care, Department of .... Vol 5 2008
Agencies not reported elsewhere in this Volume . Vol 2 2009
Agricultural Business Research Institute .... Vol 2 2009
Agricultural Scientific Collections Trust .... Vol 5 2008
AGSM Limited .... Vol 2 2009
Ambulance Service of New South Wales .... Vol 1 2009
ANZAC Health and Medical Research Foundation . Vol 1 2009
ANZAC Health and Medical Research Foundation Trust Fund .... Vol 1 2009
Architects Registration Board, NSW .... Vol 4 2008
Art Gallery of New South Wales Foundation .... Vol 4 2008
Art Gallery of New South Wales Trust .... Vol 5 2008
Arts Education Foundation Trust .... Vol 4 2008
Arts, Minister for .... Vol 5 2008
Arts, Sport and Recreation, Department of the ... Vol 5 2008
Asbestos Diseases Research Foundation, The ...... Vol 5 2008
Attorney General .... Vol 2 2009
Attorney General's Department .... Vol 5 2008
Audio Nomad Pty Ltd .... Vol 2 2009
Aus Health International Pty Limited .... Vol 6 2007
Australian Centre for Advanced Computing and Communications Pty Ltd .... Vol 5 2008
Australian Education Consultancy Limited .... Vol 2 2009
Australian Institute of Asian Culture and Visual Arts Limited, The .... Vol 5 2008
Australian Museum Trust .... Vol 5 2008
Australian Plant DNA Bank Limited .... Vol 2 2009
Australian Proteome Analysis Facility Limited .... Vol 2 2009
Australian School of European Aviation (JAA) Pty Ltd .... Vol 2 2009
Australian Technology Park Precinct Management Ltd .... Vol 5 2008
Australian Water Technologies Pty Ltd .... Vol 5 2008
AWT International (Thailand) Limited .... Vol 5 2008

B

Banana Industry Committee .... Vol 5 2008
Belgenny Farm Agricultural Heritage Centre Trust .... Vol 1 2009
Biobank Pty Limited .... Vol 2 2009
Board of Studies, Office of the .... Vol 5 2008
Board of Studies, The .... Vol 4 2008
Board of Studies Casual Staff Division .... Vol 4 2008
Board of Surveying and Spatial Information .... Vol 5 2008
Board of Vocational Education and Training, NSW .... Vol 4 2008
Border Rivers-Gwydir Catchment Management Authority .... Vol 4 2008
Bosch Institute, The .... Vol 2 2009
Brett Whiteley Foundation, The .... Vol 4 2008
Building and Construction Industry Long Service Payments Corporation .... Vol 5 2008
Building Insurers' Guarantee Corporation .... Vol 6 2008
Building Professionals Board .... Vol 4 2008
Buroba Pty Ltd .... Vol 5 2008
Businesslink Pty Ltd, NSW .... Vol 5 2008

C

C.B. Alexander Foundation .... Vol 5 2008
CADRE Design Pty Limited .... Vol 2 2009
CADRE Design Unit Trust .... Vol 2 2009
Cancer Institute Division ....Vol 1 2009
Cancer Institute NSW ....Vol 1 2009
Casino Control Authority, New South Wales........Vol 5 2008
Casino Control Authority Division ....Vol 5 2008
CCP Holdings Pty Limited 73
Centennial Park and Moore Park Trust ....Vol 6 2008
Centennial Parklands Foundation ....Vol 6 2008
Central West Catchment Management Authority ..Vol 4 2008
Centre for United States Studies Pty Limited ......Vol 2 2009
Cessnock Uni-Clinic Trust ....Vol 2 2009
Charles Sturt Foundation Limited ....Vol 2 2009
Charles Sturt Foundation Trust ....Vol 2 2009
Charles Sturt Services Limited ....Vol 2 2009
Charles Sturt University ....Vol 2 2009
Chief Investigator of the Office of Transport Safety Investigations ....Vol 4 2008
Children, Office for ....Vol 5 2008
Chipping Norton Lake Authority ....Vol 4 2008
Citizenship, Minister for ....Vol 5 2008
Chiropractors Registration Board ....Vol 5 2008
City West Housing Pty Limited ....Vol 5 2008
Climate Change and the Environment, Minister for ....Vol 2 2009
Clinical Excellence Commission ....Vol 1 2009
Clinical Excellence Commission Special Purpose Service Entity ....Vol 1 2009
CMBF Limited ....Vol 2 2009
Coal Compensation Board, New South Wales ......Vol 5 2008
Cobar Water Board ....Vol 5 2008
Cobar Water Board Division ....Vol 5 2008
Cobbora Coal Unit Trust 73
Cobbora Management Company Pty Limited 73
Cobbora Unincorporated Joint Venture 73
Coffs Harbour Technology Park Limited ....Vol 4 2008
Commerce, Department of ....Vol 6 2008
Commerce, Minister for ....Vol 6 2008
Commission for Children and Young People, NSW ....Vol 5 2008
Community Relations Commission, Office of the ..Vol 5 2008
Community Relations Commission for a Multicultural New South Wales ....Vol 5 2008
Community Services, Department of ....Vol 5 2008
Community Services, Minister for ....Vol 5 2008
Cooks Cove Development Corporation ....Vol 5 2008
Corporate Governance Arrangements in Large Government Agencies and Universities Vol 2 2009
Corporation Sole 'Minister Administering the Environmental Planning and Assessment Act, 1979' ....Vol 5 2008
Corporation Sole 'Minister Administering the Heritage Act, 1977' ....Vol 5 2008
Corrective Services, Department of ....Vol 5 2008
Country Energy 43
Country Energy Gas Pty Limited 46
Cowra Japanese Garden Maintenance Foundation Limited ....Vol 5 2008
Cowra Japanese Garden Trust ....Vol 5 2008
Crime Commission, New South Wales ....Vol 4 2008
Crime Commission, Office of the New South Wales ....Vol 4 2008
Crime Commission Division, New South Wales .....Vol 4 2008
Crown Employees (NSW Fire Brigades Firefighting Staff, Death and Disability) Superannuation Fund ....Vol 5 2008
Crown Entity ....Vol 5 2008
Crown Lands Homesites Program ....Vol 5 2008
Crown Leaseholds Entity ....Vol 5 2008
Cystemix Pty Limited ....Vol 2 2009

D

Dams Safety Committee ....Vol 4 2008
Delta Electricity 27
Delta Electricity Australia Pty Ltd 31
Dental Board of New South Wales ....Vol 1 2009
Dental Technicians Registration Board ....Vol 5 2008
Director of Public Prosecutions, Office of the .....Vol 5 2008

Disability Services, Minister for .... Vol 5 2008
Downtown Utilities Pty Limited 51
Dumaresq-Barwon Border Rivers Commission ..... Vol 4 2008
Duquesne Utilities Pty Ltd .... Vol 5 2008

E

Education and Training, Department of .... Vol 4 2008
Education and Training, Minister for .... Vol 2 2009
Education Training Community Television (ETC TV) Limited .... Vol 2 2009
Elastagen Pty Limited .... Vol 2 2009
Election Funding Authority of New South Wales .. Vol 5 2008
Electoral Commission, New South Wales .... Vol 5 2008
Electricity Industry Overview 3
Electricity Tariff Equalisation Ministerial Corporation .... Vol 5 2008
Emergency Services, Minister for .... Vol 6 2008
Emergency Services Overview .... Vol 6 2008
Emergency Services, Office for .... Vol 6 2008
Energy, Minister for 25
Energy Industries Superannuation Scheme .... Vol 5 2008
Energy Investment Fund .... Vol 5 2008
EnergyAustralia 47
EnergyAustralia Pty Limited 51
Environment and Climate Change, Department of .... Vol 6 2008
Environment Protection Authority .... Vol 5 2008
Environmental Trust .... Vol 6 2008
Eraring Energy 33
Events New South Wales Pty Limited .... Vol 5 2008

F

Fair Trading Administration Corporation .... Vol 5 2008
Festival Development Corporation 73
Film and Television Office, New South Wales ..... Vol 4 2008
Finance, Minister for .... Vol 1 2009
Financial Counselling Trust Fund .... Vol 5 2008
Financial Reports Not Received by Statutory Date (as at 5 May 2009) .... Vol 2 2009
Financial Reports Received but Audit Incomplete by Statutory Date (as at 5 May 2009) .... Vol 2 2009
Fire Brigades, New South Wales .... Vol 6 2008
Fire Brigades Superannuation Pty Limited, NSW .... Vol 5 2008
Follow-up Review of CityRail Passenger Security .... Vol 4 2008
Food Authority, NSW .... Vol 5 2008
Food Authority, Office of the NSW .... Vol 5 2008
Forestry Commission of New South Wales (Trading as Forests NSW) .... Vol 1 2009
Forestry Commission Division .... Vol 1 2009
Foundation for the Historic Houses Trust of New South Wales .... Vol 5 2008
Foundation for the Historic Houses Trust of New South Wales Limited .... Vol 5 2008

G

Game Council of New South Wales .... Vol 5 2008
Game Council Division .... Vol 5 2008
Gaming and Racing, Minister for .... Vol 5 2008
Gosford Water Supply Authority .... Vol 5 2008
Government Telecommunications Authority (Telco) , New South Wales .... Vol 6 2008
GraduateSchool.com Pty Limited .... Vol 2 2009
Greater Southern Area Health Service .... Vol 1 2009
Greater Southern Area Health Service Special Purpose Service Entity .... Vol 1 2009
Greater Western Area Health Service .... Vol 1 2009
Greater Western Area Health Service Special Purpose Service Entity .... Vol 1 2009
Greyhound and Harness Racing Regulatory Authority .... Vol 5 2008
Greyhound and Harness Racing Regulatory Authority Division .... Vol 5 2008
Growth Centres Commission .... Vol 4 2008

H

Hamilton Rouse Hill Trust .... Vol 5 2008
Hawkesbury-Nepean Catchment Management Authority .... Vol 4 2008
Health Administration Corporation .... Vol 1 2009
Health Administration Corporation Special Purpose Service Entity .... Vol 1 2009
Health Care Complaints Commission .... Vol 5 2008
Health Care Complaints Commission, Office of the .... Vol 5 2008
Health Foundation, New South Wales .... Vol 6 2008
Health, Department of .... Vol 1 2009
Health, Minister for .... Vol 1 2009
Health Overview .... Vol 1 2009
HealthQuest .... Vol 1 2009
HealthQuest Special Purpose Service Entity .... Vol 1 2009
HepatoCell Therapeutics Pty Ltd .... Vol 2 2009
Historic Houses Trust of New South Wales .... Vol 5 2008
Home Care Service of New South Wales .... Vol 5 2008
Home Care Service Division .... Vol 5 2008
Home Purchase Assistance Fund .... Vol 5 2007
Housing, Minister for .... Vol 5 2008
Housing NSW .... Vol 5 2008
Housing NSW's $7.0 million Grant to Canterbury City Council, Review of .... Vol 5 2008
Hunter Development Corporation .... Vol 4 2008
Hunter New England Area Health Service .... Vol 1 2009
Hunter New England Area Health Service Special Purpose Service Entity .... Vol 1 2009
Hunter Uni-Clinics Pty Limited .... Vol 2 2009
Hunter Water Australia Pty Limited. .... Vol 5 2008
Hunter Water Corporation .... Vol 5 2008
Hunter-Central Rivers Catchment Management Authority .... Vol 4 2008

I

Illawarra Technology Corporation Limited .... Vol 2 2009
Independent Commission Against Corruption ...... Vol 5 2008
Independent Pricing and Regulatory Tribunal ..... Vol 5 2008
Independent Pricing and Regulatory Tribunal Division .... Vol 5 2008
Independent Transport Safety and Reliability Regulator .... Vol 4 2008
Independent Transport Safety and Reliability Regulator Division .... Vol 4 2008
Industrial Relations, Minister for .... Vol 5 2008
Infrastructure Implementation Corporation .... Vol 5 2008
Ingham Health Research Institute .... Vol 1 2009
Insearch Limited .... Vol 2 2009
Institute for Magnetic Resonance Research .... Vol 2 2009
Institute of Psychiatry, New South Wales .... Vol 5 2008
Institute of Sport, New South Wales .... Vol 5 2008
Institute of Sport Division .... Vol 5 2008
Institute of Teachers, NSW .... Vol 4 2008
Institute of Teachers, Office of the .... Vol 4 2008
Integral Energy Australia 52
Internal Audit Bureau of New South Wales .... Vol 5 2008
Internal Audit Bureau Division .... Vol 5 2008
International Livestock Resources and Information Centre Ltd .... Vol 2 2009
ITC (Europe) Ltd .... Vol 2 2009
ITC (Middle East) Ltd .... Vol 2 2009
ITC (New Zealand) Limited .... Vol 2 2009
ITC Education Ltd .... Vol 2 2009
ITC Emirates Limited .... Vol 2 2009

J

Jenolan Caves Reserve Trust .... Vol 2 2009
Jenolan Caves Reserve Trust Division .... Vol 2 2009
John Lewis and Pamela Lightfoot Trust .... Vol 2 2009
Judicial Commission of New South Wales .... Vol 5 2008
Justice Health .... Vol 1 2009
Justice Health Special Purpose Service Entity ..... Vol 1 2009
Justice, Minister for .... Vol 5 2008
Juvenile Justice, Department of .... Vol 5 2008

Juvenile Justice, Minister for .... Vol 5 2008

L

Lachlan Catchment Management Authority........ Vol 4 2008
Lake Illawarra Authority .... Vol 4 2008
LAMS Foundation Limited .... Vol 2 2009
LAMS International Pty Limited .... Vol 2 2009
Land Development Working Account................ Vol 5 2008
Landcom .... Vol 5 2008
Lands, Department of .... Vol 6 2008
Lands, Minister for .... Vol 6 2008
Law and Order Overview............................. Vol 5 2008
Legal Aid Commission of New South Wales .... Vol 5 2008
Legal Aid Commission, Office of the .... Vol 5 2008
Legal Aid Temporary Staff Division................. Vol 5 2008
Legal Opinions Provided by the Crown Solicitor .. Vol 1 2007
Legal Profession Admission Board .... Vol 5 2008
Legislature, The .... Vol 5 2008
Legislature (Audit of Members' Additional Entitlements), The .... Vol 2 2009
Liability Management Ministerial Corporation..... Vol 5 2008
Library Council of New South Wales .... Vol 5 2008
Lifetime Care and Support Authority of New South Wales .... Vol 6 2008
Liquor Administration Board .... Vol 5 2008
Local Government, Department of .... Vol 5 2008
Local Government, Minister for...................... Vol 5 2008
Lord Howe Island Board .... Vol 5 2008
Lotteries Corporation, New South Wales........... Vol 5 2008
Lower Murray-Darling Catchment Management Authority .... Vol 4 2008
Luna Park Reserve Trust .... Vol 5 2008

M

Macquarie Generation 38
Macquarie Graduate School of Management Pty Limited.. Vol 2 2009
Macquarie University Medical Research Foundation Limited .... Vol 2 2009
Macquarie University Medical Research Trust ..... Vol 2 2009
Macquarie University Private Hospital Trust....... Vol 2 2009
Macquarie University Professorial Superannuation Scheme .... Vol 2 2009
Macquarie University Property Investment Company No. 2 Pty Limited..................... Vol 2 2009
Macquarie University Property Investment Company Pty Limited............................ Vol 2 2009
Macquarie University Property Investment Trust .... Vol 2 2009
Macquarie University .... Vol 2 2009
Marine Parks Authority .... Vol 5 2008
Maritime Authority of NSW .... Vol 5 2008
Maritime Authority of NSW Division .... Vol 5 2008
Medical Board, New South Wales.................... Vol 5 2008
Mid West Primary Pty Ltd 32
Midwest Development Corporation Pty Limited 41
Milk Marketing (NSW) Pty Limited .... Vol 5 2008
Mine Subsidence Board .... Vol 1 2009
Mineral Resources, Minister for .... Vol 1 2009
Minerals Industry/University of New South Wales Education Trust, The New South Wales Vol 2 2009
Ministerial Corporation for Industry................. Vol 5 2008
Mitchell Services Limited .... Vol 2 2009
Motor Accidents Authority of New South Wales ... Vol 1 2009
Motor Accidents Authority of New South Wales, Office of the .... Vol 5 2008
Motor Vehicle Repair Industry Authority .... Vol 5 2008
MU Private Hospital Pty Limited .... Vol 2 2009
MUPH Clinic Pty Limited .... Vol 2 2009
MUPH Clinic Sub-Trust................................ Vol 2 2009
MUPH Hospital Pty Limited .... Vol 2 2009
MUPH Hospital Sub-Trust .... Vol 2 2009
MUPI Holding Trust No. 1 .... Vol 2 2009
MUPI Holding Trust No. 2 .... Vol 2 2009
MUPI Holding Trust No. 3 .... Vol 2 2009
MUPI Holding Trust No. 4 .... Vol 2 2009
MUPI Holding Trust No. 5 ....Vol 2 2009
MUPI Holding Trust No. 6 ....Vol 2 2009
MUPIT Sub-Trust No. 1 ....Vol 2 2009
MUPIT Sub-Trust No. 2 ....Vol 2 2009
MUPIT Sub-Trust No. 3 ....Vol 2 2009
MUPIT Sub-Trust No. 4 ....Vol 2 2009
Murray Catchment Management Authority ....Vol 4 2008
Murrumbidgee Catchment Management Authority ....Vol 4 2008

N

Namoi Catchment Management Authority ....Vol 4 2008
National Marine Science Centre Pty Ltd ....Vol 2 2009
Natural Resources Commission ....Vol 4 2008
Natural Resources Commission Division ....Vol 4 2008
Newcastle Innovation Limited ....Vol 2 2009
Newcastle International Sports Centre Trust 73
Newcastle Port Corporation...........................Vol 5 2008
Newcastle Showground and Exhibition Centre Trust ....Vol 1 2009
NewSouth Eight Pty Ltd...............................Vol 2 2009
NewSouth Five Pty Ltd................................Vol 2 2009
NewSouth Four Pty Ltd ....Vol 2 2009
NewSouth Global (Thailand) Limited ....Vol 2 2009
NewSouth Innovations Pty Ltd ....Vol 2 2009
NewSouth One Pty Ltd ....Vol 2 2009
NewSouth Seven Pty Ltd...............................Vol 2 2009
NewSouth Six Pty Ltd ....Vol 2 2009
Norsearch Limited ....Vol 2 2009
North Coast Area Health Service ....Vol 1 2009
North Coast Area Health Service Special Purpose Service Entity...................Vol 1 2009
Northern Rivers Catchment Management Authority ....Vol 4 2008
Northern Sydney and Central Coast Area Health Service......................................Vol 1 2009
Northern Sydney and Central Coast Area Health Service Special Purpose Service Entity ....Vol 1 2009
NorthPower Energy Services Pty Limited 46
Nurses and Midwives Board ....Vol 5 2008

O

Ombudsman's Office ....Vol 5 2008
Optical Dispensers Licensing Board ....Vol 5 2008
Optometrists Registration Board ....Vol 5 2008
Osteopaths Registration Board ....Vol 5 2008
Ovine Johne's Disease Transaction Based Contribution Scheme, NSW.......................Vol 5 2008

P

Pacific Industry Services Corporation Pty Limited.Vol 5 2008
Pacific Power (Subsidiary No. 1) Pty Ltd.................. 70
Pacific Solar Pty Limited 70
Pacific Western Pty Limited ....Vol 4 2008
Parklands Foundation Limited ....Vol 5 2008
Parliamentary Contributory Superannuation Fund ....Vol 5 2008
Parramatta Park Trust ....Vol 5 2008
Parramatta Stadium Trust.............................Vol 2 2009
Parramatta Stadium Trust Division ....Vol 2 2009
Payments to other Government Bodies under the control of the Minister..Vol 5 2008
Pharmacy Board of New South Wales................Vol 1 2009
Physiotherapists Registration Board ....Vol 5 2008
Planning, Department of ....Vol 5 2008
Planning, Minister for 61
Podiatrists Registration Board ....Vol 5 2008
Police Force, NSW ....Vol 5 2008
Police Integrity Commission ....Vol 5 2008
Police Integrity Commission, Office of the ....Vol 5 2008
Police Integrity Commission Division ....Vol 5 2008
Police, Minister for ....Vol 5 2008
Police, Ministry for ....Vol 4 2008
Port Kembla Port Corporation ....Vol 5 2008
Ports and Waterways, Minister for...................Vol 5 2008

Premier .... Vol 2 2009
Premier and Cabinet, Department of .... Vol 5 2008
Primary Industries, Department of .... Vol 1 2009
Primary Industries, Minister for............................. 63
Probiotic Health Pty Limited .... Vol 2 2009
Protective Commissioner – Common Fund,
Office of the .... Vol 2 2009
Protective Commissioner and Public Guardian,
Office of the .... Vol 5 2008
Psychologists Registration Board .... Vol 5 2008
Public Transport Ticketing Corporation .... Vol 5 2008
Public Transport Ticketing Corporation
Division .... Vol 5 2008
Public Trustee NSW................................... Vol 5 2008

Q

Qualified Independent Audit Reports Issued....... Vol 5 2008
Qucor Pty Ltd.. Vol 2 2009

R

Rail Corporation New South Wales .... Vol 4 2008
Rail Infrastructure Corporation .... Vol 4 2008
Rail Services Overview .... Vol 4 2008
Redfern and Waterloo, Minister for .... Vol 5 2008
Redfern-Waterloo Authority.......................... Vol 5 2008
Redfern Waterloo Authority, Office of the .... Vol 5 2008
Regional Land Management Corporation Pty Ltd . Vol 5 2008
Remarkspdf Pty Ltd................................... Vol 2 2009
Rental Bond Board .... Vol 5 2008
Rental Housing Assistance Fund .... Vol 5 2008
Residual Business Management Corporation 69
Responsible Gambling Fund .... Vol 5 2008
Rice Marketing Board for the State of
New South Wales .... Vol 5 2008
Risk Frontiers Flood (Australia) Pty Limited .... Vol 2 2009
Risk Frontiers Group Pty Limited .... Vol 2 2009
Riverina Citrus... Vol 5 2008
Rivservices Limited .... Vol 2 2009
Roads, Minister for.................................... Vol 6 2008
Roads and Traffic Authority of New South Wales . Vol 6 2008
Roads and Traffic Authority Division................ Vol 6 2008
Rocky Point Holdings Pty Ltd 37
Rouse Hill Hamilton Collection Pty Limited .... Vol 5 2008
Royal Alexandra Hospital for Children............. Vol 1 2009
Royal Alexandra Hospital for Children
Special Purpose Service Entity .... Vol 1 2009
Royal Botanic Gardens and Domain Trust .... Vol 5 2008
Rural Assistance Authority, New South Wales ..... Vol 6 2008
Rural Assistance Authority, Office of the .... Vol 6 2008
Rural Australia Foundation Limited .... Vol 2 2008
Rural Fire Service, NSW.............................. Vol 6 2008

S

SAS Trustee Corporation .... Vol 5 2008
SAS Trustee Corporation - Pooled Fund .... Vol 5 2008
SAS Trustee Corporation Division.................... Vol 5 2008
Self Insurance Corporation, NSW .... Vol 5 2008
Services UNE Ltd .... Vol 2 2009
Sesquicentenary of Responsible Government
Trust Fund... Vol 5 2008
SGSM Limited .... Vol 2 2009
Small Business, Minister for .... Vol 5 2008
Small Business Development Corporation
of New South Wales.............................. Vol 5 2008
South Eastern Sydney and Illawarra Area Health
Service .... Vol 1 2009
South Eastern Sydney and Illawarra Area Health
Service Special Purpose Service Entity .... Vol 1 2009
Southern Cross University .... Vol 2 2009
Southern Rivers Catchment Management
Authority .... Vol 4 2008
Sport and Recreation, Minister for 65
Sporting Injuries Committee .... Vol 5 2008
Sports Knowledge Australia Pty Limited............ Vol 2 2009
State and Regional Development, Department of Vol 5 2008
State Council of Rural Lands Protection Boards 73
**State Council of Rural Lands Protection Boards
Division 73**
State Development, Minister for .... Vol 5 2008
State Emergency Service .... Vol 6 2008
State Library of New South Wales Foundation ..... Vol 5 2008
State Plan... Vol 2 2009
State Property Authority .... Vol 5 2008
State Property Authority, Office of the............ Vol 5 2008
State Rail Authority Residual Holding
Corporation.. Vol 5 2008
State Records Authority of New South Wales ...... Vol 5 2008
State Rescue Board.................................... Vol 6 2008
State Sports Centre Trust .... Vol 4 2008
State Sports Centre Trust Division .... Vol 4 2008
State Super Financial Services Australia Limited .. Vol 5 2008
State Transit Authority of New South Wales .... Vol 5 2008
State Transit Authority Division .... Vol 5 2008
State Water Corporation .... Vol 5 2008
Statement of the Budget Result...................... Vol 3 2008
Superannuation Administration Corporation
(trading as Pillar Administration) .... Vol 5 2008
Sydney 2009 World Masters Games Organising
Committee.. Vol 5 2008
Sydney 2009 World Masters Games Organising
Committee Division................................ Vol 5 2008
Sydney 2009 World Masters Games Organising
Committee Division, Office of the .... Vol 5 2008
Sydney Business School Pty Ltd .... Vol 2 2009
Sydney Catchment Authority .... Vol 5 2008
Sydney Catchment Authority Division .... Vol 5 2008
Sydney Cricket and Sports Ground Trust............ Vol 4 2008
Sydney Cricket and Sports Ground Trust
Division .... Vol 4 2008
Sydney Desalination Plant Pty Limited.............. Vol 5 2008
Sydney Educational Broadcasting Limited .... Vol 2 2009
Sydney Ferries Corporation .... Vol 5 2008
Sydney Harbour Foreshore Authority .... Vol 5 2008
Sydney Harbour Foreshore Authority,
Office of the.. Vol 5 2008
Sydney Harbour Foreshore Authority
Casual Staff Division, ... Vol 5 2008
Sydney Institutes of Health and Medical
Research, The .... Vol 2 2009
Sydney International Film School Pty Limited ..... Vol 2 2009
Sydney Metropolitan Catchment Management
Authority .... Vol 4 2008
Sydney Olympic Park Authority .... Vol 5 2008
Sydney Olympic Park Authority, Office of the ..... Vol 5 2008
Sydney Olympic Park Authority Sydney
Olympic Park Aquatic and Athletic Centres
Division .... Vol 5 2008
Sydney Opera House Trust .... Vol 5 2008
Sydney Pilot Service Pty Ltd .... Vol 5 2008
Sydney Ports Corporation .... Vol 5 2008
Sydney South West Area Health Service .... Vol 1 2009
Sydney South West Area Health Service
Special Purpose Service Entity .... Vol 1 2009
Sydney Talent Pty Limited .... Vol 2 2009
Sydney Water Corporation .... Vol 5 2008
Sydney West Area Health Service .... Vol 1 2009
Sydney West Area Health Service Special
Purpose Service Entity .... Vol 1 2009
Sydney West International College Pty Limited ... Vol 2 2009
SydneyLearning Pty Limited .... Vol 2 2009

T

TCorp Nominees Pty Limited .... Vol 4 2008
Teacher Housing Authority of New South Wales ... Vol 5 2008
Technical and Further Education Commission,
New South Wales .... Vol 4 2008
Technical and Further Education Commission
Division, New South Wales .... Vol 4 2008
Technical Education Trust Funds .... Vol 2 2009
Television Sydney (TVS) Limited .... Vol 2 2009
Total State Sector Accounts .... Vol 3 2008
Tourism, Minister for .... Vol 5 2008

TransGrid **57**
Transport, Minister for .... Vol 5 2008
Transport, Ministry of .... Vol 5 2008
Transport Infrastructure Development
Corporation .... Vol 4 2008
Transport Services Overview .... Vol 5 2008
Treasurer **67**
Treasury, The.. Vol 5 2008
Treasury Corporation, New South Wales .... Vol 4 2008
Treasury Corporation Division........................ Vol 4 2008
Trustees of the ANZAC Memorial Building.......... Vol 2 2009
Trustees of the Farrer Memorial Research
Scholarship Fund **73**
Trustees of the Museum of Applied Arts
and Sciences .... Vol 5 2008
TVS Limited .... Vol 2 2009

U

U@MQ Limited .... Vol 2 2009
Ucom Fifteen Pty Limited .... Vol 2 2009
Ucom Sixteen Pty Limited .... Vol 2 2009
UNE Partnerships Pty Limited .... Vol 2 2009
UNE Vision Pty Ltd .... Vol 2 2009
UniCentre Conferences and Functions Pty Limited Vol 2 2009
UNILINC Limited .... Vol 2 2009
Uniprojects Pty Limited.............................. Vol 5 2008
United States Studies Centre Limited .... Vol 2 2009
Universities Admissions Centre (NSW & ACT)
Pty Limited... Vol 5 2008
Universities Overview .... Vol 2 2009
University of New England........................... Vol 2 2009
University of New England Professorial
Superannuation Fund .... Vol 2 2009
University of New England Sports Association ..... Vol 2 2009
University of New South Wales .... Vol 2 2009
University of New South Wales Foundation .... Vol 2 2008
University of New South Wales Foundation
Limited .... Vol 2 2009
University of New South Wales International
House Limited .... Vol 2 2009
University of New South Wales Press Limited ..... Vol 2 2009
University of Newcastle.............................. Vol 2 2009
University of Sydney, The .... Vol 2 2009
University of Sydney Professorial Superannuation
System .... Vol 2 2009
University of Technology, Sydney .... Vol 2 2009
University of Western Sydney .... Vol 2 2009
University of Western Sydney Foundation
Limited .... Vol 2 2009
University of Western Sydney Foundation Trust .. Vol 2 2009
University of Wollongong .... Vol 2 2009
University of Wollongong Recreation
Aquatic Centre Limited .... Vol 2 2009
UNSW & Study Abroad – Friends and U.S.
Alumni, Inc. .... Vol 2 2009
UNSW (Thailand) Limited .... Vol 2 2009
UNSW Asia School Limited .... Vol 2 2009
UNSW Global (Singapore) Pte Limited .... Vol 2 2009
UNSW Global India Private Limited .... Vol 2 2009
UNSW Global Pty Limited .... Vol 2 2009
UNSW Hong Kong Foundation Limited .... Vol 2 2009
UNSW Hong Kong Limited............................. Vol 2 2009
UTSM Services (Malaysia) Sdn Bhd................... Vol 2 2009
UON Foundation Ltd .... Vol 2 2009
UON Foundation Trust................................. Vol 2 2009
UON Services Limited .... Vol 2 2009
UON, Singapore Pte Ltd .... Vol 2 2009
Upper Parramatta River Catchment Trust .... Vol 4 2008
Upper Parramatta River Catchment Trust
Division .... Vol 4 2008
UWS College Pty Limited .... Vol 2 2009
UWS Conference and Residential Colleges LimitedVol 2 2009
uwsconnect Limited .... Vol 2 2009

V

Valley Commerce Pty Limited ....Vol 5 2008
Veterinary Practitioners Board ....Vol 5 2008
Vocational Education and Training
Accreditation Board, NSW ....Vol 4 2008

W

Warren Centre for Advanced Engineering
Limited, The.......................................Vol 2 2009
Waste Recycling and Processing Corporation ......Vol 2 2009
Water and Energy, Department of ....Vol 5 2008
Water Industry Overview ....Vol 5 2008
Water, Minister for ....Vol 5 2008
Wayahead Pty Limited ....Vol 2 2009
Wentworth Annexe Limited ....Vol 2 2009
Wentworth Park Sporting Complex Trust ....Vol 4 2008
Western Catchment Management Authority........Vol 4 2008
Western Research Institute Limited ....Vol 2 2009
Western Sydney Buses Division ....Vol 5 2008
Western Sydney Parklands Trust ....Vol 5 2008
Whitlam Institute Within the University of
Western Sydney Limited ....Vol 2 2009
Whitlam Institute Within the University of
Western Sydney Trust ....Vol 2 2009
Wild Dog Destruction Board ....Vol 2 2009
Wild Dog Destruction Board Division.................Vol 2 2009
Wine Grapes Marketing Board ....Vol 2 2009
Wollongong Sportsground Trust ....Vol 5 2008
Wollongong Sportsground Trust Division ....Vol 5 2008
Wollongong UniCentre Limited ....Vol 2 2009
WorkCover Authority, Office of the ....Vol 6 2008
WorkCover Authority of New South Wales..........Vol 6 2008
Workers Compensation Commission of
New South Wales ....Vol 6 2008
Workers Compensation Nominal Insurer
(trading as The NSW WorkCover Scheme)......Vol 1 2009
Workers' Compensation (Dust Diseases) Board ....Vol 5 2008
World Youth Day Co-ordination Authority ....Vol 2 2009
World Youth Day Co-ordination Authority,
Office of...Vol 2 2009
Wyong Water Supply Authority ....Vol 5 2008

Y

Youth, Minister for ....Vol 5 2008

Z

Zoological Parks Board of New South Wales........Vol 5 2008
Zoological Parks Board Division ....Vol 5 2008

AUDITOR-GENERAL'S REPORT

FINANCIAL AUDITS

Volume Four 2009

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 2009 Report.

Peter Achterstraat
Auditor-General

Sydney
October 2009

Contents

Significant Matters **3**

Audit Result 3

Financial Analysis 4

Analysis of Variations to the Budget Presented to Parliament 5

Compliance With The Fiscal Responsibility Act 2005 5

Governance Arrangements for the General Government and Total State Sector Accounts 5

State Plan 6

Agency Amalgamations 6

Legal Opinions Provided by the Attorney General or Crown Solicitor 7

Audit Result **9**

Introduction 9

The General Government Sector and Total State Sector 9

Audit Opinion 10

Other Significant Issues 11

Preparation of the Financial Statements 13

Financial Analysis **15**

Introduction 15

Requirements of AASB 1049 15

Financial Information – Operating Statements 16

Net Operating Balance (Budget Result for the General Government Sector) 17

Revenues 17

Expenses 20

Financial Information – Balance Sheets 22

The Net Operating Balance previously referred to as The Budget Result **27**

Introduction 27

Budget Result – Variance to Original Budget (June 2008) 27

Budget Result – Variance to Revised Budget 29

Mini-Budget Measures 30

Changes to the 2007-08 Budget Result 33

Compliance with Fiscal Responsibility Act 2005 .... **35**

Introduction 35

Long Term Measures 36

Governance Arrangements **39**

Background 39

Fraud in the Public Sector 39

Reporting of the State's Performance..41
Introduction...41
2007-08 Verification of the State Plan 41
Parliamentary Accounts Committee Review..42
2008-09 Review of the State Plan 42
Agency Amalgamations 44
Appendix A: Legal Opinions Provided by the Attorney General or Crown Solicitor 45

Significant Matters

This report includes:

- audit results for the Total State Sector Accounts
- financial analysis of the New South Wales General Government and Total State Sectors
- analysis of variances to budgetary information presented to Parliament
- analysis of compliance with the *Fiscal Responsibility Act, 2005*
- comments on governance arrangements for the General Government and Total State Sector
- comments on the State Plan
- comments on planned agency amalgamations
- legal opinions provided by the Attorney General and Crown Solicitor.

AUDIT RESULT

The audit of the Total State Sector Accounts for the year ended 30 June 2009 resulted in a qualified Independent Auditor's Report.

The Report was qualified because:

- The State has not recognised land under roads acquired prior to 1 July 2008 in the Total State Sector Accounts on the basis that currently land under roads cannot be reliably measured. In my opinion, land under roads can be reliably measured and should be recognised in the Total State Sector Accounts in accordance with AASB 1049 'Whole of Government and General Government Sector Financial Reporting'. The Roads and Traffic Authority recognises land under roads at a value of $37.3 billion.
- I was unable to obtain all information I required to form an opinion on the value of Crown Reserves that should be recorded as land. My audit report for the year ended 30 June 2008 referred to the same matter.

I also included an emphasis of matter relating to significant uncertainty regarding an objection to a taxation assessment of $424 million ($259 million of duty and $165 million of interest) recorded as revenue in 2006-07. Interest on the assessed amount increased by a further $41.0 million during 2008-09 ($37.0 million in 2007-08). The matter is subject to appeal in the Supreme Court and is currently in the legal discovery phase. Until this matter is resolved, the ultimate outcome and its impact on the Net Operating Balance (Budget Result for the General Government Sector) cannot be determined.

Credit Rating

On 16 June 2009, Standard and Poor's revised its AAA negative outlook rating of the State of New South Wales and New South Wales Treasury Corporation to AAA stable. This reflected a reassessment of the State's fiscal flexibility, in particular its commitment to improve budgetary performance.

Standard and Poor's indicated the following events could lead to a reassessment of the rating:

- materially stepping back from the privatisation process of electricity retail assets
- materially failing to deliver on proposed savings measures
- material new policies in the lead-up to the March 2011 election.

In January 2009, Moody's Investors Service affirmed the State of New South Wales' Aaa rating with a stable outlook.

Transfer of State Assets to Reserve Trusts

I recommend that assets transferred to reserve trusts under the control of the New South Wales Government be recognised within the Total State Sector's financial report.

Currently, there is limited accountability or transparency when assets and related transactions are transferred to reserve trusts.

During 2008-09, a State owned building valued at $56.2 million was transferred to the 'Lands Building Reserve Trust'. This effectively removed the asset from the State's balance sheet.

Amendments to *the Public Authorities (Financial Arrangements) Act 1987*

I recommend that the Treasurer present to the next sitting of Parliament amendments to the *Public Authorities (Financial Arrangements) Act 1987* (PAFA Act).

In 2006, I informed Treasury that some of the advice in TC06/17 'Consequences of New Employment Arrangements – Other Taxation, Administrative and Operational Issues' is inconsistent with the provisions in the PAFA Act. To correct this, Treasury said they would change the PAFA Act but so far the Treasurer has not presented an amending Act to Parliament.

There have been unreasonable delays in resolving this issue and it is probable that some agencies are breaching the PAFA Act because they are relying on the incorrect advice in TC06/17.

Quality of Financial Reporting

I recommend the Treasury develop and implement procedures to improve the quality, reliability and timeliness of financial reporting of the New South Wales public sector.

Twelve of the 24 largest agencies' financial reports submitted for audit contained significant errors in the current year's financial information, while 5 included significant errors in the prior years' financial information.

This delayed and increased the costs of preparing and auditing these financial reports. To address this issue financial reports should be prepared periodically throughout the year (i.e. at 31 December and 31 March) using full accrual accounting.

FINANCIAL ANALYSIS

I have analysed trends in assets, liabilities, revenues and expenses with particular focus on changes in State's revenue sources.

ANALYSIS OF VARIATIONS TO THE BUDGET PRESENTED TO PARLIAMENT

I have analysed variations to both the original budget presented to Parliament in June 2008 and the revised budget presented as part of the 2009-10 Budget Papers in June 2009. I have analysed a number of measures implemented as a result of the mini-budget in November 2008. In most cases, the measures have provided savings or increased revenues.

> I recommend that the reasons for significant and consistent budget overruns be resolved with the respective agencies to avoid the overruns occurring in the future.

I note that significant and consistent overruns of budgeted expenditure have occurred at a number of large agencies.

COMPLIANCE WITH THE FISCAL RESPONSIBILITY ACT 2005

> I recommend the Government seek amendments to the *Fiscal Responsibility Act 2005* to provide targets and priorities within the control of Government.

I reviewed the Government's progress towards meeting targets included in the *Fiscal Responsibility Act 2005*. The analysis demonstrates the Government is unlikely to meet the medium and long term targets relating to Net Debt due to the level of borrowing required to fund capital programs of the General Government Sector.

Current indications are that the target relating to Net Financial Liabilities may not be met largely due to the impact of changes in the discount rates used in valuing the State's unfunded superannuation obligations and movements in the value of superannuation assets. Both are outside the control of the Government.

GOVERNANCE ARRANGEMENTS FOR THE GENERAL GOVERNMENT AND TOTAL STATE SECTOR ACCOUNTS

> I recommend the Treasurer establish an Audit and Risk Committee for the New South Wales General Government and Total State Sectors as a matter of urgency.

The Charter of The Treasury Audit and Risk Committee was revised to remove the Committee's responsibilities in relation to the Total State Sector Accounts. The Treasury Executive determined that responsibility for the Total State Sector Accounts should be assumed by management.

In my view, Audit and Risk Committees should be independent of management to allow for objective consideration of governance and operational issues. The Treasury has confirmed this view in its recently released policy paper on this matter. The policy paper requires all agencies to establish and maintain an Audit and Risk Committee with an independent chair and a majority of independent members. I welcome the initiative in the policy paper which is designed to improve governance arrangements across the public sector.

STATE PLAN

> I recommend the Government formally respond to the Public Accounts Committee's recommendations on a timely basis.

Previous Auditor-General's Reports to Parliament have recommended comprehensive reporting of performance indicators for the State Plan and benchmarking the State's performance with other States.

In Volume Two 2009, I reported the 2008 State Plan Annual Report had not been released by the Government. The report was subsequently released on 12 May 2009.

In November 2008, the Public Accounts Committee tabled a report on State Plan Reporting, which included 15 recommendations. The Government advised me that it would respond to these recommendations by the end of May 2009.

The Government is still in the process of finalising its response to the recommendations.

> I recommend the annual planning process for the NSW State Plan Annual Report establishes milestones and key contribution dates for data to be received from stake holders to allow achievement of a November tabling date.

The NSW State Plan – Revision and Annual Report for 2009 is being prepared. I understand my Office is to be engaged by the Premier to review the performance information relating to the Strengthening Business and Supporting Jobs Chapters of the plan only. This is a significant reduction when compared to the scope of work I performed last year. I understand that performance information for the remaining chapters will be reviewed by others with expertise in those areas.

As the Government has not yet engaged my office to review the performance information included in the State Plan Annual Report, I may not be in a position to conduct and complete this work by the end of November as I recommended in my last report on this matter.

AGENCY AMALGAMATIONS

> I recommend that in future the Government should complete detailed assessments of the impact of planned public sector reforms (such as agency amalgamations/restructures) and fully inform relevant agencies and stakeholders prior to announcing and implementing the reforms.

On 11 June 2009, the Government announced a comprehensive reform of the public sector amalgamating 160 government agencies and offices into 13 super departments.

I understand, at the time of the announcement, little information was made available on the practical aspects of implementing this proposal.

There is still some uncertainty across parts of the Public Sector about the practical impact of the changes. However, I have been advised legislation is being drafted to address the issues that have emerged since the announcement.

LEGAL OPINIONS PROVIDED BY THE ATTORNEY GENERAL OR CROWN SOLICITOR

I have included all recent legal opinions obtained from the Attorney General or the Crown Solicitor under section 33 of the *Public Finance and Audit Act 1983*.

Refer to Appendix A at the end of this volume.

Audit Result

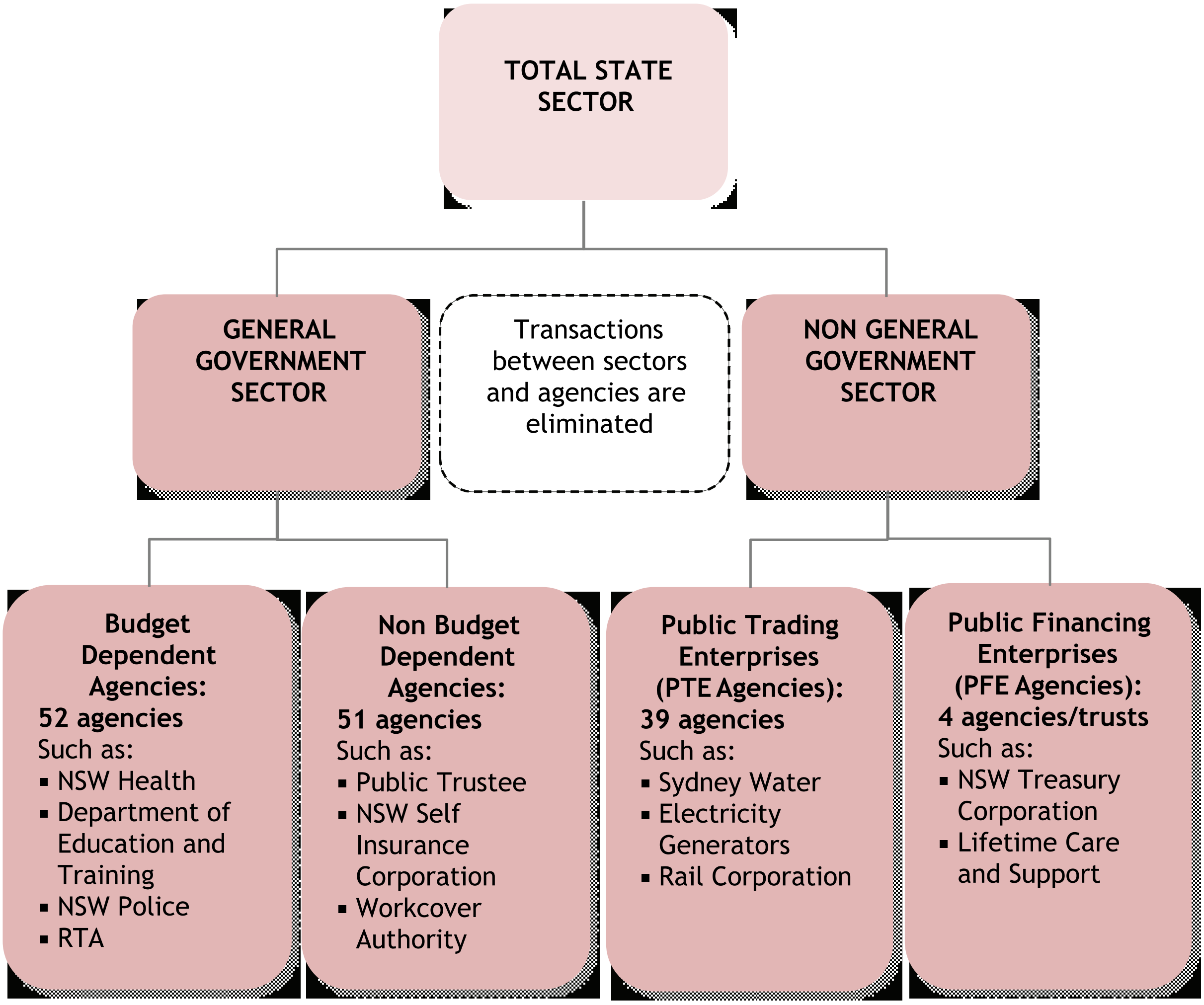
INTRODUCTION

The *Public Finance and Audit Act 1983* requires the Treasurer to prepare and submit consolidated financial statements for the New South Wales General Government and Total State Sectors to the Auditor-General by 15 September each year.

After the financial statements have been audited, the Treasurer presents them to Parliament and the Auditor-General reports the results of his audit to Parliament.

THE GENERAL GOVERNMENT SECTOR AND TOTAL STATE SECTOR

The General Government and Total State Sectors are structured as shown below:



The General Government Sector comprises those entities that provide goods and services not directly paid for by consumers (i.e. largely financed from tax revenues and Commonwealth grants). The Non-General Government Sector comprises Public Enterprises that have a market orientation, and provide goods and services such as transport, water and electricity, or participate in financial or other markets.

AUDIT OPINION

I qualified my opinion on the General Government and Total State Sector Accounts for the following reasons:

Land Under Roads

As discussed in Note 1 of the Total State Sector Accounts, the State has not recognised land under roads acquired prior to 1 July 2008. The Treasury has concluded that the value of land under roads cannot currently be reliably measured and will only recognise the asset when a methodology has been developed and agreed by the Valuers-General.

In my opinion, land under roads can be reliably measured and The Treasury has not complied with AASB 1049 which requires the recognition of all land under roads at fair value.

The Roads and Traffic Authority (RTA) has recognised Land under Roads for many years and has recorded these assets at a value of $37.3 billion in its balance sheet.

Crown Reserve Trusts

I was unable to obtain all information required to form an opinion on the value of Crown Reserves that should be recorded in the Total State Sector Accounts (the Report was similarly qualified last year).

There are approximately 33,000 Crown Reserves in New South Wales. The Government is in the process of identifying and valuing Crown Reserves 'controlled' by the New South Wales Government that should be recognised as assets of the Government in the Total State Sector Accounts.

The Treasury has advised me that based on its preliminary assessment the total value of reserves controlled by the New South Wales Government, but not currently recognised in the Total State Sector Accounts, is between $1.0 billion and $7.0 billion. However, the total value may be greater, depending on the current valuation of the controlled assets. The New South Wales Government will recognise the value of Crown Reserves it controls in future Total State Sector Accounts once this project is complete and the value can be reliably estimated.

It has been estimated the project will require the formal identification and valuation of more than 90,000 parcels of land. Since the last reporting date, over 45,000 parcels of land have been formally identified and converted to the State's Integrated Titling System. It is expected this work will be completed late in the 2010 calendar year.

Taxation Assessment

Without further qualification to the audit opinion, an emphasis of matter relating significant uncertainty regarding an objection to a taxation assessment has been included in my opinion on the General Government Sector's financial reports.

In 2007, the Crown Entity recognised a one-off taxation assessment of $424 million ($259 million of duty and $165 million of interest), which has increased to $502 million with additional interest. An objection was lodged and the matter is now subject to appeal in the Supreme Court. Until this matter is resolved, the ultimate outcome and its impact on the Net Operating Balance (Budget Result for the General Government Sector) cannot be determined.

If the objection is ultimately accepted, the State will recognise a $502 million expense in both the General Government and Total State Sector Net Operating Balance (Budget Result for the General Government Sector).

OTHER SIGNIFICANT ISSUES

Other significant issues I noted include:

AAA Credit Rating

On 16 June 2009, Standard and Poor's revised its AAA negative outlook rating of the State of New South Wales and New South Wales Treasury Corporation to AAA stable. This reflected a reassessment of the State's fiscal flexibility, in particular its commitment to improve budgetary performance.

Standard and Poor's indicated there was a minimal tolerance at this rating level for a structural weakening in finances and the following events could lead to a reassessment of the rating:

- materially stepping back from the privatisation process of electricity retail assets
- materially failing to deliver on proposed savings measures
- material new policies in the lead-up to the March 2011 election.

In January 2009, Moody's Investors Service affirmed the State of New South Wales' Aaa rating with a stable outlook.

Sydney Water Corporation – Water Filtration Plants

The Total State Sector Accounts do not include a liability of $481 million relating to water filtration plants.

Sydney Water has agreements with the owners/operators of water filtration plants for the filtration of bulk water. The agreements are for 25 years and require Sydney Water to pay the owners a fee for the service provided. At the end of the agreement, Sydney Water has the option to extend the arrangements or to acquire the filtration plants at market value.

In my opinion, these arrangements effectively transfer substantially all the risks and benefits incidental to ownership of the plant to Sydney Water.

Sydney Water considers these agreements to be service agreements for the filtration of water. They consider the agreements do not meet the definition of a finance lease as the agreements do not convey the right for Sydney Water to use the assets.

Housing NSW – Backlog Maintenance

Housing assets are undervalued by $533 million in the Total State Sector Accounts.

Housing NSW revalued its property portfolio during the financial year ended 30 June 2009. The valuers were instructed to value the properties as though they were in 'fair condition'. Housing NSW then reduced the value of the property portfolio and the Asset Revaluation Reserve for the amount of backlog maintenance required on the portfolio.

In my opinion, assets are understated by $533 million in both Housing NSW and the Total State Sector Accounts.

NSW Forests – Valuation of Biological Assets

The value of New South Wales Forests was reduced by $909 million at 1 July 2007 largely due to a change in the valuation method. We agree with the new method.

NSW Forests changed their method for valuing Biological Assets from a standing volume approach at current prices to a discounted cash flow model.

NSW Forests believe the discounted cash flow model more closely reflects usual market practice and provides a more accurate view of the value of the assets in terms of future revenue generation.

Lifetime Care and Support Scheme - Estimate of Outstanding Claims

There is significant uncertainty in the estimate of the Scheme's claims liability, which was $610 million at 30 June 2009.

The Lifetime Care and Support Scheme provides treatment, rehabilitation and attendant care services to people severely injured in motor accidents in New South Wales, regardless of who was at fault in the accident.

The significant uncertainty arises due to the limited claims experience available on which to base the estimate. Entitlements under the Lifetime Care and Support Scheme only commenced from 1 October 2006. This uncertainty will remain until sufficient claims experience for the Scheme becomes available.

Transfer of State Assets to Reserve Trusts

> I recommend that assets transferred to reserve trusts under the control of the New South Wales Government be recognised within the Total State Sector's financial report.

Currently, there is limited accountability or transparency when assets and related transactions are transferred to reserve trusts.

During 2008-09, a State owned building valued at $56.2 million was transferred to the 'Lands Building Reserve Trust'. This effectively removed the asset from the State's balance sheet.

Impact of the Carbon Pollution Reduction Scheme on Infrastructure Assets

In 2007-08, the Federal Government proposed a Carbon Pollution Reduction Scheme (Scheme), but has not yet settled how it will operate. Until this occurs, the effect of the Scheme on Energy Generation assets cannot be determined and has not been taken into account when applying the requirements of Accounting Standard AASB 136 'Impairment of Assets'.

Amendments to the *Public Authorities (Financial Arrangements) Act 1987*

> I recommend that the Treasurer present to the next sitting of Parliament amendments to the *Public Authorities (Financial Arrangements) Act 1987* (PAFA Act).

In 2006, I informed Treasury that some of the advice in TC06/17 'Consequences of New Employment Arrangements – Other Taxation, Administrative and Operational Issues' is inconsistent with the provisions in the PAFA Act. To correct this, Treasury said they would change the PAFA Act but so far the Treasurer has not presented an amending Act to Parliament.

There have been unreasonable delays in resolving this issue and it is probable that some agencies are breaching the PAFA Act because they are relying on the incorrect advice in TC06/17.

PREPARATION OF THE FINANCIAL STATEMENTS

The Treasury is responsible for preparing the consolidated financial report of the General Government and Total State Sectors. The financial report comprises 138 agencies that are controlled by the State with total net assets of $136 billion. A further 36 agencies with net assets amounting to $468 million are not consolidated as they not considered material for reporting purposes.

The accuracy of the General Government and Total State Sector Accounts is largely dependent on the quality of accounting information provided by agencies.

Quality of Financial Reports

I recommend the Treasury develop and implement procedures to improve the quality, reliability and timeliness of financial reporting of the New South Wales public sector.

Twelve of the 24 largest agencies' financial reports submitted for audit contained significant errors in the current year's financial information, while five included significant errors in the prior years' financial information.

	Errors $20 - $50 million	Error $50 - $100 million	Errors >$100 million	Total Errors >$20 million
Largest 24 Agencies	12	4	9	25
Other Agencies	4	2	1	7
Total	**16**	**6**	**10**	**32**

Of the 32 individual errors over $20.0 million, 22 were corrected in the financial reports presented to Parliament.

This delayed and increased the costs of preparing and auditing these financial reports. To address this issue financial reports should be prepared periodically throughout the year (i.e. at 31 December and 31 March) using full accrual accounting.

Financial Analysis

INTRODUCTION

This section analyses key financial data in the General Government and Total State Sector Accounts to inform Parliament and the community of trends in the State's financial position and its performance.

REQUIREMENTS OF AASB 1049

This year, the Treasury has prepared the General Government and Total State Sector Accounts in accordance with the AASB 1049. The standard is the AASB's response to the following strategic directive of the Financial Reporting Council (FRC):

> 'The AASB should pursue as an urgent priority the harmonisation of GFS and GAAP reporting. The objective should be to achieve an Australian Accounting Standard for a single set of Government Reports which are auditable, comparable between jurisdictions, and in which the outcome statements are directly comparable with the relevant budget statements.'

General principles of AASB 1049 include:

- consolidated sector financial reports are prepared in accordance with recognition, measurement and disclosure requirements of accounting standards
- where options exist in accounting standards, the option that is consistent with Government Finance Statistics (GFS) must be chosen
- where there is any conflict between Generally Accepted Accounting Principles (GAAP) and GFS, GAAP prevails. This creates a convergence difference which must be reconciled in the key fiscal aggregate reconciliations
- amended presentation requirements exist including a harmonised operating statement. The statement dissects revenues and expenses into transactions and other economic flows, as defined by the Australian Bureau of Statistics GFS Manual.

Significant changes resulting from AASB 1049

- Total State Sector Borrowings

  Marketable borrowings in the Total State Sector Accounts are now stated at fair value instead of amortised cost to harmonise with Government Financial Statistics (GFS). This decreased the carrying value of total state borrowings by $947 million as at 1 July 2007.
- Recognition by the General Government Sector of equity investments in the PTE and PFE sectors

  AASB 1049 requires the General Government Sector to recognise an equity investment in the PTE and PFE Sectors. This has increased the value of the General Government Sector's net assets by $67.3 billion at 1 July 2007.

FINANCIAL INFORMATION – OPERATING STATEMENTS

Abridged Operating Statements

Year ended 30 June	General Government 2009 $m	General Government 2008 $m	Total State Sector 2009 $m	Total State Sector 2008 $m
REVENUES				
State taxation	***17,855***	18,547	***16,940***	17,792
Grants and Subsidies	***22,309***	20,101	***22,245***	20,028
Sales of goods and services	***4,048***	3,617	***17,621***	16,130
Interest	***415***	455	***1,144***	1,130
Dividends & Income Tax Equivalents	***1,828***	2,062	**--**	--
Other Dividends & Distributions	***196***	292	***196***	292
Fines, Regulatory, Fees & Other	***3,012***	2,344	***3,712***	3,103
TOTAL REVENUE	***49,663***	47,418	***61,858***	58,475
EXPENSES				
Employee costs	***24,740***	22,870	***28,763***	26,616
Depreciation & amortisation	***2,614***	2,466	***5,270***	4,718
Interest	***1,505***	1,299	***3,186***	2,846
Grants and Subsidies	***10,731***	9,738	***6,632***	6,270
Other	***10,970***	10,068	***17,345***	15,856
TOTAL EXPENSES	***50,560***	46,441	***61,196***	56,306
NET OPERATING BALANCE (BUDGET RESULT FOR THE GENERAL GOVERNMENT SECTOR)	***(897)***	977	***662***	2,169
Other Economic Flows – Included in the Operating Result				
Gain/(Loss) from Liabilities	***(437)***	133	***(471)***	218
Other Net Gain/(Loss)	***(699)***	(1,101)	***(2,046)***	(627)
Share of Earning from Associates (excluding Dividends)	***19***	77	***19***	77
Dividends from Assets Sale Proceed	***11***	--	**--**	--
Deferred Income Tax from Other Sectors	***(1,021)***	854	**--**	--
Other	***(136)***	(204)	***(144)***	(210)
OPERATING RESULT	***(3,160)***	736	***(1,980)***	1,627
Other Economic Flows – Non Owner Movement in Equity				
Revaluations	***5,432***	6,361	***4,144***	11,368
Actuarial Gain/(Loss) from Superannuation	***(11,457)***	(3,216)	***(13,060)***	(3,846)
Net Gain/(Loss) on Equity Investments	***(1,606)***	7,136	**--**	--
Net Gain/(Loss) on Financial Instruments	**--**	--	***120***	1,877
Other	***(98)***	(1)	***(113)***	(10)
COMPREHENSIVE RESULT - TOTAL CHANGE IN NET WORTH BEFORE TRANSACTIONS WITH OWNERS AS OWNERS	***(10,889)***	11,016	***(10,889)***	11,016

NET OPERATING BALANCE (BUDGET RESULT FOR THE GENERAL GOVERNMENT SECTOR)

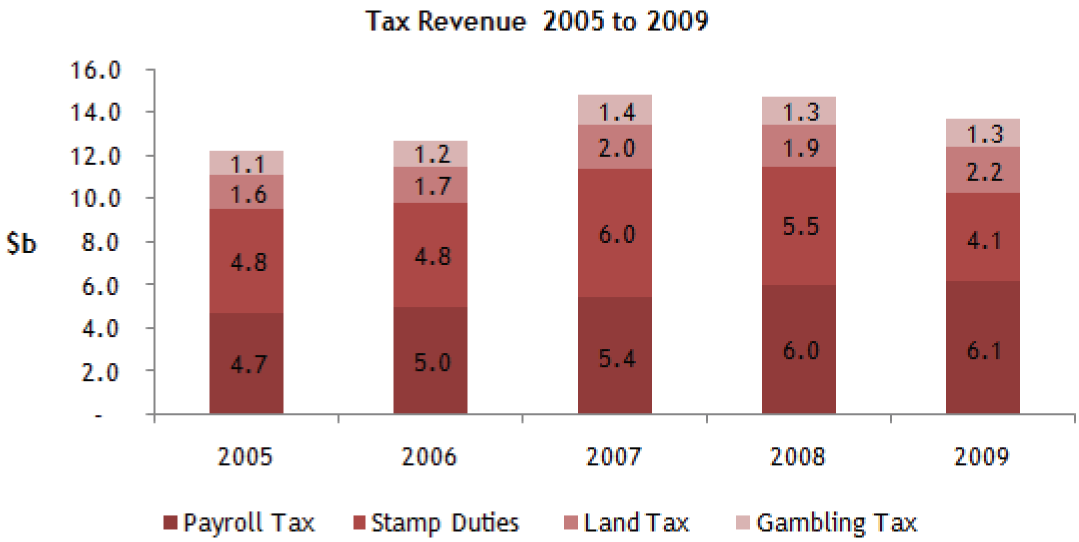
The Net Operating Balance (Budget Result for the General Government Sector) represents transactions of the State and generally reflects economic events that impact the economy.

Unless otherwise stated, the following commentary relates to the Total State Sector.

REVENUES

State Taxation

Total taxation revenue increased from $14.7 billion to $16.9 billion (15 per cent) over the last five years. Tax revenue decreased by $852 million when compared to 2007-08.

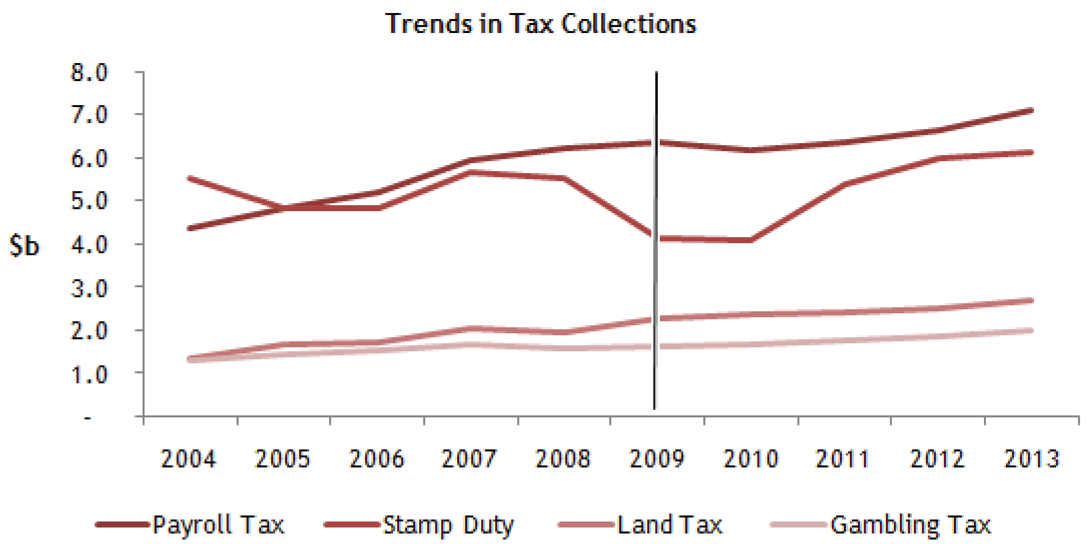


Land Tax increased by $309 million from 2007-08, primarily due to a Mini-budget policy decision to introduce a higher marginal tax rate on land holdings above $2.3 million.

Stamp duty decreased by approximately $1.4 billion (25.5 per cent) predominantly as a result of the continued downturn in the property market in 2008-09. This is the second year stamp duty has fallen. Over the past ten years, stamp duty collected per capita has decreased compared to other taxes:

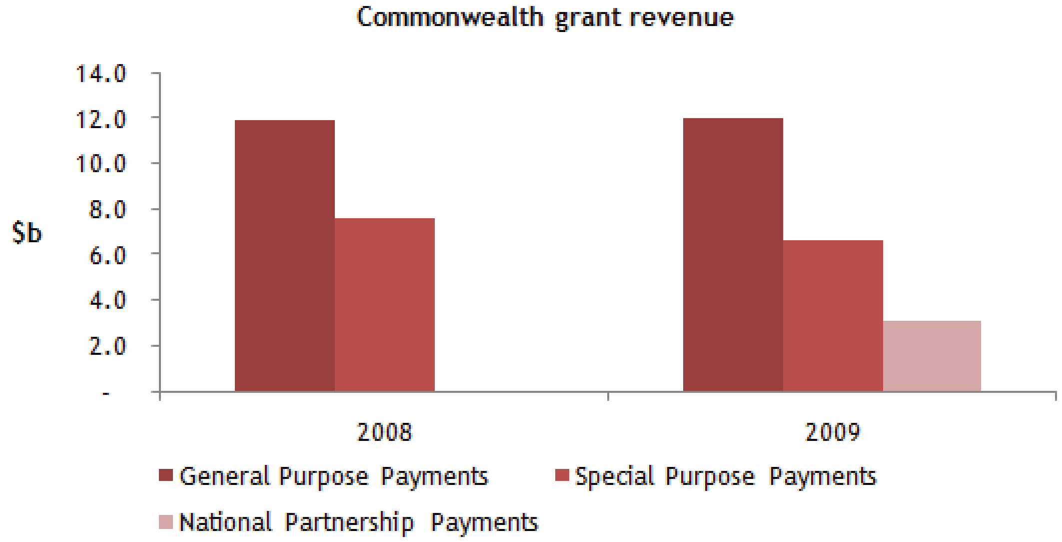
Tax	Amount collected per capita (NSW) 2009 $	Amount collected per capita (NSW) 1999 $	Movement %
Payroll Tax	***878.22***	536.52	64
Stamp Duty	***587.68***	614.35	(4)
Land Tax	***313.90***	142.24	140
Gambling Tax	***184.96***	221.31	(9)

The following table details tax collected between 2004 – 2009 and The Treasury's forecasts for General Government Sector taxation collections over the next 4 years. Stamp Duty is expected to stabilise over the coming year and increase by 48.7 per cent over the forward estimates period.



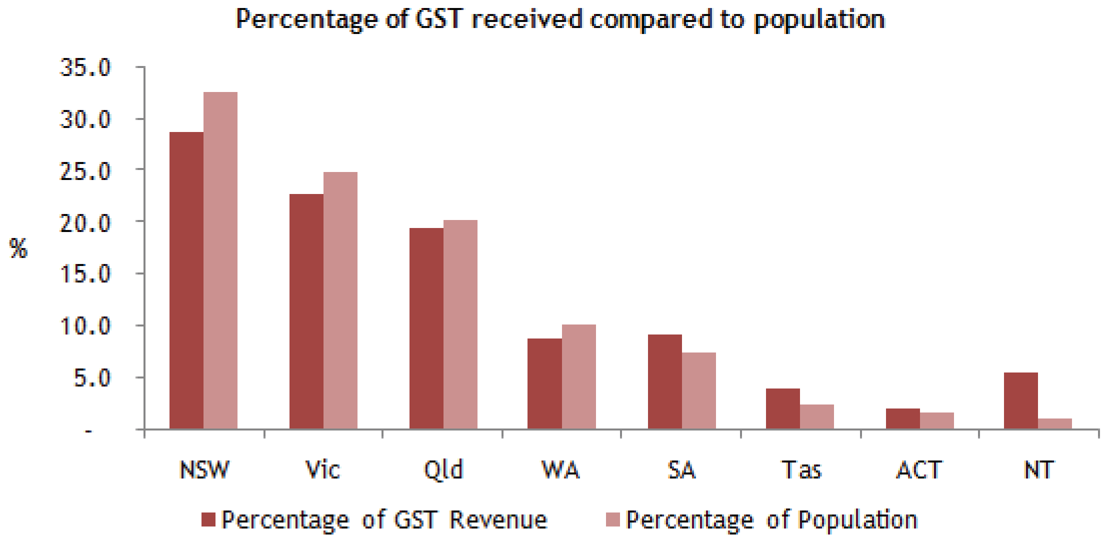
Commonwealth grants

The Government received significant new grants of $3.1 billion from the Australian Governments' Nation Building – Economic Stimulus Plan and National Building for the Future Plan (National Partnership Payments). These grants replaced some previous Specific Purpose payments and accounted for an additional $2.1 billion of State revenue.



Commonwealth General Purpose GST grants decreased by $72.0 million from the prior year. This is the first year GST grants have decreased since GST was introduction in 2000. GST grants were $1.2 billion below budget due to lower than expected Australia wide GST collections associated with weakening economic activity. The Treasury expects GST grants between 2008-09 and 2011-12, to be $4.8 billion less than originally budgeted.

The following table compares the amount of GST received by respective States/Territories (as a percentage of the total GST distributed to States/Territories) to the population of each State/Territory:



The Commonwealth Government collects GST and distributes it to the States using an agreed method. The Commonwealth Government Budget Paper No. 3 for 2009-10 states:

> Each State's share of the GST pool is assessed on the basis that if each State made the same effort to raise revenue from its own sources and operated at the same level of efficiency, each State should be given the capacity to provide services at the same standard. This does not necessarily result in the equalisation of government services across States, merely the equalisation of the capacity to provide the same standard of service.

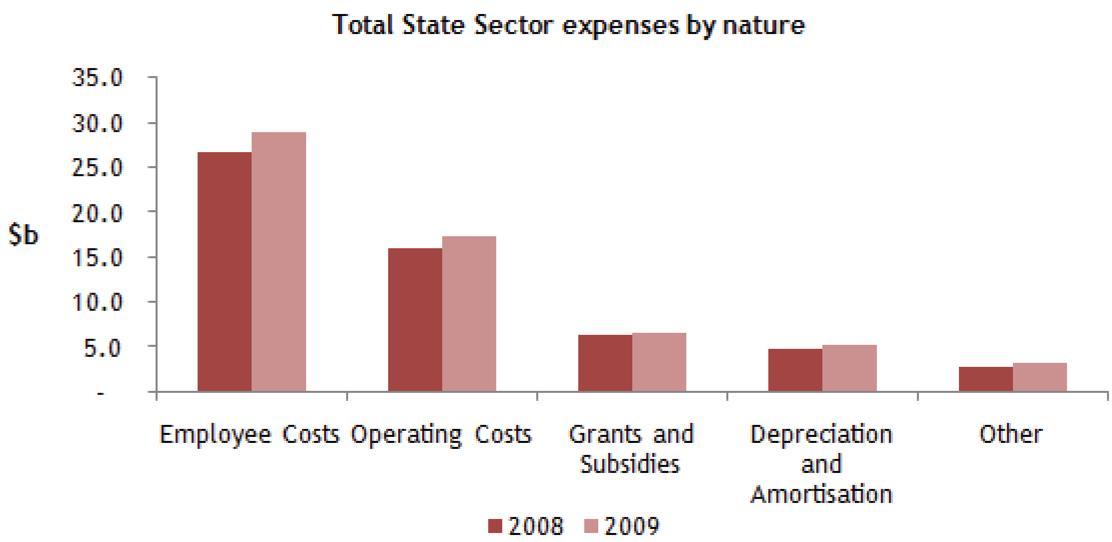
Fines, Regulatory Fees and Other

Increases in Fines, Regulatory Fees and Other are largely a result of mini-budget measures to increase coal mining royalties by 1.2 per cent effective 1 January 2009. An increase in coal prices combined with a weakened Australian dollar have also contributed to the increase in 2008-09.

EXPENSES

Total State Sector Expenses by Nature

Total expenses increased from $56.3 billion in 2007-08 to $61.2 billion in 2008-09, an increase of 8.7 per cent.



Employee Costs

Employee costs (excluding all superannuation) increased by approximately 7.5 per cent compared to the prior year.

The increase in employee costs was due to:

- Department of Education and Training employee expenses increasing by $340 million primarily due to a 4.4 per cent salary increase to teachers in January 2009 and a four per cent salary increase to administrative staff effective July 2008
- Department of Health employee expenses increasing by $531 million as a result of award increases of approximately $370 million and an increase in escalation factors applied to long service leave from 8.1 per cent in 2007-08 to 9.8 per cent in 2008-09
- Public Service long service leave costs increased by $117 million due to salary increases and changes in actuarial assumptions
- Self Insurance Corporation workers compensation claims expense increased by $220 million due to movements in workers compensation claims liability valuations.

Employee costs do not include increases in superannuation obligations resulting from changes to assumptions used to calculate these obligations (e.g. movements in discount rates and other economic assumptions). These costs were previously reported in Other Gains/(Losses) in the Operating Statement, but are now reported in Other Economic Flows – Non Owner Movements in Equity. This resulted from a change by the Treasury in the accounting policy for recognising superannuation actuarial gains and losses.

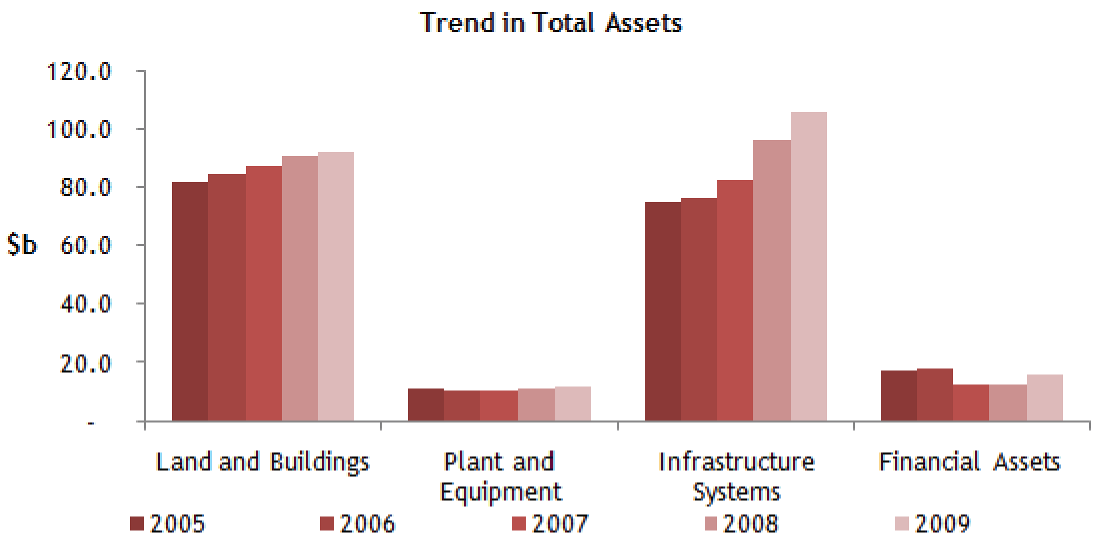
FINANCIAL INFORMATION – BALANCE SHEETS

Abridged Balance Sheets

Year ended 30 June	General Government		Total State Sector	
	2009 $m	2008 $m	2009 $m	2008 $m
ASSETS				
Financial Assets				
Cash & Cash Equivalents	***3,350***	2,299	***5,541***	4,913
Receivables	***5,556***	5,177	***7,197***	5,966
Tax Equivalents Receivable	***245***	249	**--**	--
Financial Assets at Fair Value	***5,272***	6,074	***15,763***	12,642
Advance Paid	***780***	799	***319***	254
Deferred Tax Equivalents	***4,576***	5,539	**--**	--
Equity	***73,696***	75,990	***1,050***	1,625
Total Financial Assets	***93,475***	96,127	***29,870***	25,400
Non - Financial Assets				
Inventories	***250***	166	***1,298***	*1,124*
Forestry Stock & Other Biological Assets	***7***	7	***560***	*527*
Assets Classified as Held for Sale	***115***	144	***173***	*193*
Investment Properties	***274***	298	***1,628***	*1,546*
Properties, Plant & Equipment	***108,933***	100,656	***209,066***	*197,617*
Intangibles	***977***	696	***2,242***	*1,770*
Other	***1,023***	936	***1,374***	*1,222*
Total Non – Financial Assets	***111,579***	102,903	***216,341***	*203,999*
TOTAL ASSETS	***205,054***	199,030	***246,211***	229,399
LIABILITIES				
Deposits Held	***72***	98	***182***	*217*
Payables	***3,345***	3,105	***6,224***	*5,706*
Tax Equivalents Payable	***7***	36	**--**	--
Borrowing & Derivatives at Fair Value	***21***	--	***47,777***	*36,654*
Borrowings at Amortised Cost	***16,582***	13,874	***2,179***	*1,848*
Advanced Received	***835***	864	***835***	*864*
Employee Provisions	***9,888***	8,747	***11,911***	*10,690*
Superannuation Provision	***29,423***	17,626	***31,003***	*17,761*
Deferred Tax Equivalent Provision	***746***	638	**--**	--
Other provisions	***5,501***	4,942	***6,642***	*5,701*
Other	***2,620***	2,197	***3,444***	*3,055*
TOTAL LIABILITIES	***69,040***	52,127	***110,197***	*82,496*
NET ASSETS	***136,014***	146,903	***136,014***	*146,903*
NET WORTH				
Accumulated Funds	***19,484***	33,656	***56,363***	*70,596*
Reserves	***116,530***	113,247	***79,651***	*76,307*
TOTAL NET WORTH	***136,014***	146,903	***136,014***	*146,903*

Assets

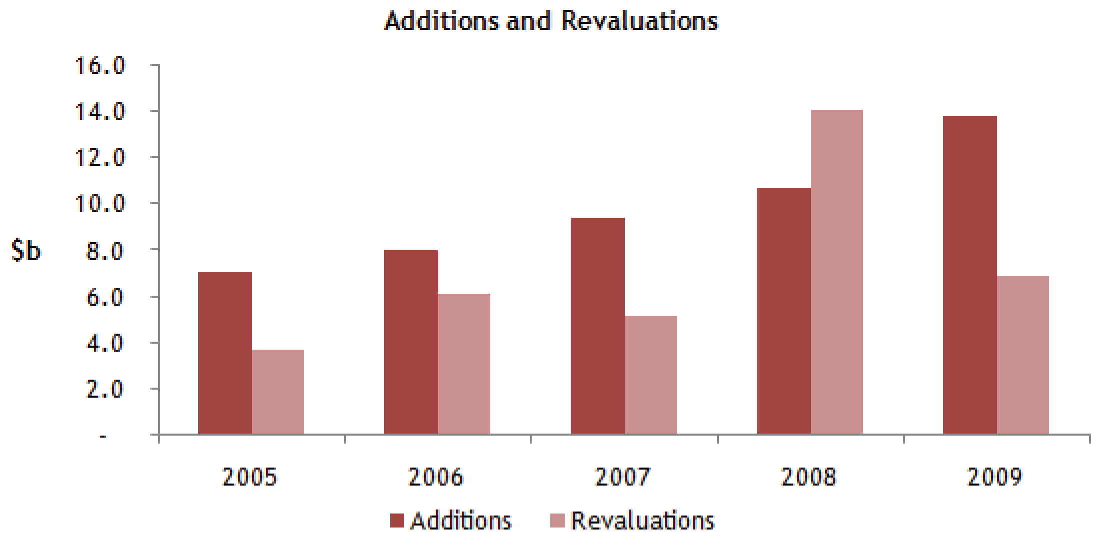
Total Assets have increased from $197 billion in 2004-05 to $246 billion in 2008-09, an increase of 24.7 per cent.



Property, Plant and Equipment

Property, Plant and Equipment includes the State's land and buildings, plant and equipment and Infrastructure systems.

These physical assets are held to provide or support service delivery. Over the last five years the State has invested $48.9 billion in physical assets (land and buildings, plant and equipment and infrastructure assets). On average this represents an investment of $9.8 billion per annum.

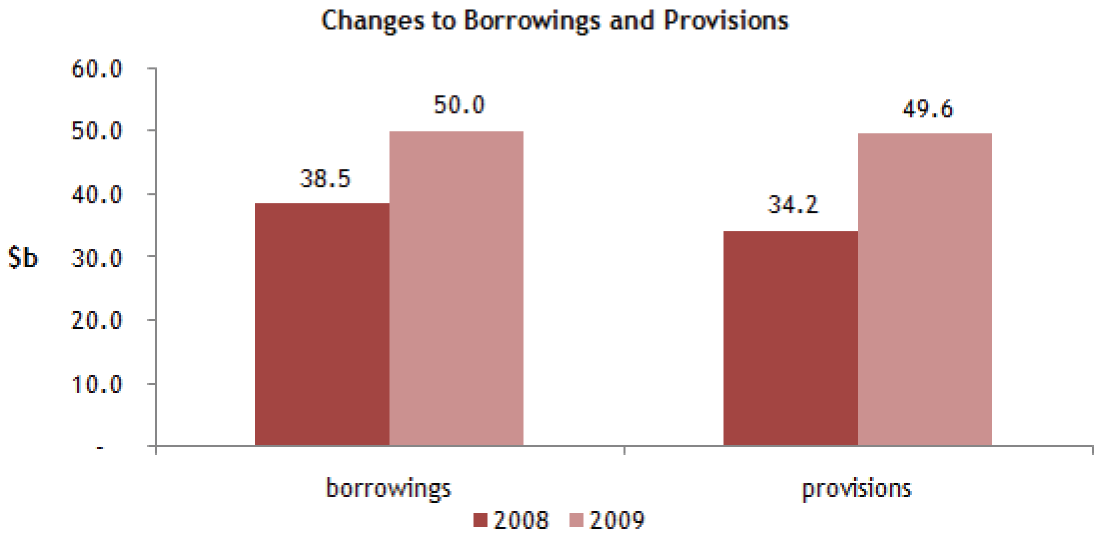


Total property plant and equipment increased by $11.4 billion during 2008-09, predominantly due to additions of new assets. Revaluations of existing assets included:

- Transgrid revalued its network assets up by $415 million
- Hunter Water Corporation revalued its water and sewer assets up by $316 million
- Sydney Water revalued its system assets down by $1.6 billion.

Liabilities

Total liabilities (after eliminating inter-agency balances) have increased 33.6 per cent in the past twelve months from $82.5 billion to $110 billion. This is largely due to increased borrowings and actuarial movements in the State's Defined Benefit Superannuation obligations.



Borrowings

Domestic and foreign borrowings increased by $11.5 billion during 2008-09. This was primarily driven by an increase in the borrowings of New South Wales Government agencies, managed by the New South Wales Treasury Corporation, to fund the infrastructure programs of those agencies, including:

- the Sydney desalination plant
- expansion of electricity generation
- upgrading of the electricity distribution network
- the Epping to Chatswood rail line
- the rail clearways project
- the Port Botany expansion.

The 2009-10 Budget Papers project $62.9 billion of capital spending over the next four years to June 2013. The Commonwealth Government's economic stimulus and nation building programs will contribute to the funding requirements. New South Wales Treasury Corporation expects its loans to clients to increase by $26.0 billion over the following four years.

Superannuation Provisions

Included in the movement in provisions, is an increase of $13.2 billion in the unfunded superannuation liability of the Total State Sector. The State has liabilities associated with the following schemes:

Scheme	Unfunded Liability 2009 $m	Unfunded Liability 2008 $m
State Superannuation Fund	***29,664***	17,024
Parliamentary Contributory Superannuation Scheme	***231***	120
Judges' Pension Scheme	***605***	553
Energy Industries Superannuation Scheme (EISS)	***503***	64
TOTAL	***31,003***	17,761

Increases in unfunded superannuation liabilities are primarily due to:

- a negative return of 10.4 per cent on State Superannuation Fund assets and a negative return of 17.8 per cent for EISS assets, which is significantly lower than the long term actuarially applied rate
- a decrease in the discount rate of approximately one per cent.

The Net Operating Balance previously referred to as The Budget Result

INTRODUCTION

The 'Net Operating Balance' in the Operating Statement can be compared directly to the Budget Result previously presented to Parliament. It comprises 'transactions' of the State excluding 'Other Economic Flows', which include items such as valuation gains and major asset write downs.

As mentioned earlier, the General Government and Total State Sector Accounts are now prepared in accordance with AASB 1049. This standard requires a Government to select options within accounting standards that align with GFS principles.

BUDGET RESULT – VARIANCE TO ORIGINAL BUDGET (JUNE 2008)

Financial Information

Year ended 30 June 2009	Actual $m	Budget $m	Difference $m	Difference %
Revenue				
Taxation	*17,855*	*18,533*	*(678)*	*(3.7)*
Commonwealth Grants	*21,692*	*20,269*	*1,423*	*7.0*
Other Grants and Subsidies	*617*	*455*	*162*	*35.6*
Sale of Goods and Services	*4,048*	*3,626*	*422*	*11.6*
Interest	*415*	*553*	*(138)*	*(25.0)*
Dividend and Income Tax	*1,828*	*1,794*	*34*	*1.9*
Other Dividends	*196*	*217*	*(21)*	*(9.7)*
Fines, Regulatory Fees and Other	*3,012*	*2,466*	*546*	*22.1*
Total Revenue	***49,663***	***47,913***	***1,750***	***3.7***
Expenses				
Employee Related	*22,080*	*21,113*	*967*	*4.6*
Superannuation	*2,660*	*2,514*	*146*	*5.8*
Depreciation and Amortisation	*2,614*	*2,603*	*11*	*0.4*
Interest	*1,505*	*1,440*	*65*	*4.5*
Other Property	*1*	*3*	*(2)*	*(66.7)*
Other Operating	*10,969*	*10,869*	*100*	*0.9*
Current Grants and Subsidies	*7,697*	*7,141*	*556*	*7.8*
Capital Grants	*3,034*	*1,962*	*1,072*	*54.6*
Total Expenses	***50,560***	***47,645***	***2,915***	***6.1***
NET OPERATING BALANCE	***(897)***	***268***	***(1,165)***	***(434.7)***

State revenue exceeded budget by $1.8 billion due to:

- Commonwealth grants increasing by $1.4 billion due to $3.1 billion of National Partnership payments offset by a $1.2 billion decrease in GST revenue in line with the general downturn in the economy and the slowing of economic growth
- Taxation revenue being $678 million less than the budget estimate, primarily due to a $1.1 billion shortfall in transfer duty partially offset by a $269 million increase in Land Tax receipts following changes to government policy in the mini-budget
- Sales of Goods and Services being $422 million greater than the budget primarily due to the higher re-insurance recoveries from the 2002-03 Canberra bushfires
- Fines, Regulatory Fees and Other being $546 million greater than budget primarily due to mining royalties of $359 million that were not included in the original budget.

The table below shows those agencies where actual expenses exceeded budget:

Agency	2009 Amount $m	Reason $m
Department of Health	674	▪ increased employee related costs - $133 million ▪ additional expenditure based on COAG funding - $166 million ▪ Additional costs incurred on the Immunisation Program - $50.0 million ▪ other operating expenses - $325 million
Ministry of Transport	472	▪ $280 million repayment of RailCorp debt ▪ Western Metro Line feasibility study - $91.0 million ▪ additional car park development expenses - $50.0 million
Crown Finance Entity	386	▪ additional first home owner grants - $413 million ▪ long service leave and superannuation expenses increased by $244 million
Department of Housing – Land and Housing Corporation	333	▪ increase of $220 million relating to State Social Housing ▪ spending of Commonwealth National Partnership Payments - $150 million
Roads and Traffic Authority	272	▪ expenditure includes $148 million of agency overspend ▪ $66.0 million for the transfer of roads and bridges to Local Councils ▪ revised accounting treatment of the Sydney Harbour Tunnel resulting in $58.0 million additional expenditure
Department of Education and Training	178	▪ additional salary costs and increases in employee entitlements - $144 million ▪ increase in depreciation expenses - $26.0 million
Department of Corrective Services	71	▪ increased employee costs due to significant overtime cost overruns and delays in implementing the Way Forward reform - $45.0 million ▪ other operating expenses - $32.0 million

I recommend that the reasons for significant and consistent budget overruns be resolved with the respective agencies to avoid the overruns occurring in the future.

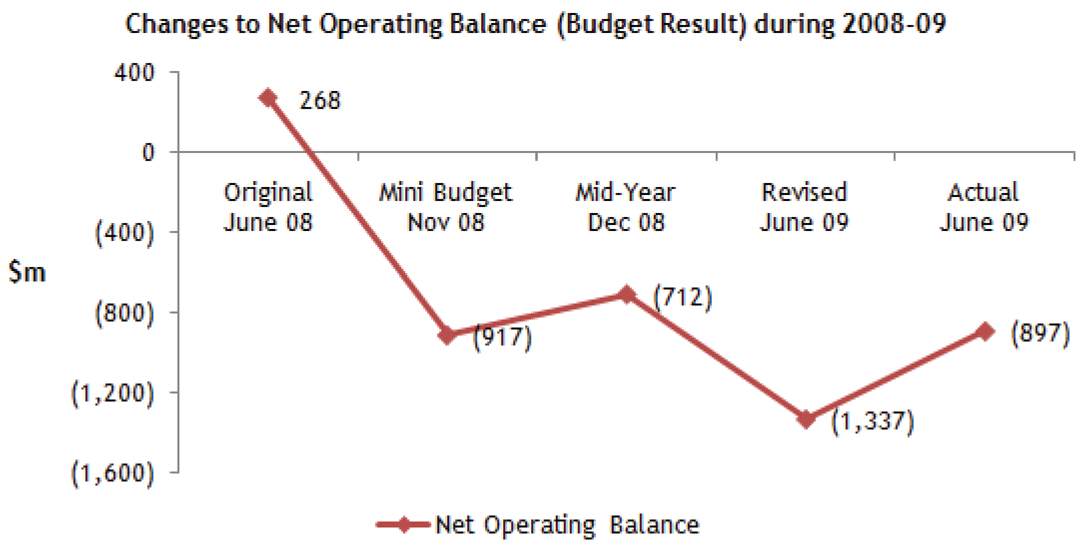
I note that significant and consistent overruns in of budgeted expenditure have occurred for the following agencies:

Agency	2009 Excess over budget $m	2008 Excess over budget $m
Department of Health	***674***	611
Crown Finance Entity	***386***	252
Roads and Traffic Authority	***272***	269
Department of Education and Training	***178***	176
NSW Police	***120***	133

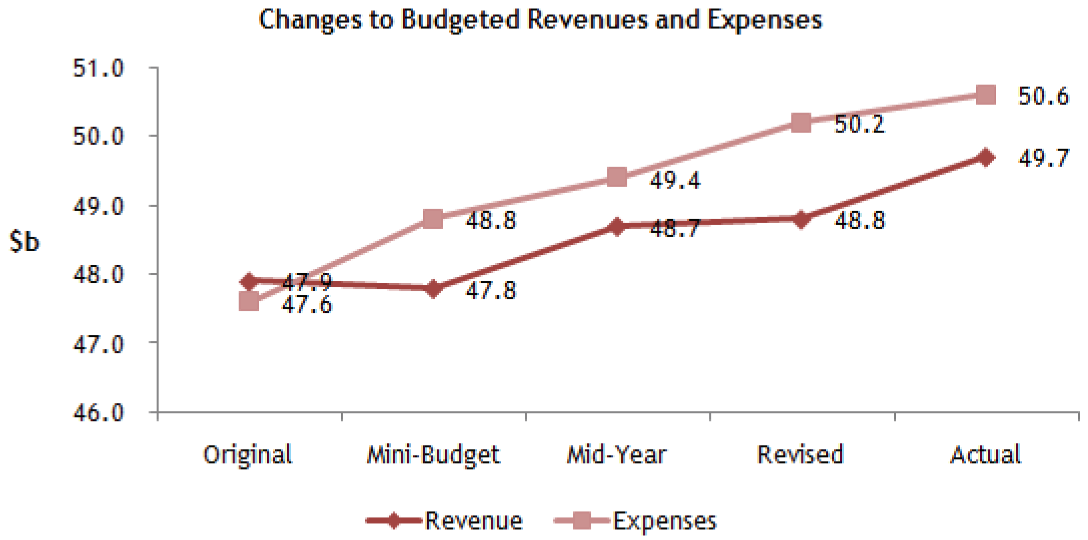
BUDGET RESULT – VARIANCE TO REVISED BUDGET

Changes to the Budget during 2008-09

The Treasury revised the budget result for 2008-09 in the mini-budget (November 2008), in its half-year reporting (December 2008) and again when the 2009-10 budget was tabled in Parliament (June 2009 'revised budget'). The table below demonstrates how significantly the State's budget changed after each revision in 2008-09.



Changes to the revised and actual revenues and expenses are analysed below:



The $845 million increase in revenue from the revised budget includes:

- a $90.0 million increase in Transfer duty
- a $49.0 million increase in Rural Fire Service revenues
- the Commonwealth's Budget Balancing Assistance of $118 million
- a $131 million increase in reinsurance recoveries from the Self Insurance Corporation relating to the 2003-03 Canberra Bushfires
- a $273 million increase in dividends and income tax equivalents from agencies in the PTE and PFE Sectors.

MINI-BUDGET MEASURES

The November 2008 mini-budget detailed a range of policy decisions (measures) made by the Government in response to:

- legislation not being passed regarding proposed electricity reform
- a significant deterioration in the economic outlook
- a downward revision to the State's credit rating outlook (August 2008).

The measures were expected to reduce expenses by $3.3 billion and increase revenues by $3.0 billion over the four years to 2011-12.

Policy measures included:

Mini-Budget Measure	Anticipated Saving 2008-09	Actual Outcome
TOTAL STATE SECTOR		
Reduce the size of the Chief Executive Service/Senior Executive Service (SES) by 20 per cent	$17.1 million	The Department of Premier and Cabinet released a progress report indicating SES numbers decreased by 20 per cent (171 positions) by 30 June 2009. During 2009-10, SES numbers are expected to temporarily increase by up to 10 positions.
EDUCATION		
Remove the back to school allowance	$57.0 million	The back to school allowance was removed in 2008-09.
TRANSPORT		
Introduce an annual co-payment of $45 for primary students and $90 for secondary students	$33.0 million	The Government reversed this decision in December 2008.

Mini-Budget Measure	Anticipated Revenue 2008-09	Actual Outcome
STATE REVENUE		
Land Tax – apply a marginal rate of two per cent for taxable land holdings above $2.25 million	$170 million	Land Tax revenue was $269 million greater than the original budget.
Deferred Abolition of some Stamp Duties until 1 July 2012	$36.0 million	Marketable Securities duty revenue was $22.8 million greater than the original budget.
Mining Royalties – Increases to Coal Royalty Rates	$152 million	Mining Royalties were $430 million greater than the original budget.

In most cases, the measures have provided savings or increased revenues.

The Government also announced in the mini-budget its intention to sell:

- Australian Technology Park
- Darling Harbour car parks and ground leases
- office accommodation in the central business district.

It was considering a number of business asset transactions including:

- Energy Reform Strategy
- New South Wales Lotteries
- WSN Environmental Solutions
- Superannuation Administration Corporation (Pillar)
- Roads and Traffic Authority's non standard number plate business.

In the 2009-10 Budget Papers, the Treasury provided an update on the status of the business asset transactions:

Transaction	Status at June 2009
Energy Reform Strategy	The Premier announced a new reform package on 1 November 2008, which aims to enable private investment in new baseload generation capacity in New South Wales. The measures will see the Government withdraw from electricity retailing and transfer power station development sites and the right to trade the output of publicly owned generators to the private sector. Under the Energy Reform Strategy, the private sector will assume the task and the associated risk and reward of trading wholesale electricity for the generators. The New South Wales Government will continue to own and operate its power stations as well as the transmission and distribution lines, which represent the vast majority of electricity assets in New South Wales.
New South Wales Lotteries	In April 2009, the Government announced its decision to offer to the market a long term exclusive license for the distribution of New South Wales Lotteries products. The Government will continue to collect duties on the sale of Lottery products of approximately $300 million per year. The offer terms are yet to be finalised, but the Government intends to: ▪ retain full ownership or rights to the key brands and intellectual property utilised by New South Wales Lotteries ▪ issue an exclusive, long term license of approximately 30 years or more, providing for the distribution of key lottery products in New South Wales and use of the key brands and intellectual property.
Superannuation Administration Corporation (Pillar)	The investigation into Pillar revealed that the value of the transaction would be enhanced through a number of key strategic initiatives including efficiency improvements and growth opportunities. The transaction will remain under consideration by the New South Wales Government while management is implementing these business improvements.
WSN Environmental Solutions	The investigation into the sale of WSN Environmental Solutions is ongoing.

Source: The Treasury Budget Paper 2 – Budget Statement 2009-10 pg 8-4

Mini Budget changes to Major Capital Projects

The North West Metro transportation project ($12.0 billion) was deferred indefinitely. Stage 2 of the Richmond Line from Schofields to Vineyard was deferred and the Carlingford Passing Loop and Sydenham to Erskineville 6 Track project were cancelled (saving around $550 million over the four years to 2011-12).

CHANGES TO THE 2007-08 BUDGET RESULT

Changes to prior year's Budget Result

The Treasury has increased the reported prior year Net Operating Balance (budget surplus) by $903 million to $1.3 billion. The change resulted primarily from the reclassification of investment income.

The table below details the impact of these adjustments on last year's result.

Year ended 30 June 2008	Results after adjustments $m	Results before adjustments $m	Impact of adjustments $m
Total Revenue	47,730	46,810	920
Total Expenses	46,441	46,424	17
BUDGET RESULT	1,289	386	903

Compliance with Fiscal Responsibility Act 2005

INTRODUCTION

The *Fiscal Responsibility Act 2005* (the FR Act) sets out principles for the financial management of the State. The purpose of the FR Act is to provide the framework for the conduct of New South Wales fiscal policy, with a view to maintaining financial results that are fiscally sustainable in the medium and long term. The Treasury has provided commentary on its compliance with these principles in the 2008-09 and 2009-10 Budget Papers.

The FR Act requires Government to manage financial risks and financial shocks in future periods without having to introduce significant and economically or socially destabilising expenditure or revenue adjustments in those future periods. What is considered consistent with fiscal sustainability will vary depending on:

- the strength and outlook for the economy
- the structure of expenditure and revenue of the budget
- the outlook for the State's credit rating
- demographic and social trends that will affect the budget, and
- the nature of financial risks faced by the Government at any given time.

The FR Act requires the Government to pursue its policy objectives in accordance with the fiscal targets detailed below.

My analysis indicates the Government may not meet the measures included in the Act largely because they are significantly affected by variables outside its control. For example, the value of superannuation liabilities is affected by movements in rates used to discount liabilities to present value, over which the Government has no control. This makes it difficult to attribute accountability when targets are not met, which reduces the overall effectiveness of the Act.

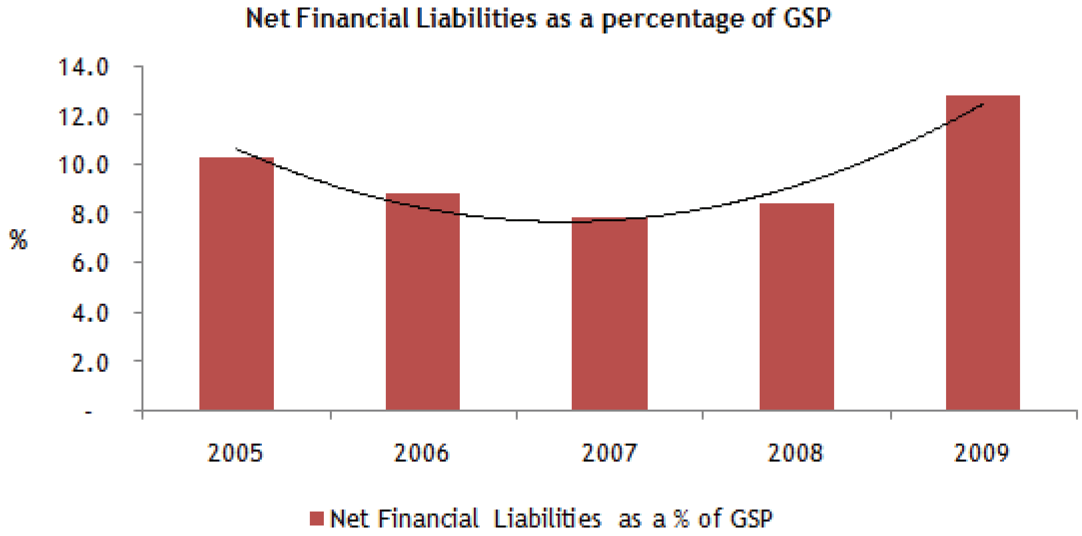
The Government should review the measures and related variables to identify and differentiate between controllable and non-controllable events that will allow a reasonable analysis and assessment of the policy decisions of Government.

> I recommend the Government seek amendments to the *Fiscal Responsibility Act 2005* to provide targets and priorities within the control of Government.

LONG TERM MEASURES

General Government Sector Net Financial Liabilities

To reduce the level of General Government Sector net financial liabilities as a proportion of gross state product (GSP) to 7.5 per cent or less by 30 June 2010, and in the long term, to six per cent or less by 30 June 2015.



General Government Sector net financial liabilities include all liabilities of the General Government Sector less all financial assets (except for the Government's equity in the public financing and public enterprise sectors).

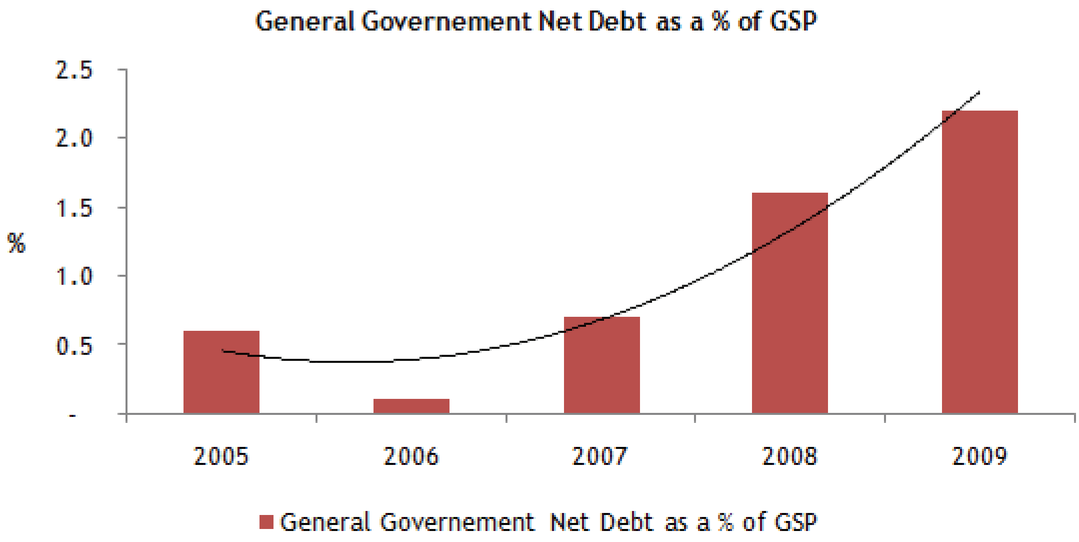
General Government Sector net financial liabilities were $48.2 billion as at June 2009, equivalent to approximately 12.8 per cent of GSP. This compares with 8.4 per cent of GSP as at June 2008.

In 2008, the Treasury estimated General Government Sector net financial liabilities would be 8.5 per cent of GSP at 30 June 2010, falling to 8 per cent by 2012. The Treasury now believe that net financial liabilities will be 12.6 per cent of GSP at 2013.

This target is unlikely to be met due to the impact of both discount rates used to value the State's unfunded superannuation obligations and movements in the value of superannuation assets on Net Financial Liabilities.

General Government Sector Net Debt

To maintain underlying General Government Sector net debt as a proportion of GSP at or below its level as at 30 June 2005 (0.8 per cent of GSP), unless an increase is required in net debt to reduce one or more components of General Government Sector net financial liabilities.



General Government Sector net debt is the sum of all deposits held by, advances received by and borrowings made by the General Government Sector less the sum of cash and deposits held by, advances paid and investments, loans and placements made by the General Government Sector. It excludes financial assets that are allocated to fund other liabilities through legislation or contract.

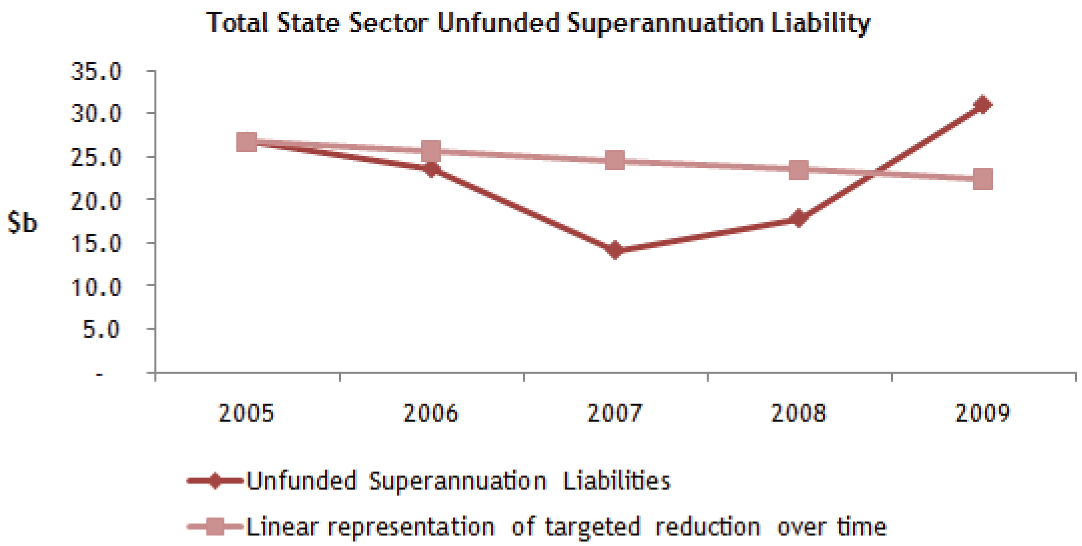
At June 2009, the General Government Sector underlying net debt was 2.2 per cent ($8.1 billion) of GSP compared to 1.6 per cent ($5.7 billion) of GSP as at June 2008.

The Treasury has indicated that due to the increased capital program, General Government Sector net debt is estimated to be 3.6 per cent of GSP at 30 June 2013.

The Treasury believe Net Debt and Net Financial Liabilities will improve over the medium term on receipt of the proceeds from business asset sales which will be used to repay borrowings.

Total State Unfunded Superannuation

To eliminate Total State Sector unfunded superannuation liabilities by 30 June 2030.



Total State Sector unfunded superannuation liabilities were $31.0 billion at June 2009, an increase of $13.2 billion from June 2008. This resulted from lower than expected investment returns and changes to variables used in the actuarial assessment of the liability.

AASB 119 Employee Benefits requires the State to use a long term government bond rate to discount superannuation obligations to present value. Movements in this discount rate added approximately $6.9 billion to the unfunded superannuation liability during 2008-09.

At the time the 2008-09 Budget was presented to Parliament, The Treasury believed the fiscal target would be met in the future:

> Employer Contributions are being assessed periodically to ensure full funding by 30 June 2030. Long term funding plans recognise that gross liabilities will continue to increase, peaking in 2013, and then decline subsequently and be fully funded by 30 June 2030.

Governance Arrangements

During 2008-09, the Charter of the Treasury Audit and Risk Committee was revised to remove the Committee's responsibilities in relation to the Total State Sector Accounts. The Treasury Executive determined that governance responsibility for the Total State Sector Accounts should be assumed by management.

The Australian National Audit Office Better Practice Guide for Public Sector Audit Committees suggests: 'an Audit Committee is generally responsible for providing independent oversight of an entity's risk management and internal control framework, and its external accountability and other legislative compliance responsibilities.

The effectiveness of an Audit Committee is influenced, to a large extent, by the degree with which the committee can operate independently of line management, and the objectivity it brings to its deliberations.'

I recommend the Treasurer establish an Audit and Risk Committee for the General Government and Total State Sector Accounts as a matter of urgency.

BACKGROUND

Earlier this year I commented on the existence of key Corporate Governance components in large New South Wales government agencies and universities.

I conducted a survey based on the ASX 'Corporate Governance Principles and Recommendations', the Audit Office of New South Wales On Board' and the Australian National Audit Office 'Public Sector Governance – Better Practice Guide' and found most agencies surveyed had many of the 17 key governance components.

I noted in the report an intention to look more closely at the design and operation of some of the key governance components in large agencies.

The Treasury recently released a policy paper 'Internal Audit and Risk Management Policy for the New South Wales Public Sector' that approved: 'an integrated suite of corporate governance practices to strengthen the 'whole of government' policy and regulatory arrangements for internal audit and risk management'. I welcome the initiative in the policy paper which is designed to improve governance arrangements across the public sector.

The Policy includes core requirements to establish and maintain an Audit and Risk Committee and the requirement to appoint an independent chair and a majority of independent members.

I believe Treasury should use this guide when considering the appropriateness of an Audit Committee for the Total State Sector Accounts.

FRAUD IN THE PUBLIC SECTOR

Management and those charged with governance are responsible for maintaining effective controls over the prevention, detection and investigation of fraud.

My obligations when conducting a financial report audit are in general terms restricted to:

- identifying and testing fraud risks that may cause material misstatements in financial reports
- advising management and those charged with governance of frauds, regardless of materiality.

Fraud Control Survey

In July 2009, I commenced a survey of fraud arrangements in key New South Wales Government agencies. This follows on from my 2008 survey of governance, published in Volume Two of the Auditor-General's 2009 Report to Parliament. I conducted this survey because fraud increases during an economic downturn.

I intend to publish the fraud survey results in early 2010.

The survey is based on the Audit Office of New South Wales March 2006 Fraud Control Improvement Kit. A kit that helps agencies develop an effective way to review and monitor their fraud control strategies.

Reporting of the State's Performance

INTRODUCTION

Previous Reports to Parliament have recommended the Government provide better non-financial information to the public to complement the Treasurer's Report on State Finances and the Budget Papers.

In August 2006, the Government announced its intention to measure and report public sector performance at the State level. The 'State Plan' provided 34 specific priorities to help the Government achieve its goals over the next ten years.

2007-08 VERIFICATION OF THE STATE PLAN

In Volume Two 2009, I reported the State Plan had not been released by the Government. I recommended the State Plan Annual Report be finalised, approved by Cabinet and tabled in Parliament by the end of November each year. The 2008 report was subsequently released on 12 May 2009.

Independent Verification of Performance Information

The State Plan requires the Auditor-General to verify the accuracy of performance data. I performed the following procedures on the 2007-08 plan:

- verified the accuracy of the data to supporting documentation provided by agencies
- verified the accuracy of the data to publications by the Australian Bureau of Statistics (ABS); Bureau of Crime Statistics and Research (BOCSAR); or by federal agencies, where applicable.

My procedures did not include:

- evaluating the appropriateness of the performance measures used
- verifying the completeness or reliability of the performance data
- verifying the accuracy of charts, graphical representations, narrative information, or
- comparative data other than that highlighted as having been verified by me in the State Plan Annual Report for 2008.

Findings

I reported the results of my work in the 'Report of Factual Findings', contained in the State Plan Annual Report for 2008. My findings included:

- for each performance measure highlighted in the State Plan Annual Report for the year ended 30 June 2008 as having been verified for accuracy by the Auditor-General, I found no errors or exceptions when I compared them to the supporting documentation provided by the agencies, and
- for each performance measure highlighted in the State Plan Annual Report for the year ended 30 June 2008 as having been verified for accuracy by the Auditor-General, I found no errors or exceptions when I compared them to publications by either the Australian Bureau of Statistics (ABS); Bureau of Crime Statistics and Research (BOCSAR); or applicable federal agencies.

Opportunities for Improvement

We identified opportunities for improvement in the reporting of State Plan performance data and have reported them to management. These include:

- instances where performance data could be more current. In some instances, for example, the latest available data for some agencies were as at December 2003 and December 2004.
- a recommendation that the State Plan Annual Report be issued at an earlier date, to coincide with the issue of the Total State Sector Accounts in November.

PARLIAMENTARY ACCOUNTS COMMITTEE REVIEW

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

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

The Government is still in the process of finalising its response to the recommendations.

2008-09 REVIEW OF THE STATE PLAN

I recommend the annual planning process for the NSW State Plan Annual Report establishes milestones and key contribution dates for data to be received from stake holders to allow achievement of a November tabling date.

The NSW State Plan – Revision and Annual Report for 2009 is being prepared. I understand my Office is to be engaged by the Premier to review the performance information relating to the Strengthening Business and Supporting Jobs Chapters of the plan only. This is a significant reduction when compared to the scope of work I performed last year. I understand that performance information for the remaining chapters will be reviewed by others with expertise in those areas.

I understand the performance information I will be requested to review will include the following performance targets and data:

- maintain our average annual growth in capital expenditure of 4.6 per cent nominal to 2015-16
- double the level of new business investment, from around $40.0 billion per annum in 2006 to around $80.0 billion per annum in 2016
- increase tourism in New South Wales by 25.5 million visitor nights and expenditure to $19.2 billion by 2015-16
- support job creation during the downturn
- reduce red tape by $500 million by 2011
- maintain a AAA credit rating
- achieve average electricity reliability for New South Wales of 99.98 per cent by 2016.

As the Government has not yet engaged my office to review the performance information included in the State Plan Annual Report, I may not be in a position to conduct and complete this work by the end of November as I recommended in my last report on this matter.

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

Agency Amalgamations

I recommend that in future the Government complete detailed assessments of the impact of planned public sector reforms (such as agency amalgamations/restructures) and fully inform relevant agencies and stakeholders prior to announcing and implementing the reforms.

On 11 June 2009, the Premier announced a comprehensive reform of the public sector amalgamating 160 government agencies and offices into 13 super departments. “These changes are designed to ensure a greater focus on our clients, better integration of public services and to cut internal Government red tape.”

This announcement preceded the 2009-10 budget. The budget speech refers to the amalgamation, but the remaining budget papers do not elaborate on cost savings to be achieved over this or future periods. The amalgamation announcement does not appear to have been coordinated with the budget.

I understand, at the time of the announcement, little information was made available on the practical aspects of implementing this proposal.

There is still some uncertainty across parts of the Public Sector about the practical impact of the changes. However, I have been advised legislation is being drafted to address the issues that have emerged since the announcement.

Appendix A: Legal Opinions Provided by the Attorney General or Crown Solicitor

I have included all recent legal opinions obtained from the Attorney General or Crown Solicitor under section 33 of the *Public Finance and Audit Act 1983*.

The Auditor-General is required by section 52(2) of the *Public Finance and Audit Act 1983* to publish any requests for a legal opinion submitted to the Attorney General or the Crown Solicitor under section 33 of the Act. He is also required to publish their responses.

The legal opinions related to:

(a) Cianfrano R - Freedom of Information Request - Flemington Markets - Reports to Parliament

(a) Cianfrano R - Freedom of Information Request - Flemington Markets - Reports to Parliament

Mr Ian V Knight
The Crown Solicitor
The Crown Solicitor's Office
Level 5
60-70 Elizabeth street
SYDNEY NSW 2000

14 September 2007

Dear Ian

FREEDOM OF INFORMATION REQUEST
MR ROBERT CIANFRANO

As discussed in our telephone conversation today, I would appreciate your advice regarding the attached Freedom of Information (FOI) request from Mr Robert Cianfrano, received by fax on 12 September 2007.

The request is in relation to matters regarding the Flemington Markets, which were reported on in the Auditor-General's Report to Parliament Volume One and Seven of 2001 and Volume Six of 2002.

The information sought forms part of our working papers and as such, in my view, falls within the provision of section 38 of the Public Finance and Audit Act 1983 (PF&A Act). I have attached a list of the documents concerned.

As you are aware, the Office is listed in Schedule 2 of the FOI Act as an exempt body under section 9 of the Act regarding investigative, audit and report functions.

I seek your advice as to whether the Office:
1. can rely on section 38 of the PF&A Act to deny access to these documents, and if not
2. rely on the Office being scheduled under section 9 of the FOI Act.

If neither of the above options are available to the Office, then in accessing each document, are we required to consider the views of the originator of the document?

Yours sincerely

A T Whitfield
Deputy Auditor-General

Documents Forming Part of the Audit Office Work papers regarding Crown Property Portfolio for year ended 30 June 2000

1. Variation of Lease – Sydney Markets Sale
2. Facsimile from DPWS re sale of Sydney Markets
3. Valuation by AVO of Sydney Markets
4. Letter of offer for the purchase of Sydney Markets site
5. Letter from OSR re disposal of Flemington Markets site
6. Excerpt – Bennett's valuation re Sydney Markets
7. Contract for sale of land – Flemington Markets
8. Notes from DPWS meeting of Flemington Markets Taskforce – 26.10.1999, 29.11.1999, 24.7.2000
9. Letter from Crown Solicitor to Premier's re Sydney Markets Limited dated 3.10.2000
10. Letter from Premier's to Sydney Markets Limited dated 5.10.2000x

Crown Solicitor's Office

NEW SOUTH WALES

Advice
Cianfrano R – FOI Request - Flemington Markets - Reports to Parliament

1. **Summary of advice**

1.1. Please note this is a summary of the central issues and conclusions in my advice. Other relevant or significant matters may be contained in the advice, which should be read in full.

1.2. The Office of the Auditor-General is, in relation to its report function, exempt from the operation of the Freedom of Information Act 1989 ("FOI Act") by virtue of s. 9 and Schedule 2 of the FOI Act. As you instruct that the documents sought by Mr Cianfrano relate to the Office's report function (being documents "in relation to" three Auditor-General Reports to Parliament), the Office need only respond by advising that it is outside the operation of the Act by reason of those facts - it cannot make a determination under s. 24 of the FOI Act.

1.3. In my view, cl.12 of Schedule 1 would be available as an exemption in the circumstances here, based on recent Court of Appeal and Administrative Decision Tribunal Appeal Panel authorities. It would, however, require the making of a determination under s. 24 and compliance otherwise with the FOI Act.

1.4. It is unnecessary to consider whether the Office needs to consult with any persons in relation to the application.

2. **Advice sought**

2.1. You seek my advice as to:

1. Whether the Office can rely on s. 38 of the *Public Finance and Audit Act 1983* ("*PF&A Act*"); and, if not

2. Whether the Office can rely on being scheduled under s. 9 of the *FOI Act*:

3. Whether, if neither option above is available, you are required to consider the views of the originators of the documents.

3. **Background**

3.1. Mr Cianfrano has sought access to the following five categories of documents:

1. "All documents and or other material relied upon by the Auditor General's office and or personnel and or agents etc, going to the supporting and instructing documents going to the Ministerial Holding Corporation etc and or any other government instrumentalities etc. This is in relation to Auditor General's Report to Parliament 2001 Volume One page 189 Crown Property Portfolio."

2. "All documents and or any other material relied upon by the Auditor General's office and or personnel and or agents etc, going to the Auditor General's Report to Parliament 2001 Volume Seven page 665. The documents sought are the supporting documents relied upon and provided. This would encompass documents going to the Ministerial Holding Corporation and any other government organization etc. The documents in question are in relation to Auditor General's Report presented to Parliament 2001 Volume Seven page 665."

3. "All documents and or other material relied upon by the Auditor General's office and or personnel and or agents etc, going to the Auditor General's Report to Parliament 2002, Volume Six 521 Crown Property Portfolio."

4. "The FOI Requests documents and or any other material relied upon by the Auditor General's office and or personnel and or agents etc, going to the supporting documents such as any Orders and or statutory instruments as to the overriding specified legislative provisions of the Sydney Market Authority Dissolution Act 1907."

5. "All documents and or other material relied upon by the Auditor General's office and or personnel and or agents etc, going to the supporting documents going to the supporting documents such as any Orders and or statutory instruments."

3.2. After noting that he is "fully conversant" with Schedule 2 of the FOI Act, Mr Cianfrano states:

> "The applicant is not seeking any investigative, or audit and report functions of the office of Auditor-General, as the documents requested are merely archival and of significant historical importance relating to statutory instruments used to overriding specified legislative provisions of the *Sydney Market Authority Dissolutions Act 1997*."

3.3. You have provided me with a list of documents coming within the scope of the application and instruct that they form part of the Office's Working papers and, as such, fall within s. 38 of the PF&A Act.

3.4. You also instruct that you do not hold any documents falling within the last two categories of documents 4 and 5 referred to above. Notice should be given under s.28 (l) (b) of the FOI Act of this fact.

4. Relevant legislation

Freedom of Information Act 1989 ("FOI Act"):

4.1. Section 9, cl. 12 of Sch. 1 and Sch. 2 relevantly provide:

9 Certain bodies etc exempt from operation of Act

Any body or office specified or described in Schedule 2 is, in relation to such of the functions of the body or office as are so specified or described, exempt from the operation of this Act …

12 Documents the subject of secrecy provisions

(1) A document is an exempt document if it contains matter the disclosure of which would constitute an offence against an Act, whether or not the provision that creates the offence is subject to specified qualifications or exceptions.

(2) A document is not an exempt document by virtue of this clause unless disclosure of the matter contained in the document, to the person by or on whose behalf an application for access to the document is being made, would constitute such an offence ...

Schedule 2 Exempt bodies and offices

(Section 9)

The office of Auditor-General-investigative, audit and report functions."

Public Finance and Audit Act 1983 ("PF&A Act")

4.2. Sections 38 and 62 provide:

38 Secrecy

(1) The Auditor-General, an auditor and an authorised person shall preserve and aid in preserving secrecy with respect to all matters and things that come to the knowledge of the Auditor-General, auditor or authorised person in the exercise of the functions of the Auditor-General, auditor or authorised person under this Act and the prescribed requirements and shall not communicate to any person any such matter or thing.

(2) Nothing in subsection (1) applies to or in respect of:

(a) the conduct of any matter necessary for the proper administration of this Act or the prescribed requirements, or

(b) proceedings for an offence relating to public money, other money, public property or other property or for the recovery of public money, other money, public property or other property, or

(c) disciplinary proceedings brought against an officer of an authority, or

(d) a report or communication authorised or required to be made by or under this Act or the prescribed requirements, or

(e) a report or communication that the Treasurer authorises the Auditor-General to make to a person for the purposes of a due diligence or similar process relating to the sale of any government undertaking.. .

62 Offences generally

A person who contravenes or fails to comply with any provision of this Act or the prescribed requirements is guilty of an offence and liable, where a penalty is not otherwise expressly provided, to a penalty not exceeding 20 penalty units."

5. Advice

As to question 2

5.1. You have instructed me that the documents sought in paragraphs 1 to 3 of the request relate to the Office's report functions. On the face of it, that appears to be a correct characterisation. Accordingly, the effect of s. 9 and Schedule 2 of the FOI Act is that the Office is, in relation such function, "exempt from the operation of the FOI Act".

5.2. What is meant by being "exempt from the operation of FOI Act" was recently considered by the Supreme Court in Independent Commission Against Corruption v McGuirk [200] NSW SC 147. In those proceedings, the respondent conceded that the relevant documents fell within the Schedule 2 functions of the appellant but the Appeal Panel of the Administrative Decisions Tribunal held that s. 9 was a "general provision" and that, because ICAC was an agency, it was subject to all the provisions of the FOI Act relating to agencies including s. 24 (which required it to make a determination). The Supreme Court rejected that view because it was inconsistent with the plain words of s. 9 so that, "once the documents are categorised as s.9 documents, the FOI Act has no further application to the body or office" (para 19). It followed that the Tribunal had no jurisdiction.

5.3. Similarly, in my view, the agency has no power to make a determination under s. 24. Accordingly, if the documents sought relate to the Office's report function, as the documents referred to in paragraphs 1 to 3 of the request appear to, the Office cannot make a determination. Mr Cianfrano should be advised accordingly.

As to question 1

5.4. Strictly, my conclusion in relation to question 2 makes it unnecessary to consider question 1. However, I shall address that question briefly.

5.5. Clause 12 of Sch 1 is set out above under the heading Legislation. It is a difficult provision to interpret and has recently been the subject of consideration by the Appeal Panel of the Tribunal and the NSW Court of Appeal.

5.6. In the Court of Appeal decision, *General Manager, Workcover Authority of NSW v Law Society* [2006] 65 NSWLR 502; [2006] NSWCA 84 (*"WorkCover"*), the Court considered a secrecy provision which had a "lawful excuse" exception. McColl JA said at paras 176-179:

> "176 Ms Allars [counsel for WorkCover] accepted that disclosure of the disputed documents because of a requirement under the *FOI Act* would be a disclosure 'with lawful excuse' within s243(1)(f) of the *Workplace injury Management and Workers Compensation Act 1998*. She also accepted that such a disclosure would not, therefore, constitute an offence. She accepted that the consequence of this was that the disputed documents fell within cl 12(2)(quoted at [17]) but asserted that cl 12(1) was, prima facie, applicable and the documents were exempt.
>
> 177 The Law Society argued that WorkCover's proposal construction would produce absurd consequences and impermissibly read down cl 12(2)
>
> 178 In my view the tension between cl 12(1) and cl 12(2) which concerned the Appeal Panel is more apparent than real. Clause 12 (1) is a general provision which establishes that a document is prima facie exempt if its disclosure would constitute an offence, whether or not the provision creating the offence is subject to defeasance by virtue of one or more qualifications or exceptions.
>
> 179 Clause 12(2) is a specific provision which provides that if disclosure of the documents would not constitute an offence because it would fall within some qualification, exception or excuse, they are not exempt."

5.7. *WorkCover* was applied by the Appeal Panel in *Commissioner for Fair Trading v The Australian Wine Consumers Cooperative Society Ltd* [2007] NSWADTAP 14. In that case, there was no "lawful excuse" or FOI exception in s. 431 of the *Cooperatives Act*, which was a "crucial difference" [para 12] from *WorkCover*. After referring to the judgment of McColl JA set out above and reconsidering its own decision in *Law Society NSW v General Manager, WorkCover Authority of NSW* (No 2) [2OO5] NSW ADTAP 33, the Appeal Panel disavowed some of its earlier reasoning and concluded at paragraph 38:

> "38 In summary, we agree with the submissions put by counsel for the Commissioner that the proper approach to the interpretation of cl 12 is to be found in the approach employed by the Court of Appeal in the *Workcover Appeal*. The agency must first determine whether the 'matter' for which exempt status is claimed is 'matter' of a kind that it is an offence to disclose; and then examine whether there is any exception or qualification in the offence provision allowing for disclosure under the *FOI Act*. That is clearly the case where there is an express exception in the secrecy provision permitting disclosure under the *FOI Act* (as in the Casino Control Act, see further *St Vincent Welch v Casino Control Authority* [2001] NSWADT 89). The *WorkCover Appeal* makes it clear that a less specifically expressed exception such as 'with lawful excuse' may be treated as an exception or qualification providing a basis for FOI disclosure."

5.8. Applying that decision to s. 38 of the *PF&A Act*, it appears that s. 38 prohibits "communication" of "all matters and things that come to the knowledge of the Auditor General ... in the exercise of the functions of the Auditor General" and s. 62 makes breach of such prohibition an offence. The next step is to consider whether there is any exception or qualification allowing for disclosure under the *FOI Act*. There does not appear to be such an exception or qualification. Accordingly, cl 12 is available as an exemption.

5.9. The exemption, however, need not be availed in circumstances where s. 9 and Schedule 2 apply to exempt the Office entirely from the operation of the Act.

As to question 3

5.10. Having regard to my conclusions above, it is unnecessary to answer this question.

6. Conclusion

6.1. See Summary.

Signed
John McDonnell
A/Deputy Crown Solicitor
for Crown Solicitor

AUDITOR-GENERAL'S REPORT

FINANCIAL AUDITS

Volume Five 2009

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 Five of my 2009 Report.

Peter Achterstraat
Auditor-General

November 2009

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 one section which provides comments on financial audits of government agencies. It is divided into ministerial portfolios, each containing one or more government agencies.

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

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

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

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

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

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

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

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

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

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

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

Appendix 1 contains the names of agencies not reported elsewhere in this Volume. These agencies received unqualified audit opinions and have no significant issues to report.

Contents

Significant Items iii

SECTION ONE – Commentary on Government Agencies

Minister for Emergency Services 3

Minister for Finance 5

Lifetime Care and Support Authority of New South Wales 7

Motor Accidents Authority of New South Wales 11

Superannuation Administration Corporation (trading as Pillar Administration) 14

Minister for Gaming and Racing 17

New South Wales Lotteries Corporation 19

Minister for Industrial Relations 23

Building and Construction Industry Long Service Payments Corporation 25

Treasurer 27

Crown Entity 29

Electricity Tariff Equalisation Ministerial Corporation 33

Energy Industries Superannuation Scheme 35

New South Wales Treasury Corporation 39

NSW Self Insurance Corporation 46

Parliamentary Contributory Superannuation Fund 51

SAS Trustee Corporation - Pooled Fund 55

State Super Financial Services Australia Limited 62

The Treasury 65

APPENDIX

Appendix 1 – Agencies not reported elsewhere in this Volume 71

INDEX 73

Significant Items

	Page
Lifetime Care and Support Authority of New South Wales	
The number of severely injured people participating in the Scheme is estimated to increase from 233 at 30 June 2009 to 826 at 30 June 2012.	7
Estimated liabilities under the Lifetime Care and Support Scheme have more than doubled, increasing from $284 million at 30 June 2008 to $610 million at 30 June 2009. Claims liabilities are estimated to grow to $2.6 billion within five years.	10
Motor Accidents Authority of New South Wales	
The Government has paid a total of $473 million for claims made against HIH-issued CTP insurance policies up to 30 June 2009. Offsetting this, the Government has received a total of $168 million in recoveries from the HIH liquidators and HIH's reinsurers.	11
At 30 June 2009, there were 25 outstanding claims (42 in 2008) worth an estimated $32.5 million ($47.1 million).	11
New South Wales Lotteries Corporation	
The Government has started the process to sell the right to operate public lotteries in New South Wales. After the sale, the Government will continue to receive duties, which amounted to $308 million in 2008-09.	19
A record jackpot for Oz Lotto resulted in additional gross sales of $119 million.	20
Building and Construction Industry Long Service Payments Corporation	
The Building and Construction Industry Long Service Payments Scheme had a net liability position of $121 million at 30 June 2009, principally resulting from negative investment returns for the last two years. The Corporation currently has sufficient funds to continue operations in the medium term.	25
Crown Entity	
An internal audit function was not effectively maintained for the Crown Entity during 2008-09. This matter should be addressed as a matter of urgency to ensure compliance with the requirements of the *Public Finance and Audit Act 1983*.	29
The Crown Entity received $3.1 billion in new National Partnership payments for recurrent and capital spending, as part of the Commonwealth Government's stimulus package.	30
The Crown Entity's unfunded superannuation liabilities increased from $17.5 billion in 2007-08 to $28.4 billion in 2008-09, primarily due to a negative return of 10.4 per cent on its assets and a decrease in the discount rate used by the Actuary in estimating liabilities.	31
Electricity Tariff Equalisation Ministerial Corporation	
The Treasury has not amended the *Electricity Supply Act 1995* (the Act) or payment rules to specify how surplus funds are to be disbursed when the Fund is terminated after 30 June 2010.	33

New South Wales Treasury Corporation

Despite the global financial crisis causing significant market disruption, TCorp raised $10.9 billion during the year ($10.4 billion in 2007-08) from domestic and international debt markets.	39
Loans to public sector agencies increased by $7.6 billion to $37.9 billion as at 30 June 2009 largely to fund expenditure on new infrastructure.	40

NSW Self Insurance Corporation

To meet the requirements of the Corporation's Net Asset Holding policy, the Crown Entity paid $430 million to the Corporation to cover shortfalls in the Corporation's net asset position.	48
Investment losses were $123 million in 2008-09 compared to $355 million in 2007-08 due to negative returns on its investments in domestic and international shares.	48

Parliamentary Contributory Superannuation Fund

Parliamentary Contributory Superannuation Scheme's unfunded liabilities increased from $88.6 million at 30 June 2008 to $154 million at 30 June 2009 due to unfavourable investment returns resulting from the global financial crisis.	51
The Treasurer's target is to fund the Scheme to a level of 80 per cent of its unfunded liabilities. At 30 June 2009 the funding level was 56.4 per cent compared to 74.2 per cent at 30 June 2008. The fall in the funding resulted from negative investment returns and continuation of the Treasurer's suspension of Crown contributions until 30 June 2011.	51

SAS Trustee Corporation - Pooled Fund

Unfunded superannuation liabilities increased from $14.9 billion at 30 June 2008 to $19.4 billion at 30 June 2009 due to unfavourable investment returns resulting from the global financial crisis.	55
A high proportion of members in the Police Superannuation Scheme retire 'hurt on duty'. In 2008-09, 523 members received 'hurt on duty' retirement benefits which was similar to 519 for 2007-08.	57

State Super Financial Services Australia Limited

Investment performance was in line with the market with significant negative returns for investments held in growth and balanced funds.	62

The Treasury

The State Debt Recovery Office (SDRO) wrote off 305,770 fines valued at $62.4 million as they were deemed not recoverable.	66

Section One

Commentary on Government Agencies

Minister for Emergency Services

Refer to Appendix 1 for:

NSW Fire Brigades Superannuation Pty Limited

Minister for Finance

Lifetime Care and Support Authority of New South Wales

Motor Accidents Authority of New South Wales

Superannuation Administration Corporation (trading as Pillar Administration)

*** WorkCover Authority of New South Wales**

*** Workers' Compensation (Dust Diseases) Board**

Refer to Appendix 1 for:

Office of the Motor Accidents Authority of New South Wales

* Office of the WorkCover Authority

* The audit was incomplete at the time of compiling this Volume.
The comment will be included in a later 2009 Volume.

Lifetime Care and Support Authority of New South Wales

AUDIT OPINION

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

Modification

The Independent Auditor's Report drew attention to significant uncertainty in the valuation of the Authority's outstanding claims liability for the Lifetime Care and Support Scheme (the Scheme).

The liability is estimated using mostly actuarial assumptions instead of actual claims experience. Claims experience is limited because entitlements under the Scheme only commenced from 1 October 2006. This uncertainty will remain until sufficient claims experience becomes available.

PERFORMANCE INFORMATION

Scheme Performance

The Standing Committee on Law and Justice supervises the exercise of the functions of the Authority and the Lifetime Care and Support Advisory Council. In its September 2009 review of the Authority and Council, the Committee recognised that 'overall, the Scheme is operating successfully and the concerns and issues raised by stakeholders primarily relate to improving the Scheme and refining the work of the Authority'.

Scheme Participants

The Scheme has the following actual and projected participants.

At 30 June	Actual		Projected		
	2008	2009	2010	2011	2012
Traumatic brain injury	69	***180***	337	493	650
Spinal cord injury	15	***48***	84	121	157
Traumatic brain injury & spinal cord injury	--	***3***	3*	3*	3*
Other injuries	1	***2***	7	12	16
	85	***233***	431	629	826
Represented by:					
- Children	15	***30***	53	77	100
- Adults	70	***203***	378	552	726
- Male	62	***162***	**	**	**
- Female	23	***71***	**	**	**

* The Authority does not specifically project this type of participant.
** The Authority does not project participants based on gender.

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

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

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

The Authority advises that the overall number of participants is at the expected level, but that the severity of the injuries has been higher than expected. Total participants are expected to grow consistently over time as the Scheme matures.

Risk Mitigation Strategies

The Victorian Ombudsman recently investigated the Transport Accident Commission (TAC). The TAC administers Victoria's transport accident compensation scheme, which has similarities to the NSW Lifetime Care and Support Scheme.

The investigation specifically reviewed the administrative processes in respect of payments made to medical practitioners and others for the treatment of trauma patients. The investigation highlighted significant flaws in the TAC's ability to detect inappropriate medical practitioner billing practices. It also demonstrated the potential for the TAC's systems to be exploited, intentionally or otherwise by medical practitioners.

The NSW Scheme is in its infancy and is not subject to risks of the same magnitude as the TAC. To date, the volume of payments to practitioners and others by the Authority has been relatively small. As the Scheme matures, its volume of payments will grow significantly.

In preparation for the expected growth in activity, the Authority is planning a thorough review of hospital billing and verification practices. This is part of its strategy to maintain robust payment processes to ensure that the TAC's experience does not occur in New South Wales.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2009 $'000	2008 $'000
Participants' care and support – expenses paid	***25,033***	3,983
Participants' care and support – increase in outstanding claims liability	***325,380***	246,807
Personnel services	***3,255***	1,372
Other expenses	***4,047***	2,419
TOTAL EXPENSES	***357,715***	254,581
CTP premium levy	***327,562***	300,485
Investment income	***9,131***	18,955
Grants	***17,000***	1,161
TOTAL REVENUE	***353,693***	320,601
(DEFICIT)/SURPLUS	***(4,022)***	66,020

The Authority, along with the Motor Accidents Authority, is funded by a levy on Compulsory Third Party (CTP) insurance policies. This levy is called the Medical Care and Injury Services (MCIS) Levy and is calculated as a percentage of the insurance premium. The Authority determines the percentage to ensure it will have sufficient assets to fund the Scheme's obligations and its administration costs.

In 2009, an increase in CTP premiums led to an increase in levies received by the Authority. The Authority reduced the levy by 2.8 per cent from 1 February 2009 to offset the impact of higher premiums. It has also determined to reduce the levy by a further five per cent in 2009-10. The Authority aims to ensure levy increases do not exceed increases in average weekly earnings.

The Authority's investment returns have reduced in line with economic conditions. The Authority has investment powers that allow it to invest in certain financial products to match the long term nature of its liabilities. However, the Authority must invest only in products offered by New South Wales Treasury Corporation (TCorp).

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Cash and cash equivalents	***451,010***	258,320
Investments – bond portfolio	***280,743***	150,787
Receivables	***35,633***	32,103
Other	***5,436***	4,695
TOTAL ASSETS	***772,822***	445,905
Provision for outstanding claims	***609,826***	284,447
Other	***6,996***	1,436
TOTAL LIABILITIES	***616,822***	285,883
NET ASSETS	***156,000***	160,022

Cash and cash equivalents include $447 million ($257 million in 2008) invested with TCorp, which is not used for day to day operations of the Authority. Bond portfolio investments with TCorp include $259 million of bonds with maturity dates ranging from 2018 to 2035.

The outstanding claims liability for participants' care and support expenses represents an estimate of the cost of providing ongoing treatment, rehabilitation and attendant care to Scheme participants.

The Authority is working on a major project to develop a Life Costing Model. The Model will allow the Authority to estimate the lifetime cost of individual participants, the cost of all participants as well as calculate the Authority's cash flow requirements. The Model is expected to provide greater certainty around the estimation of the outstanding claims liability.

The amount the Authority paid to meet participants' expenses in the early years of the Scheme was less than expected. In addition, prior to commencement of the full Scheme, levies collected were not matched by the increase in the provision for outstanding claims. This has resulted in the net asset position of $156 million ($160 million) at year end.

This net asset position provides a buffer to the Authority in the event that actual claims expenses exceed estimates.

Future Scheme Position

The Authority has reported and estimated the following funding surpluses, which reflect expected net asset levels. The funding surplus level as a percentage of the outstanding claims level has reduced significantly and further reductions are expected.

At 30 June	Actual		Projected				
	2008 $m	2009 $m	2010 $m	2011 $m	2012 $m	2013 $m	2014 $m
Total investments (cash and bonds)	407.4	***727.7***	1,113.2	1,509.7	1,939.1	2,403.3	2,904.3
Provision for outstanding claims	284.4	***609.8***	957.0	1,326.3	1,718.3	2,133.2	2,571.8
Funding surplus	123.0	***117.9***	156.2	183.4	220.8	270.1	332.5
Funding surplus (% of liability)	43.2	***19.3***	16.3	13.8	12.8	12.7	12.9

AUTHORITY ACTIVITIES

The Authority is a statutory body constituted under the *Motor Accidents (Lifetime Care and Support) Act 2006*. The Authority is responsible for the administration of the Lifetime Care and Support Scheme. The Scheme provides treatment, rehabilitation and attendant care services to persons severely injured in motor accidents in New South Wales, regardless of who was at fault in the accident.

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

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

AUDIT OPINION

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

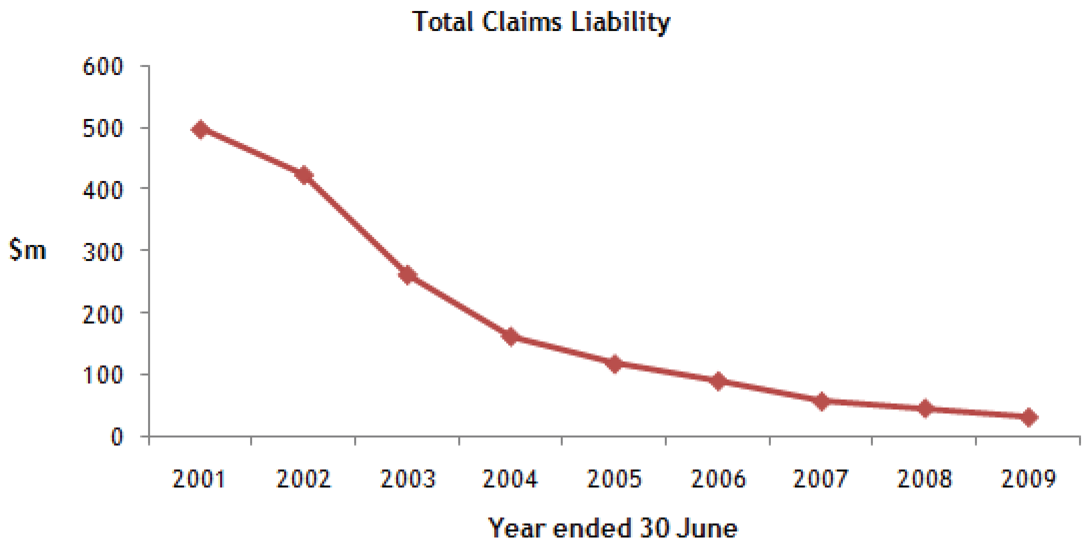
PERFORMANCE INFORMATION

Nominal Defendant

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

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

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



At 30 June 2009, there were 25 outstanding claims (42 in 2008) worth an estimated $32.5 million ($47.1 million). The New South Wales Government has paid a total of $473 million for claims made against HIH-issued CTP insurance policies up to 30 June 2009. Offsetting this, the Government has received a total of $168 million in recoveries from the HIH liquidators and HIH's reinsurers.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2009 $'000	2008 $'000
Compulsory Third Party premium levy (CTP)	***128,203***	116,088
Other	***3,721***	2,779
TOTAL REVENUE	***131,924***	118,867
Personnel services	***14,117***	11,891
Roads and Traffic Authority, Health and Ambulance Service fees	***60,988***	62,205
Medical and Claims assessor fees	***8,721***	7,231
Rehabilitation, road safety grants and sponsorships	***25,787***	6,718
Other expenses	***8,371***	8,276
TOTAL EXPENSES	***117,984***	96,321
SURPLUS	***13,940***	22,546

The Authority, along with the Lifetime Care and Support Authority, is funded by a levy on Compulsory Third Party (CTP) insurance policies. This levy is called the Medical Care and Injury Services (MCIS) Levy and is calculated as a percentage of the insurance premium. In 2009, an increase in CTP premiums led to an increase in levies received by the Authority. From August 2009, the Authority has reduced the levy percentage from ten per cent to 9 per cent to offset the impact of higher premiums.

The increase in rehabilitation, road safety grants and sponsorships is largely due to the transfer of $17.0 million to the Lifetime Care and Support Authority for projects now administered by that Authority.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Cash and cash equivalents	***61,154***	43,603
Receivable from Crown Entity – outstanding nominal defendant claims	***23,221***	38,260
Other assets	***21,171***	23,320
TOTAL ASSETS	***105,546***	105,183
Provision for outstanding Nominal Defendant claims	***32,506***	47,112
Payables and other provisions	***24,075***	23,046
TOTAL LIABILITIES	***56,581***	70,158
NET ASSETS	***48,965***	35,025

Cash balances include $5.6 million ($6.1 million) restricted funds held for a specific project the Authority is contributing to together with the Department of Aging, Disability and Home Care and the Paraplegic and Quadriplegic Association of New South Wales.

The Authority has committed $16.6 million ($20.1 million) at 30 June 2009 for grants on injury management and rehabilitation programs. Cash held at 30 June 2009 will be used to fund these expenditures.

OTHER ISSUES

Follow-up: Sponsorship Agreements

Last year we recommended the Authority implement better practice policies to address risks arising from benefits attached to advertising and sponsorship arrangements.

During the year, the Authority addressed these risks in line with the Independent Commission Against Corruption's best practice guidelines. In doing so, the Authority also benefited by receiving greater signage exposure at various sporting events.

AUTHORITY ACTIVITIES

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

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

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

Superannuation Administration Corporation (trading as Pillar Administration)

AUDIT OPINION

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

OTHER INFORMATION

Proposed Sale

On the 10 February 2009, the Treasurer announced the appointment of specialist advisers to prepare transaction strategies and assess the readiness of the business of the Corporation for sale.

The sale process was subsequently deferred to allow the Corporation's management to implement key strategic initiatives such as efficiency improvements and growth opportunities to ensure the Government optimises the sale outcome.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2009 $'000	2008 $'000
TOTAL REVENUE	***73,004***	65,383
Employee related expenses	***48,434***	44,000
Other expenses	***23,026***	18,010
TOTAL EXPENSES	***71,460***	62,010
PROFIT BEFORE TAX	***1,544***	3,373
Income tax equivalent expense	***446***	1,028
PROFIT	***1,098***	2,345

Total revenue increased by 11.7 per cent due to growth in business from existing customers through the implementation of an improved pricing system and significant new clients during 2008-09.

Total expenses rose by 15.2 per cent due to higher employee related expenses and the associated costs of new client acquisitions. The increase in employee related expenses resulted from additional staff employed to manage the higher volume in member enquiries and transactions following the acquisition of new clients. Salaries and wages also increased by an average of four per cent from 1 July 2008.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***14,463***	16,621
Non-current assets	***19,547***	16,658
TOTAL ASSETS	***34,010***	33,279
Current liabilities	***10,079***	10,417
Non-current liabilities	***3,214***	2,584
TOTAL LIABILITIES	***13,293***	13,001
NET ASSETS	***20,717***	20,278

Current assets decreased by 13.0 per cent because of funds applied to the purchase of land, software and computer equipment to meet the needs of the new businesses. Non-current assets increased by 17.3 per cent as a result of these additions.

CORPORATION'S ACTIVITIES

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

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

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

Minister for Gaming and Racing

New South Wales Lotteries Corporation

New South Wales Lotteries Corporation

AUDIT OPINION

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

KEY ISSUES

Sale of NSW Lotteries Licences

On 9 September 2009, the New South Wales Parliament passed legislation enabling the Government to grant long term licences to the private sector to distribute lottery products in New South Wales. The legislation, which does not apply to KENO, authorises and facilitates the transfer of Corporation assets, rights and liabilities to the licensee. The Government has commenced the process to sell the right to operate public lotteries in New South Wales. The Government will continue to receive duties, which amounted to $308 million in 2008-09.

The Corporation's licences to conduct public lotteries were recently extended to 1 July 2010.

PERFORMANCE ISSUES

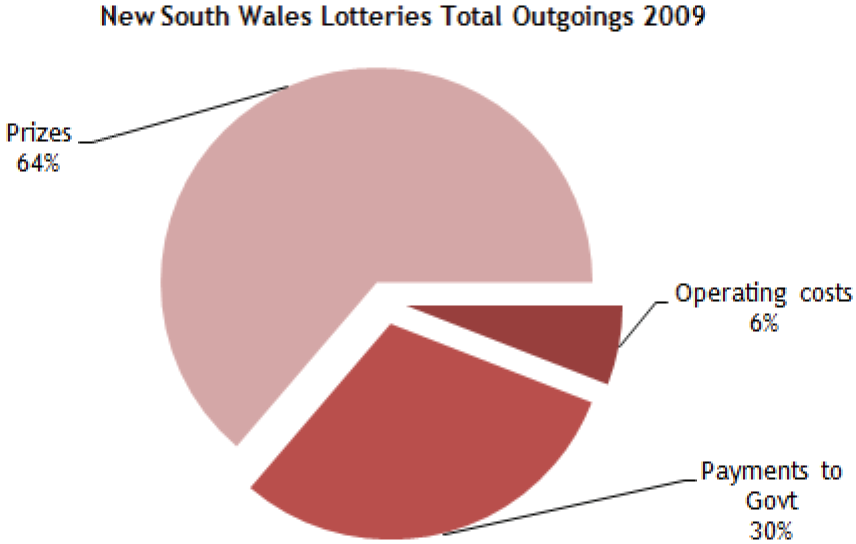
The Corporation provided the following information regarding its performance.

Returns to the New South Wales Government

The Corporation has provided on average $347 million per annum to the New South Wales Government over the last five years. This represents 30.7 per cent of the average of net sales for this period.

Year ended 30 June	2009 $'000	2008 $'000	2007 $'000	2006 $'000	2005 $'000
Return to New South Wales Government					
General duty	***308,367***	299,986	289,942	285,665	281,745
Dividend accrued	***46,374***	33,271	36,529	30,133	33,946
Income tax equivalent provided	***20,828***	22,211	13,765	18,931	14,314
Total	***375,569***	355,468	340,236	334,729	330,005
Total return as a percentage of net sales**	***29.5***	30.6	31.6	30.8	30.9

** Net sales equal all New South Wales Lotteries product sales less retailer commissions and GST.



Prize payments are fixed percentages of game subscriptions under the product licences. The vast majority of revenue generated is returned to players in the form of prizes or paid to governments as duties, taxes and dividends.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June 2009	2009 $'000	2008 $'000
NET REVENUE	***142,514***	131,242
Employee related	***17,919***	16,526
Other expenses	***57,193***	56,293
OPERATING EXPENSES	***75,112***	73,819
PROFIT BEFORE INCOME TAX EQUIVALENT EXPENSE	***67,402***	57,423
Income tax equivalent expense	***20,358***	17,428
PROFIT	***47,044***	39,995
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY		
Superannuation actuarial losses net of tax	***(7,887)***	(1,231)
Other income	***555***	--
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***39,712***	38,764

A record jackpot for Oz Lotto resulted in additional gross sales of $119 million. This largely explains the increase in net revenue compared to the prior year.

Abridged Balance Sheet

At 30 June 2009	2009 $'000	2008 $'000
Current assets	***329,507***	224,475
Non-current assets	***67,334***	67,085
TOTAL ASSETS	***396,841***	291,560
Current liabilities	***318,272***	213,518
Non-current liabilities	***29,973***	22,584
TOTAL LIABILITIES	***348,245***	236,102
NET ASSETS	***48,596***	55,458

The record jackpot in June 2009 referred to above also resulted in the Corporation's current assets and liability for unpaid prizes increasing significantly compared to the prior year.

CORPORATION ACTIVITIES

The Corporation is a statutory State owned corporation established in January 1997 under the *New South Wales Lotteries Corporatisation Act 1996.* It conducts its business subject to licences issued under the *Public Lotteries Act 1996.* New South Wales Lotteries licences expire on 1 July 2010.

The Corporation's principal business activity is to develop, promote and conduct lotteries. It is accountable to the shareholder Ministers, currently the Minister for Finance and the Treasurer. The Treasury reviews corporate performance on behalf of the shareholder Ministers.

For further information on New South Wales Lotteries, refer to www.nswlotteries.com.au.

Minister for Industrial Relations

Building and Construction Industry Long Service Payments Corporation

Refer to Appendix 1 for:

Sporting Injuries Committee

Building and Construction Industry Long Service Payments Corporation

AUDIT OPINION

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

KEY ISSUE

Deficit in the Building and Construction Industry Long Service Payments Scheme

The Scheme has a net liability position of $121 million at 30 June 2009, principally as a result of negative investment returns for the last two years. The Corporation currently has sufficient funds to continue operations in the medium term. If a net liability position continues to exist the Corporation will need to examine options to return the Scheme to a net asset position.

The performance of investment markets has improved since year end. The Corporation's investments have returned an unrealised gain of $46.9 million in the two months to 31 August 2009, compared to investment losses of $54.0 million for the year ended 30 June 2009.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2009 $'000	2008 $'000
Investment loss	***(54,033)***	(58,905)
Long service levy	***63,090***	79,631
Other	***1,535***	354
TOTAL REVENUE	***10,592***	21,080
Long service claims expense	***100,843***	74,250
Operating expenses	***12,520***	9,893
TOTAL EXPENSES	***113,363***	84,143
DEFICIT	***102,771***	63,063

The investment loss resulted from the continued significant downturn in global financial markets.

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

The decrease in long service levy income of $16.5 million is due to the decline in construction activity during the year, reflecting the global financial crisis.

The increase in long service claims expense is mainly due to the movement in the Corporation's provision for long service payments liabilities.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Investments	***472,773***	525,061
Other	***13,048***	15,402
TOTAL ASSETS	***485,821***	540,463
Provision for long service payments liabilities	***602,137***	555,629
Other	***4,888***	3,267
TOTAL LIABILITIES	***607,025***	558,896
NET LIABILITIES	***121,204***	18,433

The financial markets downturn adversely affected the Corporation's Investments, which decreased in value by $52.3 million during the year. As noted above, the loss is the main reason for the Corporation's negative net asset position as at 30 June 2009.

The increase in the provision for long service payments liabilities of $46.5 million is mainly due to changes in the financial assumptions underlying the actuarial valuation of those liabilities. The most significant change is that the discount rate used in the valuation decreased from 6.7 per cent to 4.6 per cent. The discount rate declined due to the general reduction in interest rates associated with the global financial crisis.

CORPORATION ACTIVITIES

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

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

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

Treasurer

Crown Entity

*** Crown Leaseholds Entity**

Electricity Tariff Equalisation Ministerial Corporation

Energy Industries Superannuation Scheme

New South Wales Treasury Corporation

NSW Self Insurance Corporation

Parliamentary Contributory Superannuation Fund

*** Residual Business Management Corporation**

SAS Trustee Corporation - Pooled Fund

State Super Financial Services Australia Limited

The Treasury

Refer to Appendix 1 for:

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

Liability Management Ministerial Corporation

State Rail Authority Residual Holding Corporation

* The audit was incomplete at the time of compiling this Volume. The comment will be included in a later 2009 Volume.

Crown Entity

AUDIT OPINION

The audit of the Crown Entity's financial report for the year ended 30 June 2009 resulted in a qualified Independent Auditor's Report. We were unable to obtain all the information we required to form an opinion on the value of Crown Reserves that should be recognised as land in the financial report. Our audit report for the year ended 30 June 2008 referred to the same matter.

Further progress has been made during 2008-09 on the valuation project and it is expected to be largely completed by June 2010.

KEY ISSUE

Lack of Internal Audit Activity

> The internal audit function was not effectively maintained during 2008-09. This matter should be addressed as a matter of urgency to ensure compliance with the requirements of the *Public Finance and Audit Act 1983*.

We noted little internal audit activity was undertaken during 2008-09. A Treasury Circular was recently published highlighting the importance of agencies establishing and maintaining effective internal audit functions.

PERFORMANCE INFORMATION

For key performance indicators on taxation, refer elsewhere in this Volume for discussion on The Treasury.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year.

Year ended 30 June	2009 $'000	2008 $'000
Long service leave	***660,731***	422,038
Superannuation expenses	***1,336,845***	1,164,620
Other expenses	***4,259,781***	2,856,304
Recurrent appropriations	***38,341,767***	35,818,657
Capital appropriations	***3,854,111***	3,267,682
OPERATING EXPENSES	***48,453,235***	43,529,301
Taxation, fines and regulatory Fees	***18,293,255***	19,006,359
Commonwealth contributions	***21,435,753***	19,228,643
Other revenues	***5,258,862***	4,108,156
OPERATING REVENUE	***44,987,870***	42,343,158
DEFICIT	***3,465,365***	1,186,143
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY		
Superannuation actuarial losses	***(10,593,763)***	(2,848,350)
Other income	***2,533***	151,375
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***(14,056,595)***	(3,883,118)

Long service leave expenses increased by $239 million from 2008 due mainly to a decrease in the discount rate applied in the actuarial estimate, from 6.55 per cent to 5.59 per cent, and annual pay increases in 2009.

Other expenses increased by $1.4 billion, primarily due to an increase of $813 million in insurance claim expenses and $738 million in grant expenses for the First Home Owners Grants Scheme. The First Home Owners Grant expenses were previously incurred and recorded by the Office of State Revenue, which received a recurrent appropriation to fund the expenditure ($325 million).

The $2.5 billion increase in recurrent appropriation expenses was mainly to fund increases in expenditure of $836 million on health, $756 million on transport, $385 million on housing, $345 million on education, $212 million on ageing and disability and $129 million on community services.

Capital appropriations increased by $586 million, primarily to fund increased capital expenditure of $363 million on transport, $130 million on education and $120 million on health.

Revenue from taxation, fines and regulatory fees decreased by $713 million, primarily due to a reduction in stamp duties of $1.4 billion as a result of weakness in the top-end of the property market. This was partially offset by increases of $311 million in land tax, $161 million in payroll tax, $65.0 million in gambling and betting and $64.0 million in fees and fines.

The increase in Commonwealth contributions of $2.2 billion mainly comprised $3.1 billion in new National Partnership payments for recurrent and capital spending, part of the Commonwealth Government's stimulus package. This increase was partially offset by an $870 million reduction in specific purpose contributions. At 30 June 2009, $1.4 billion was still to be allocated to agencies.

Other revenues increased by $1.2 billion, primarily due to an increase of $705 million in royalties on minerals. This was due to higher contract prices coupled with increased royalty rates from 1 January 2009. Electricity Tariff Equalisation Contributions from retailers and generators also increased by $145 million. Furthermore, the reinsurance claims paid to the NSW Self Insurance Corporation increased by $154 million.

Superannuation actuarial losses reflect the impact of the global financial crisis, which has reduced the value of superannuation funds' underlying assets and increased the funds' respective liabilities because the discount rate used in the actuarial calculations has fallen.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***3,986,064***	3,583,353
Non-current assets	***12,070,203***	12,264,605
TOTAL ASSETS	***16,056,267***	15,847,958
Current liabilities	***9,426,084***	9,930,517
Non-current liabilities	***45,155,973***	30,348,031
TOTAL LIABILITIES	***54,582,057***	40,278,548
NET LIABILITIES	***38,525,790***	24,430,590

The increase in total assets was primarily due to an increase of $167 million in receivables and an $88.0 million in investment in associate. The major increase in receivables was a $180 million increase in reinsurance and other recoveries receivable.

The increase in total liabilities was primarily due to a $10.9 billion increase in the Crown Entity's unfunded superannuation liability from $17.5 billion to $28.4 billion. This was primarily due to a negative return of 10.4 per cent on State Superannuation Fund assets and a decrease in the discount rate used by the Actuary, from 6.55 per cent to 5.59 per cent. Another reason was an increase of $3.0 billion in non-current borrowing to fund the short fall in operations.

EVENTS SINCE 30 JUNE 2009

With the creation of the Land and Property Management Authority (LPMA) on 13 July 2009, the following entities, which formed part of the Crown Entity, namely the Land Development Working Account, Crown Land Homesites Program and Crown Leaseholds Entity, no longer form part of the Crown Entity as they have been absorbed by the LPMA.

As a result, the audit scope limitation on valuation of the Crown Reserves referred to in the Independent Auditor's Report for the Crown Entity may be transferred to the LPMA.

CROWN ENTITY ACTIVITIES

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

Core government activities include:

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

Commercial activities comprise:

- State Rail Authority Residual Holding Corporation – holds all the cross border rolling stock leases from the former State Rail Authority of New South Wales
- Crown Lands Home-Sites Program - develops and sells Crown land for home sites in urban areas
- Land Development Working Account - develops and sells Crown land for residential and commercial purposes in country New South Wales
- NSW Self Insurance Corporation – administers the assets and outstanding claims liabilities of insurance funds formerly managed by the Government Insurance Office
- Electricity Tariff Equalisation Ministerial Corporation – administers the Electricity Tariff Equalisation Fund. The Corporation's purpose is to maintain the ability of retail electricity suppliers to supply electricity at regulated retail tariffs
- Liability Management Ministerial Corporation – administers the General Government Liability Management Fund. The Corporation's purpose is to hold contributions from the Crown Entity, invest this money and pay employer contributions into the State's defined superannuation funds. The corporation was dormant at 30 June 2009
- Crown Leaseholds Entity – collects Crown land purchase instalments and generates income from leases, licenses and permissive occupancies. It reports on the value of vacant Crown land and manages Crown Reserves.

Electricity Tariff Equalisation Ministerial Corporation

AUDIT OPINION

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

KEY ISSUES

Fluctuating Electricity Prices

During 2008-09, the electricity wholesale price fluctuated significantly due to the volatility of the spot price. The average spot price in New South Wales for 2008-09 was $38.85 per megawatt hour (MWh), a decrease of 6.75 per cent from the 2007-08 average of $41.66 per MWh. This has dramatically improved the net assets of the Corporation at 30 June 2009.

Since 2007-08, retailers consistently contributed to the Fund as the wholesale electricity price continued to drop. This created surplus funds which were used to repay the contributions/borrowings from the generators. As at 30 June 2009, the Corporation has repaid all borrowings from the generators.

Termination of the Fund (Repeat Issue)

We recommend The Treasury consider amending the *Electricity Supply Act 1995* (the Act) or payment rules to specify how surplus funds are to be disbursed when the Fund is terminated after 30 June 2010.

As previously reported, there is no provision in the Act or the payment rules for the disbursement of surplus funds (if any) upon the Fund's termination. We understand the Electricity Generation and Retail Taskforce is considering this matter.

In response to the volatility of the spot price, the New South Wales Government, in consultation with the Minister for Energy, decided to defer the 'phase out' of the Fund from March 2009 to after June 2010. The revised 'phase out' schedule is currently pending the Treasurer's approval.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2009 $'000	2008 $'000
Tariffs from retailers	***262,061***	161,283
Tariffs from generators	***135,984***	91,611
Other	***43***	915
TOTAL REVENUES	***398,088***	253,809
Tariffs to retailers	***152,024***	101,511
Tariffs to generators	***197,225***	151,354
Other	***51***	40
TOTAL EXPENSES	***349,300***	252,905
SURPLUS	***48,788***	904

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Total assets	***59,473***	12,205
Total liabilities	***10,603***	12,123
NET ASSETS	***48,870***	82

Total assets comprise cash of $28.3 million and receivables from retailers/generators of $31.2 million. Total liabilities mainly represent the amounts payable to retailers/generators. The increase in both total assets and liabilities is the result of lower electricity wholesale prices in current year compared to the prior year.

CORPORATION ACTIVITIES

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

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

The Corporation is a statutory body representing the Crown. It is managed by the Treasurer and was created to administer the Electricity Tariff Equalisation Fund. The *Electricity Supply Act 1995* constituted the Corporation and the Fund in January 2001.

Energy Industries Superannuation Scheme

AUDIT OPINION

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

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

PERFORMANCE INFORMATION

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

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

The Schemes' returns on investments were negative, except for cash investments, due to the continued volatile investments markets resulting from the global financial crisis.

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

Pool A – Accumulation Scheme

Year ended 30 June	2009 Median Manager % (b)	2009 % (a)	2008 % (a)	2007 % (a)	2006 % (a)
High growth	***(14.61)***	***(19.46)***	(12.16)	14.5	19.0
Diversified	***(12.61)***	***(14.55)***	(8.74)	12.6	15.0
Balanced	***(6.66)***	***(10.43)***	(5.21)	10.0	11.1
Capital guarded	***(3.30)***	***(5.94)***	(1.37)	7.3	7.2
Cash plus	***4.28***	***4.73***	5.34	6.3	4.4

(a) Source: Trustee.
(b) Source: Super Ratings Pty Ltd.

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

Pool B – Defined Benefits Scheme

Year ended 30 June	2009	2008	2007	2006
Return % (a)	***(17.27)***	(8.61)	15.4	18.2
Median manager % (b)	***(14.61)***	(9.45)	15.6	14.2
Fund quartile rank	***3***	2	3	1

(a) Source: Trustee.
(b) Source: 2009, 2008, 2007 and 2006 - Super Ratings Pty Ltd for Diversified Funds.

As noted above, Pool B is a defined Benefit Fund, the vested benefits of the Fund as at 30 June 2009 were $2.2 billion. This compares to net assets available to pay benefits of $2.5 billion, which results in a vested benefit ratio of 114 per cent. The Trustee continues to monitor the financial position of the scheme.

OTHER INFORMATION

We identified opportunities to improve internal controls and administration of the Schemes and reported them to management.

FINANCIAL INFORMATION

Abridged Operating Statement – Pool A

Year ended 30 June	2009 $'000	2008 $'000
Contribution revenue:		
Employers	***111,772***	96,978
Members	***96,739***	142,356
	208,511	239,334
Investment loss	***(107,666)***	(57,442)
Investment expenses	***(2,678)***	(2,900)
	(110,344)	(60,342)
TOTAL REVENUE	***98,167***	178,992
Scheme administration expenses	***6,315***	7,194
Surcharge expense	***1***	57
Income tax expense	***5,642***	8,221
TOTAL EXPENSES	***11,958***	15,472
INCREASE IN NET ASSETS	***86,209***	163,520
Benefits paid	***67,464***	65,239

Abridged Balance Sheet – Pool A

At 30 June	2009 $'000	2008 $'000
Investments:		
Short-term securities	***396***	378
Trusts	***813,095***	802,504
	813,491	802,882
Other assets	***32,918***	29,265
TOTAL ASSETS	***846,409***	832,147
Liabilities	***(5,944)***	(10,620)
NET ASSETS AVAILABLE TO PAY BENEFITS	***840,465***	821,527

Statement of Changes in Net Assets – Pool B

Year ended 30 June	Consolidated		Pool B	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Contribution revenue:				
Employers	***101,664***	93,160	***101,664***	93,160
Members	***6,382***	6,957	***6,382***	6,957
	108,046	100,117	***108,046***	100,117
Investment loss	***(438,345)***	(232,137)	***(340,131)***	(191,776)
Investment expenses	***(7,773)***	(9,572)	***(6,427)***	(8,142)
Net investment loss	***(446,118)***	(241,709)	***(346,558)***	(199,918)
NET LOSS	***(338,072)***	(141,592)	***(238,512)***	(99,801)
Benefits paid	***93,022***	131,263	***93,022***	131,263
Scheme administration expenses	***6,264***	8,217	***6,264***	8,217
Surcharge expense	***(10)***	15	***(10)***	15
Income tax benefit	***(26,203)***	(13,160)	***(26,203)***	(13,160)
TOTAL EXPENSES	***73,073***	126,335	***73,073***	126,335
Minority interest	***99,560***	41,791	**--**	--
DECREASE IN NET ASSETS	***(311,585)***	(226,136)	***(311,585)***	(226,136)

Statement of Net Assets – Pool B

Year ended 30 June	Consolidated		Pool B	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Investments:				
Unit trusts	***1,995,737***	2,226,731	***1,550,037***	1,913,905
Securities	***265,962***	390,869	**--**	--
	2,261,699	2,617,600	***1,550,037***	1,913,905
Other assets	***165,763***	135,298	***56,258***	29,523
TOTAL ASSETS	***2,427,462***	2,752,898	***1,606,295***	1,943,428
Liabilities	***10,813***	36,567	***2,742***	28,290
Minority interest	***813,096***	801,193	--	--
NET ASSETS AVAILABLE TO PAY BENEFITS	***1,603,553***	1,915,138	***1,603,553***	1,915,138

The consolidated entity comprises Pool B and its subsidiary, the Energy Investment Fund. The Pool B Scheme is fully funded.

SCHEME ACTIVITIES

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

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

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

EISS Pool A is an accumulation plan comprising:

- Division A (accumulation scheme) – former members of the First State Superannuation Scheme
- Division E (executive scheme) – former members of the Public Sector Executives Superannuation Scheme
- Division F – allocated pensions and rollover plans
- Division N (Electrical Contractors Division) – established for employers in the electrical contracting industry.

EISS Pool B is a defined benefit scheme and comprises:

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

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

For further information, refer to www.eisuper.com.au.

CONTROLLED ENTITY

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

Entity Name
Energy Investment Fund

New South Wales Treasury Corporation

AUDIT OPINION

The audits of New South Wales Treasury Corporation (TCorp) and its controlled entities' financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

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

KEY ISSUES

AAA Credit Rating

On 16 June 2009, Standard and Poor's revised its rating of the State of New South Wales and TCorp from AAA negative outlook, the rating since 28 August 2008, to AAA stable. This reflected a reassessment of the State's fiscal flexibility, in particular its commitment to improve budgetary performance.

Standard and Poor's indicated there was a minimal tolerance at this rating level for a structural weakening in finances and the following events could lead to a reassessment of the rating:

- materially stepping back from the privatisation process of electricity retail assets
- materially failing to deliver on proposed savings measures
- material new policies in the lead-up to the March 2011 election.

Moody's Investors Service announced on 21 January 2009 that it affirmed the State of New South Wales' Aaa rating with a stable outlook.

PERFORMANCE INFORMATION

Funding the New South Wales Public Sector

TCorp provides loans to New South Wales public sector agencies to fund infrastructure investment programs. Large projects that required financing during the year included:

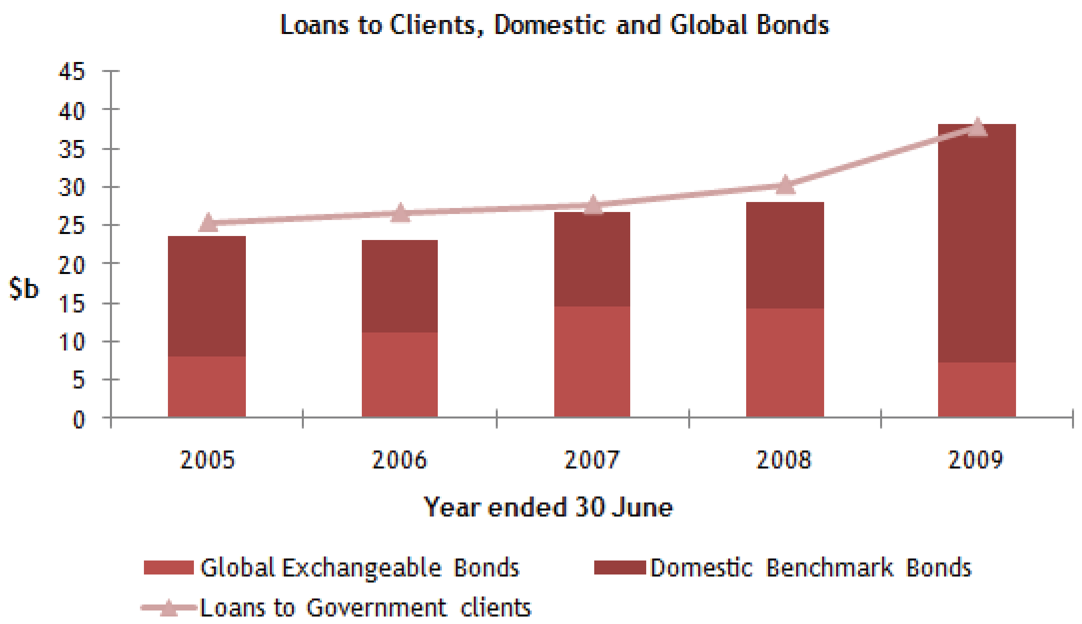
- Sydney Desalination Plant
- upgrading of the electricity distribution and transmission networks
- Epping to Chatswood Rail Line
- Rail Clearways project
- Port Botany expansion.

Despite the global financial crisis causing significant market disruption, TCorp raised $10.9 billion during the year ($10.4 billion in 2007-08) from the domestic and international debt markets. Some of these funds, together with funding raised in the previous year, were used to finance the $7.2 billion net increase in client loans and to refinance $1.6 billion in existing liabilities. The unspent balance of $5.6 billion at 30 June 2009 will contribute to the 2009-10 funding requirements.

TCorp benefited from investors seeking the security of government financial products during the initial period of the global financial crisis. However, in December the Commonwealth Government introduced a guarantee for banks, which significantly reduced the demand for TCorp securities and its ability to borrow funds. This was mitigated by TCorp diversifying its funding sources and the Commonwealth Government announcing it would extend its guarantee to State government authorities in March 2009.

There continues to be strong demand from domestic investors for TCorp's Benchmark Bonds, which led to a $17.0 billion increase in Domestic Bonds. In December 2008, the Commonwealth Government abolished interest withholding tax on domestic semi-government bonds. TCorp subsequently offered a basis point incentive for investors to switch from Exchangeable Bonds to Domestic Bonds. This resulted in a $6.9 billion decrease in Exchangeable Bonds.

TCorp issued a new May 2013 Benchmark Bond series in May 2009 and increased the outstandings of its May 2023 bond to Benchmark status, increasing total Benchmark outstandings to $38.2 billion ($28.1 billion) by year-end. TCorp continued its commitment to CPI Linked Bonds with $1.5 billion ($981 million) on issue at year-end.



Loans to Government Clients

Year ended 30 June	2009 $'000	2008 $'000
New South Wales public sector clients		
- Crown Entity	***13,055,292***	10,641,565
- Electricity Sector	***14,929,359***	11,747,617
- Transport Sector	***1,155,895***	1,266,227
- Water Sector	***6,728,825***	4,943,869
- Other Sector	***1,978,570***	1,695,847
- Universities	***40,744***	38,268
Total Loans to Government Clients	***37,888,685***	30,333,393

The 2009-10 Budget Papers project $62.9 billion of capital spending over the next four years to June 2013. The Commonwealth Government's economic stimulus and nation building grants will partly fund these programs. TCorp expects its loans to clients to increase by $26.0 billion over the four years.

Management of Client Debt

TCorp managed 20 client debt portfolios with a total portfolio volume at year-end of $25.4 billion ($18.9 billion). The largest portfolio was Treasury’s $11.1 billion ($9.1 billion) Crown debt portfolio. During the year, TCorp refinanced client debt portfolios using new nominal maturities and CPI Linked Bonds. This strategy allowed TCorp to lengthen debt maturities and reduce future debt costs.

The refinancing of client debts coupled with active interest rate management enabled TCorp to perform ahead of benchmarks resulting in interest cost savings for clients of more than $165 million for the year.

Management of Client Investments

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

Hour-Glass Investment Facilities

Hour-Glass investment facilities are managed funds established to meet the investment needs of public sector agencies. The declining market along with two significant trusts being wound up, led to funds under management falling from $10.4 billion to $7.5 billion at year-end. The funds received from the wind-up of the trusts contributed to an increase in TCorp's Strategic Cash Facility.

The volatility in the domestic and international share markets resulted in negative returns for long-term facilities, but these facilities still outperformed their respective benchmarks. The main cash facility failed to meet its benchmark, but outperformed many other market participants.

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

Year ended 30 June	2009	2008	2007	2006	2005
Hour-Glass cash facility return %pa	***5.35***	6.82	6.41	5.69	5.59
Benchmark index return %pa	***5.48***	7.34	6.42	5.76	5.64
Total market value $m 30 June	***3,053***	3,270	3,157	2,809	1,901
Hour-Glass strategic cash facility return %pa[1]	***5.80***				
Benchmark index return %pa	***5.48***				
Total market value $m 30 June	***990***				
Hour-Glass medium term growth facility return %pa	***0.73***	(0.57)	8.48	8.76	9.24
Benchmark return %pa	***0.15***	(0.79)	8.80	8.44	8.61
Total market value $m 30 June	***337***	288	417	288	111
Hour-Glass long term growth facility return %pa	***(10.33)***	(10.27)	13.80	16.88	12.06
Benchmark return %pa	***(10.88)***	(10.51)	14.67	15.88	13.08
Total market value $m 30 June	***843***	905	1,081	826	594

Source: New South Wales Treasury Corporation.

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

Notes:

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

(ii) Hour-Glass returns are reported net of fees.

Discrete Client Funds

TCorp internally manages the specific cash and bond portfolios for a number of public sector agencies. Funds invested increased to $6.7 billion at year-end ($5.2 billion). NSW Self Insurance Corporation's Treasury Managed Fund, which is the New South Wales Government's self-insurance pool, was the largest managed bond client with $1.1 billion ($1.5 billion) invested at year-end.

TCorp takes a conservative approach to credit risk, consistent with the risk profile of client mandates. Its decisions around portfolio construction, timing of investments and security selection significantly impact investment returns. During 2008-09, investment returns on discrete client funds exceeded the benchmarks and outperformed other fund managers for similar products.

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

OTHER INFORMATION

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

Capital Expenditure - Information Technology

During the year $7.0 million was capitalised for information technology including data warehousing, software development and upgrades to hardware. This was well within the $9.3 million budget. The main software development costs were for implementing Kondor financial risk management software. This new software is expected to deliver a number of enhancements to TCorp's operations including straight through processing, intra-day position keeping and real time compliance.

Kondor is expected to go live in the last quarter of calendar 2009. This is approximately three months behind the original plan, but the delay has not had any detrimental impact on the budget or operations.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	2009 $'000	2008 $'000
Income from changes in fair value	***4,191,300***	2,755,645
Expenses from changes in fair value	***4,011,789***	2,718,654
Net income from changes in fair value	***179,511***	36,991
Fees and commissions	***25,757***	21,253
TOTAL NET INCOME	***205,268***	58,244
Staff costs	***16,252***	13,860
Other costs	***21,631***	12,626
TOTAL GENERAL ADMINISTRATIVE COSTS	***37,883***	26,486
Profit before income tax equivalent expense	***167,385***	31,758
Income tax equivalent expense	***43,520***	8,257
PROFIT AFTER TAX	***123,865***	23,501
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***123,865***	23,501

Management considers the profit before tax of $167 million as an excellent outcome reflecting their performance in managing the funding program and residual market risks in a volatile environment.

The profit in the prior year was adversely affected by timing differences when valuing funding transactions held to provide certainty around funding margins on some of TCorp's loan assets. This position was reversed in the current year. The movements in fair value are expected to be more stable in 2009-10.

Abridged Consolidated Balance Sheet

At 30 June	2009 $'000	2008 $'000
Cash and liquid assets	***233,128***	447,610
Outstanding settlements receivable	***1,054,096***	418,540
Due from financial institutions	***1,481,762***	21,288
Securities held	***7,753,148***	5,674,466
Derivative financial instruments receivable	***572,192***	134,517
Loans to clients	***37,888,685***	30,333,393
Other assets	***36,756***	23,077
TOTAL ASSETS	***49,019,767***	37,052,891
Due to financial institutions	***3,776,459***	3,415,769
Outstanding settlements payable	***290,142***	305,112
Due to clients	***888,936***	538,512
Borrowings	***43,455,468***	31,809,246
Derivative financial instruments payable	***425,543***	900,409
Other liabilities and provisions	***108,204***	40,693
TOTAL LIABILITIES	***48,944,752***	37,009,741
NET ASSETS	***75,015***	43,150

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

TCorp maintains a relatively small capital base as reflected in its net asset position due to its Government guaranteed status. Excess net assets, after tax equivalent payments, are normally returned to the Crown as dividends, which equated to $92.0 million in 2008-09 ($23.5 million). During the year, TCorp's Board approved an increase in TCorp's capital base from $43.0 million to $75.0 million to support balance sheet growth and market volatility.

Derivative Financial Instruments

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

CORPORATION ACTIVITIES

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

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

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

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

For further information on TCorp, refer to www.tcorp.nsw.gov.au.

CONTROLLED ENTITIES

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

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

NSW Self Insurance Corporation

AUDIT OPINION

The audit of the Corporation's financial report for the year ended 30 June 2009 resulted in a qualified Independent Auditor's Report. A similarly qualified Independent Auditor's Report was also issued for the Treasury Managed Fund.

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

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

KEY ISSUES

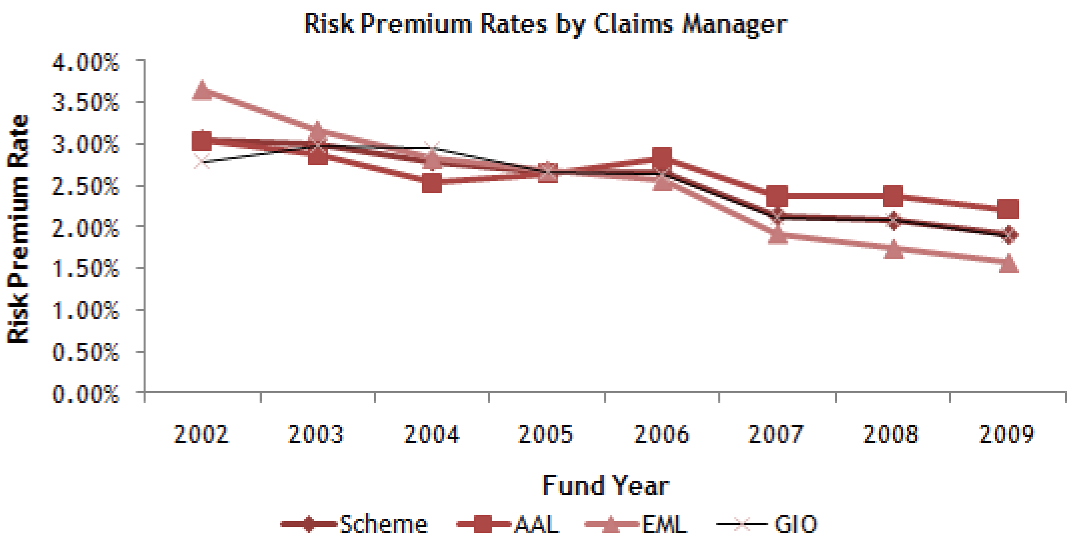
Discount rate

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

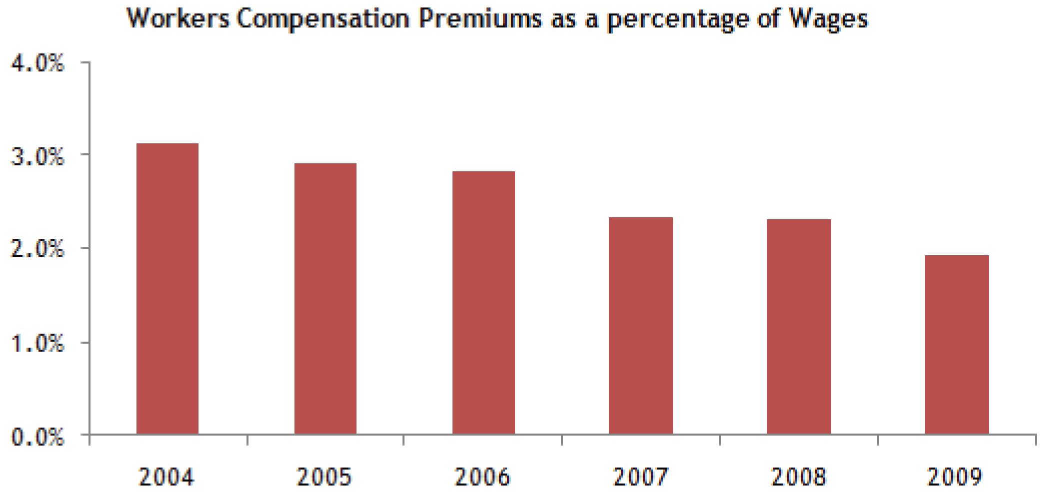
This year the Corporation has used a discount rate which reflects the risks specific to the liabilities of the insurance portfolio. We are satisfied that this discount rate is in accordance with the requirements of AASB 137. The discount rate has decreased from 7 to 6 per cent.

PERFORMANCE INFORMATION

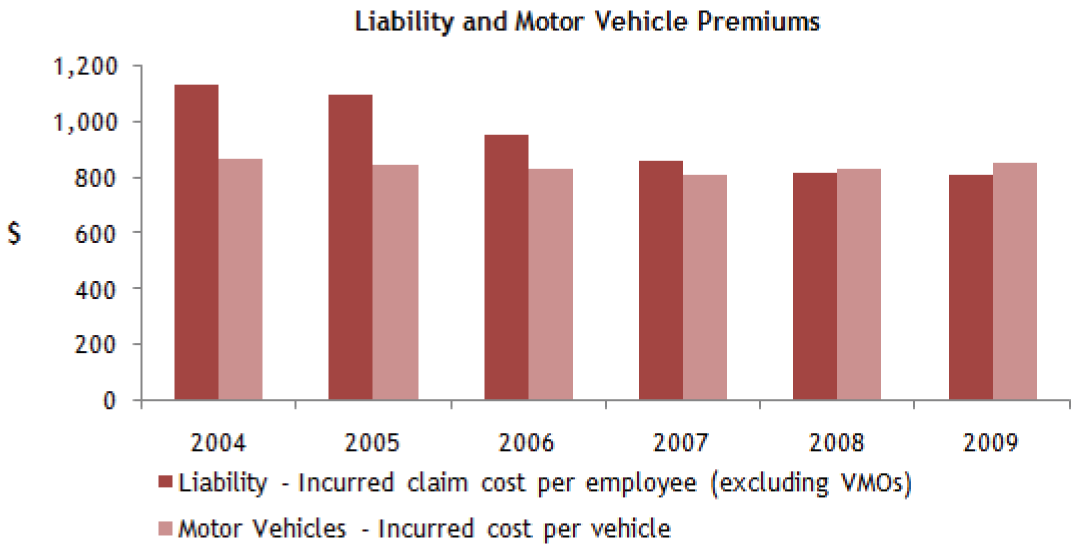
The Corporation included the following risk premium performance indicators in its 2008-09 Annual Report.



The graph shows the performance of the three portfolios before and after new arrangements were implemented in 2005. Each portfolio has individual characteristics that influence the risk premiuim rates. There have been improvements in risk premium rates for each portfolio since the introduction of the multi claims manager model in 2005.



Workers' compensation premiums have fallen from 3.1 per cent of wages in 2003-04 to 1.9 per cent of wages in 2008-09 due to a reduction in the number and size of claims.



The Corporation advised that the cost of liability policies decreased due to the Tort law reforms introduced in 2002. However, the costs per employee (excluding visiting medial officers – VMOs) - and per motor vehicle appear to have plateaued since 2007.

OTHER INFORMATION

Tender for claims manager

The current contract for claims management is due to end at 30 June 2010 and a new contract from 1 July 2010 is currently in the process for public tender.

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

FINANCIAL INFORMATION

The financial results of the insurance funds that comprise the Corporation – the Treasury Managed Fund, the Transport Accidents Compensation Fund, the Governmental Workers Compensation Account and the Residual Workers Compensation Liabilities of the Crown – are aggregated for reporting.

Abridged Income Statement

Year ended 30 June	2009 $'000	2008 $'000
Premium revenue	***807,014***	795,114
Payment from the NSW South Wales Government	***430,000***	-
Other	***183,082***	29,482
TOTAL REVENUE	***1,420,096***	824,596
Claim expense	***1,408,313***	619,394
Outward reinsurance	***33,773***	28,884
Payments to the New South Wales Government	**-**	300,000
Investment loss	***122,628***	355,259
Other	***42,457***	39,373
TOTAL EXPENSES	***1,607,171***	1,342,910
DEFICIT	***187,705***	518,314

Other revenue increased significantly from $29 million to $183 million in 2008-09 mainly due to an increase in reinsurance and other recoveries revenue.

To meet the requirements of the Corporation's Net Asset Holding policy, the Crown Entity paid $430 million to the Corporation to cover shortfalls in its net asset position during the year. In the prior year, the Corporation paid $300 million to the Crown Entity out of its surplus net assets.

The claims expense has increased by $789 million due to a reduction in the discount rate used in the actuarial calculation of claim liabilities and as the impact of major reforms in previous years diminishes.

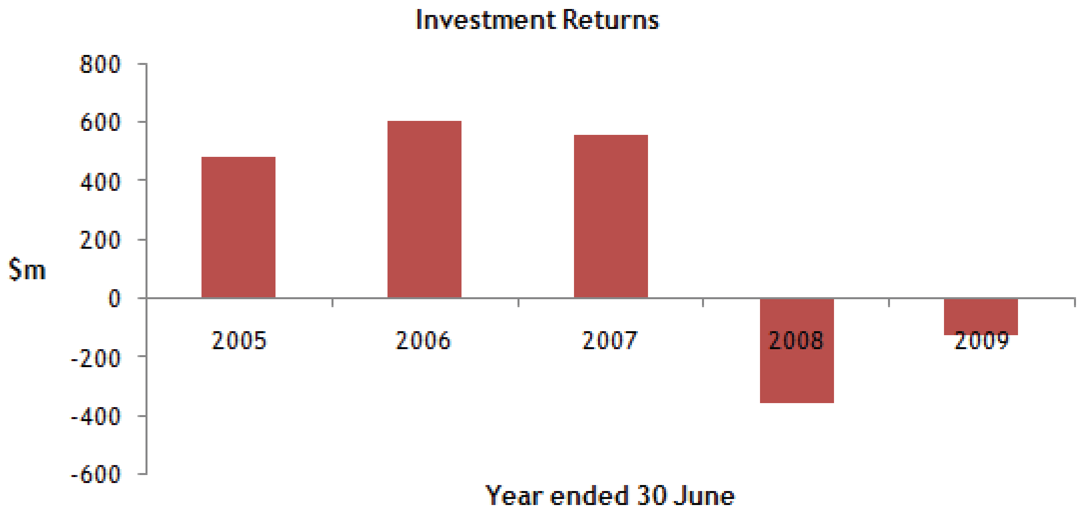
Investment losses decreased by $233 million in 2008-09. Negative returns were incurred from the asset classes detailed below, due to the deterioration in the value of Domestic and International share markets.

Asset Class	2009 Return %
Bond portfolio	*12.4*
Cash	*5.2*
Australian Shares	*(14.1)*
Indexed Australian Shares	*(18.8)*
International Shares	*(18.4)*
Indexed International Shares	*(16.0)*
International Bonds	*12.0*
Listed Property	*(44.4)*

Source: Self Insurance Corporation.

The negative returns from the asset classes shown above were offset by positive returns from Cash (5.2 per cent), Australian Bonds (12.4 per cent) and International Bonds (12.0 per cent).

The table below shows investment returns from 2005 to 2009:



Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Cash and investments	***4,333,212***	4,289,239
Other	***866,154***	276,689
TOTAL ASSETS	***5,199,366***	4,565,928
Claims liabilities	***4,972,672***	4,107,167
Other	***118,752***	128,527
TOTAL LIABILITIES	***5,091,424***	4,235,694
NET ASSETS	***107,942***	330,234

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

Claims liabilities increased by $866 million in 2008-09 primarily due to revised actuarial assumptions and changes to the discount rate used in the calculation of those liabilities.

Other Assets increased by $589 million largely attributable to a $390 million receivable from the Crown to cover a shortfall in the Corporation's net asset position, and an increase in reinsurance and other recoveries receivable of $180 million.

CORPORATION ACTIVITIES

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

The Corporation's insurance funds include the Treasury Managed Fund, Governmental Workers Compensation Account, Transport Accidents Compensation Fund and the Residual Workers Compensation Liabilities of the Crown.

Treasury Managed Fund

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

- workers' compensation as per New South Wales statute
- liability (including but not limited to public liability, products liability, professional indemnity, directors/officers liability and medical malpractice)
- property, comprehensive motor vehicle and miscellaneous
- the premium-based structure incorporates hindsight adjustments to workers compensation and motor vehicle premiums.

As at 30 June 2009, the Treasury Managed Fund provided services to 115 agencies. Membership is mandatory for budget dependent agencies and is available at the Treasurer's discretion for non-budget dependent agencies.

Parliamentary Contributory Superannuation Fund

AUDIT OPINION

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

KEY ISSUES

Unfunded Liabilities

Unfunded liabilities, representing the difference between net assets held by the Fund and accrued members' superannuation benefits, increased from $88.6 million at 30 June 2008 to $154 million at 30 June 2009.

The Treasurer established a medium term funding level target of 80 per cent of unfunded liabilities to minimise the possibility of the Fund becoming over funded. As the previous funding level exceeded the target, the Treasurer suspended Crown contributions for the period 1 July 2006 to 30 June 2008. In April 2008, the Treasurer approved the continuation of the suspension of Crown contributions for the period 1 July 2008 to 30 June 2011.

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

Superannuation unfunded liabilities	2009	2008	2007
Net accrued members' benefits ($'000)	***353,690***	343,581	339,700
Net assets available to pay benefits ($'000)	***199,356***	254,982	299,353
Unfunded liabilities	***154,334***	88,599	40,347
Funding level % of unfunded liabilities	***56.4***	74.2	88.1

Unfunded liabilities increased to 43.6 per cent of accrued superannuation benefits at 30 June 2009 due to the significant fall in investment returns. This resulted in the funding level falling below the Treasurer's established 80 per cent target.

Actuarial Review

The Fund's actuary performs a review of the Fund every three years to recommend employer contributions to fully fund the scheme over the medium term. The review performed as at 30 June 2008 estimated that Fund's assets covered 75 per cent of accrued liabilities compared with 82 per cent at 30 June 2005. At 30 June 2009 however, Fund's assets only cover 56.4 per cent of accrued liabilities.

Other matters identified and assumptions used in the most recent triennial review included:

- increased liabilities by $20.0 million due to high salary growth compared to expectations
- decreased assets by about $30.0 million due to the suspension of Crown contributions compared to expectations
- after-tax expected average return on investment of 7.5 per cent per annum
- long term salary escalation of four per cent and CPI inflation of 2.5 per cent.

PERFORMANCE INFORMATION

Fund Returns

The Fund's investment strategy is intended to minimise the long-term cost of the Fund to the taxpayer. The Fund's investment return for 2009 was negative 13.4 per cent, which was 0.9 per cent below the 'Average Manager's' performance.

The Fund's five year return was 4.1 per cent, compared to the 'Average Manager's' five year return of 5.1 per cent per annum.

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

Year ended 30 June	2009	2008	2007	2006	2005
Fund % pa	***(13.4)***	(8.9)	17.9	16.4	13.5
Average manager % pa	***(12.5)***	(9.3)	16.2	17.4	14.7
Quartile rank %	***3.0***	2.0	1.0	3.0	4.0

Source: Fund Administrator.

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

OTHER INFORMATION

Member Information

Member Categories	2009	2008
Number of contributing member accounts at year-end	***97***	102
Number of pensioner accounts at year-end	***258***	260
Number of deferred benefit member accounts at year-end	***3***	4

Source: Parliamentary Contributory Superannuation Fund.
Notes:
- There are four former members who have an entitlement suspended under the provisions of section 25(2) of the *Parliamentary Contributory Superannuation Act 1971*, because they are currently a member of another Australian Parliament.
- There is one former member who has an entitlement suspended under the provisions of section 19AA(2) of the *Parliamentary Contributory Superannuation Act 1971*, because proceedings relating to a serious offence are pending.

With the closure of the Fund in 2007, contributing members decreased from 135 in the 2005 actuarial review to 102 in 2008 and numbers are expected to continue to decline.

FINANCIAL INFORMATION

Statement of Changes in Net Assets

Year ended 30 June	2009 $'000	2008 $'000
Contribution revenues:		
Members	***1,826***	1,918
Net investment revenue	***(39,611)***	(28,001)
TOTAL REVENUE	***(37,785)***	(26,083)
Benefits paid	***18,476***	19,188
Scheme administration expenses	***487***	548
Surcharge expense	***158***	284
Income tax benefit	***(1,280)***	(1,732)
TOTAL EXPENSES	***17,841***	18,288
DECREASE IN NET ASSETS	***55,626***	44,371

Net investment revenue continued to fall due to the volatile investment market as a result of the global financial crisis.

Statement of Net Assets

Year ended 30 June	2009 $'000	2008 $'000
Investments:		
Short-term securities	***2,251***	649
Fixed interest	***56,373***	58,616
Equities	***107,747***	137,809
Trusts	***26,664***	40,926
Total investments	***193,035***	238,000
Other assets	***10,650***	21,459
TOTAL ASSETS	***203,685***	259,459
Less liabilities	***4,329***	4,477
NET ASSETS AVAILABLE TO PAY BENEFITS	***199,356***	254,982

The fall in investments resulted from the global financial crisis.

FUND ACTIVITIES

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

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

Governing Act

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

- members contribute at the rate of 12.5 per cent of gross salary
- a pension is payable after seven years service at a rate of 48.8 per cent of the current basic Parliamentary salary for a private member. The rate increases by 0.2 per cent of salary for each extra month of service until, at 20 years of service, it reaches the maximum, (i.e. 80 per cent of the current basic salary rate). The rate is then also increased by the ratio of total salaries received (including payment for serving as a Minister) to total basic salary received. Members joining the scheme after 6 December 1999 must attain a minimum age of 55 years before a retirement pension may be paid
- a spouse's pension at 75 per cent of a deceased member's entitlement with a minimum of 45 per cent of current basic Parliamentary salary, if the member joined the scheme after 12 November 1979. Otherwise, a spouse's pension is the greater of 62.5 per cent of a deceased member's full pension entitlement and 40 per cent of the current basic Parliamentary salary
- a pension entitlement for children less than 18 years of age or full-time students less than 25 years of age at the rate of ten per cent of the current basic Parliamentary salary where there is no surviving spouse or five per cent where there is a surviving spouse
- pensions are adjusted in line with movements in members' basic salaries
- pensions continue to be payable to former members who accept office or hold a place of profit under the Crown

  members who leave Parliament after less than seven years of service receive a refund of contributions plus a supplementary benefit. The supplementary benefit is two and one-third times the contributions paid by a member whose service is involuntarily terminated and one and one-sixth times for voluntary termination
- part or all of a member's or spouse's pension may be commuted to a lump sum payment at the rate of ten times the amount of annual pension entitlement so commuted. The spouse pension may only be commuted where the former member dies in service
- new members of New South Wales Parliament from March 2007 are not eligible to join the Fund. They may have contribution paid to a fund of their choice.

AUDIT OPINION

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

KEY ISSUES

Unfunded Liabilities

Over the last four years, unfunded liabilities increased from $10.9 billion at 30 June 2006 to $19.4 billion at 30 June 2009. Unfunded liabilities are the difference between net assets held by the Fund and accrued superannuation benefits. Unfunded liabilities as a percentage of the total accrued benefits increased in the 2009 financial year due to the continued negative investment returns as a result of the global credit crisis.

The Crown Entity and other contributing employers are responsible for meeting the unfunded liability. Contributions by members are generally fixed in terms of their salary and age.

Year ended 30 June	2009	2008	2007	2006
Superannuation unfunded liabilities				
Accrued member benefits ($m)	***48,235***	49,093	48,426	45,770
Net assets available to pay benefits ($m)	***28,848***	34,214	38,587	34,849
Unfunded liabilities ($m)	***19,387***	14,879	9,839	10,921
Percentage unfunded (%)	***40.2***	30.3	20.3	23.9

Scheme Funding

In 2009 benefit payments exceeded contributions resulting in a cash outflow of $1.3 billion ($1.4 billion cash outflow in 2008).

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

Actuarial Review

The Fund's legislation requires an actuarial review of the Fund every three years. The last review was completed during 2006-07 in respect of 30 June 2006. Work on the 2009 triennial review will be completed in November 2009.

The Audit Office engaged the Commonwealth Government Actuary to independently assess the 30 June 2009 triennial review carried out by the Scheme Actuary. The report of the Commonwealth Government Actuary will be concluded by December 2009.

It is important to recognise that there may be significant differences between an actuarially projected amount and the actual outcome. Actuarial estimates involve many assumptions and judgements, such as future investment earnings, and an acceptable range will exist within which the specific assumption may fall. The real assessment of what assumption was correct can only be carried out in hindsight. Actual investment earnings, increases in pensions and member salaries, and the flow of employer contributions all impact the actual unfunded liability.

Scheme Membership

Year ended 30 June	2009	2008	2007
Active members	***69,209***	74,824	81,118
Deferred members[1]	***14,916***	15,312	15,884
Pensioners	***54,910***	52,823	51,412
Total	***139,035***	142,959	148,414

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

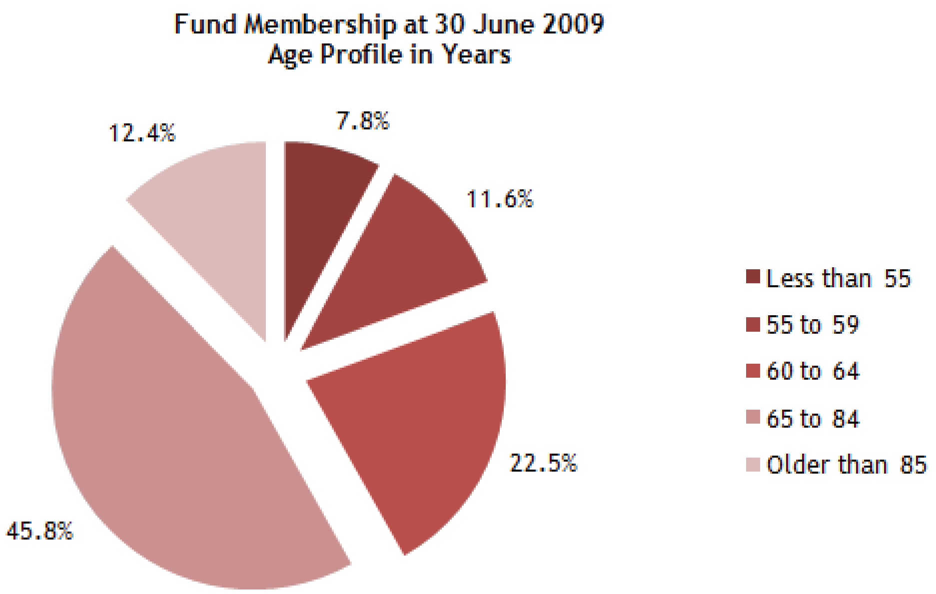
In 2009, pension payments were $1.8 billion ($1.6 billion in 2008). There were 6,011 active and deferred members who exited the schemes in 2009 of which 66 per cent elected to receive a pension payment. Of the 54,910 pensioners at year-end, 58 per cent exited as normal or early voluntary retirement. The remaining 42 per cent of pensioners exited through the following:

- 22.9 per cent - invalidity retirements (including 'hurt on duty' refer to section below)
- 17.1 per cent - spouse pensions
- 1.8 per cent - retrenchment pensions
- 0.2 per cent - child pensions.

Pensioner numbers are projected to peak at around 58,000 in approximately ten years.

Ageing Demographics

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



The Fund has 82 pensioners that are older than 100 years of age included in the 'Older than 85 years' category at year-end.

The age profile of the Fund's members poses various human resource challenges for State Government agencies relating to workforce and succession planning.

Securities Lending

The Fund lends securities to third parties for a fee. The securities lending program is managed by its master custodian JPMorgan Chase Bank NA. The design and extent of the program is conservative and risk-controlled and includes:

- an overall limit on the proportion of the total fund that can be lent
- borrowers are subject to strict due diligence by the custodian
- borrowers are required to supply collateral of between 102 per cent and 105 per cent with the custodian indemnifying the Fund against any collateral shortfall.

Cash collateral is invested in a cash fund with tight constraints as to credit rating and duration.

Hurt on Duty Benefit Payments

The majority of members who retire from the Police Superannuation Scheme (PSS) do so under the hurt on duty provisions of the PSS. A member who retires hurt on duty can receive the full entitlement they would receive if they retired at normal retirement age. For the year ended 30 June 2009, 186 PSS members retired hurt on duty (239 in 2008). A further 337 hurt on duty pensions were approved in 2009 for members who had earlier exited the scheme and applied to be reclassified as hurt on duty. A total of 275 members were reassessed in 2008.

At 30 June 2009, more than 75 per cent of total Police pensioners who had exited the scheme were receiving invalidity retirement benefits.

The Trustee implemented administrative procedures in 2007-08 to ensure a robust system is in place to assess and process hurt on duty benefits.

I reported on how the NSW Police Force manages injured officers in a performance audit report in 2008. The audit found that through the establishment of the NSW Police Force's safety command, the Force had built a framework for managing injured officers that should optimise early return to work.

PERFORMANCE INFORMATION

Investment Returns

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

The majority of the Fund's investments are held in the growth strategy. The Fund's investment objective is to achieve investment returns over a ten year period in excess of the consumer price index by a margin of 4.5 per cent per annum. The Fund achieved 4.6 per cent return per annum in the ten years to 30 June 2009 (6.6 per cent to 30 June 2008), compared to the long-term target of 7.7 per cent.

The Fund's short term performance is monitored by comparing its returns to the median growth manager. In 2009, the return was negative 10.4 per cent (negative 7.3 per cent in 2008) which compared with the negative 13.3 per cent return generated by the median growth manager.

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

Year ended 30 June	2009	2008	2007	2006	2005
Pooled Fund (%)	***(10.4)***	(7.3)	15.1	16.1	13.0
Median manager (%) (a)	***(13.1)***	(7.7)	15.4	14.9	13.2
Pooled fund quartile rank (one is top quartile)	***1***	2	3	1	3

Source: SAS Trustee Corporation (STC).
(a) Median manager in the Intech Super Growth Survey.

Although negative returns have been recorded in the last two years the relative performance of the Fund has been better than the median manager in the Intech Super Growth Survey, which consists of 68 growth products offered by other superannuation funds. This was achieved because of the timely incorporation of defensive elements into the portfolio including investments into infrastructure assets with stable cashflows, investments into property assets and increased allocations to cash.

Administration and Investment Costs

Year ended 30 June	2009	2008	2007	2006	2005
Investment fees ($'000)	***85,400***	109,100	81,000	60,100	59,400
Administration costs ($'000)(a)	***34,100***	32,700	32,600	33,700	34,800
Administration cost as a % of FUM (b)	***0.11***	0.09	0.10	0.12	0.14
Direct investment fees as a % of FUM (b)	***0.27***	0.30	0.24	0.22	0.24

(a) Includes Trustee and administration costs.
(b) FUM is average Funds Under Management during the year.

Administration costs are higher than the previous three years largely because of major administration projects absorbing significant time and resources within both the Trustee and the Administrator. These have included the implementation of family law regulations and SASS Member Investment Choice, which allows members to choose their investment strategy. It is a challenge for the Trustees to control administration costs when measured on a per member basis because the schemes are closed and membership numbers are declining.

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

OTHER INFORMATION

We identified other opportunities for minor improvements to accounting and internal control procedures and have reported them to management.

FINANCIAL INFORMATION

Abridged Statement of Changes in Net Assets

Year ended 30 June	2009 $m	2008 $m
NET ASSETS AVAILABLE TO PAY BENEFITS AT BEGINNING OF FINANCIAL YEAR	***34,213.8***	38,587.0
Investment revenue	***1,653.4***	1,941.6
Changes in net market values	***(5,782.3)***	***(5,003.7)***
Total investment revenue	***(4,128.9)***	(3,062.1)
Investment expenses	***(85.4)***	(109.1)
NET INVESTMENT REVENUE	***(4,214.3)***	(3,171.2)
Employer contributions	***1,152.2***	1,130.9
Member contributions	***545.6***	564.1
TOTAL CONTRIBUTION REVENUE	***1,697.8***	1,695.0
Other revenue	***2.3***	2.7
Transfers	***(1.4)***	4.3
TOTAL REVENUE	***(2,515.6)***	(1,469.2)
Benefits paid	***(3,020.8)***	(3,075.1)
Scheme administration and other expenses	***(34.4)***	(33.6)
Superannuation contributions surcharge	***4.9***	9.9
TOTAL SCHEME EXPENDITURE	***(3,050.3)***	(3,098.8)
Decrease in net assets before income tax	***(5,565.9)***	(4,568.0)
Income tax benefit/(expense)	***199.8***	194.8
DECREASE IN NET ASSETS AFTER INCOME TAX	***(5,366.1)***	(4,373.2)
NET ASSETS AVAILABLE TO PAY BENEFITS AT END OF FINANCIAL YEAR	***28,847.7***	34,213.8

The net assets available to pay benefits declined in 2009 due to further negative investment returns referred to above in the section ‘Investment Returns’.

Abridged Statement of Net Assets

At 30 June	2009 $m	2008 $m
Short term securities	***2,550.3***	2,475.0
Australian fixed interest	***2,730.5***	3,177.5
International fixed interest	***2,071.0***	2,533.6
Australian equities	***8,433.2***	10,835.6
International equities	***6,419.0***	7,857.2
Property	***2,545.9***	3,468.6
Alternatives	***3,759.5***	4,016.5
TOTAL INVESTMENTS	***28,509.4***	34,364.0
Receivables and cash	***449.0***	269.9
Plant and equipment	***0.2***	0.2
Current tax asset	***39.6***	--
Deferred tax asset	***110.3***	--
TOTAL OTHER ASSETS	***599.1***	270.1
TOTAL ASSETS	***29,108.5***	34,634.1
Reserve units	***3.2***	4.2
Payables	***257.6***	277.7
Current tax liability	--	66.7
Deferred tax liability	--	71.7
TOTAL LIABILITIES	***260.8***	420.3
NET ASSETS AVAILABLE TO PAY BENEFITS	***28,847.7***	34,213.8

FUND ACTIVITIES

The Fund reporting entity consists of the following schemes:

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

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

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

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

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

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

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

For further information on the Fund, refer to www.statesuper.nsw.gov.au.

CONTROLLED ENTITIES

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

Entity Name	Status
Buroba Pty Ltd	company is dormant
Duquesne Utilities Pty Ltd	company was dormant and was deregistered on 4 February 2009
Valley Commerce Pty Limited	company is dormant

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

TRUSTEE

SAS Trustee Corporation (the Corporation)

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

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

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

Year ended 30 June	Consolidated		Corporation	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Revenue	***35,091***	33,778	***34,340***	33,109
Trustee expenses	***712***	614	***712***	614
Executive expenses	***3,639***	3,340	***3,907***	2,848
Fees for services	***2,285***	2,112	***2,285***	2,112
Other expenses	***462***	323	***462***	323
Scheme administration expenses	***26,974***	27,212	***26,974***	27,212
Net assets (at 30 June)	**--**	--	**--**	--

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

State Super Financial Services Australia Limited

AUDIT OPINION

The audits of the Company and its two retail investment products' financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports. The two retail investment products are:

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

PERFORMANCE INFORMATION

Investment Performance of the Retail Investment Products

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

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

The product performance tables appearing below show the returns to investors for each of the Company's retail investment products. The growth fund and balanced fund achieved negative returns in the current and past three year periods, but positive returns over the five year period. Both these funds were directly impacted by the performance of equity markets.

State Super Personal Retirement Plan Investment Choice	Product Performance % per annum		
	1 Year	3 Year	5 Year
Growth fund	(18.4)	(5.7)	1.5
Balanced fund	(11.6)	(2.6)	2.5
Capital stable fund	1.9	2.7	4.3
Cash fund	3.9	4.7	4.3

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

State Super Allocated Pension Fund Investment Choice	Product Performance % per annum		
	1 Year	3 Year	5 Year
Growth fund	(17.5)	(5.5)	2.3
Balanced fund	(10.9)	(2.4)	3.3
Capital stable fund	2.3	3.1	5.0
Cash fund	4.5	5.4	5.1

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

State Super Investment Fund Investment Choice	Product Performance % per annum		
	1 Year	3 Year	5 Year
Growth fund	(18.0)	(6.0)	1.8
Balanced fund	(11.4)	(2.8)	2.9
Capital stable fund	2.0	2.9	4.8
Cash fund	4.5	5.5	5.2

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

FINANCIAL INFORMATION

Abridged Operating Statement

Year ended 30 June	2009 $'000	2008 $'000
Income	***76,312***	89,633
Expenses	***40,259***	46,850
Profit before income tax	***36,053***	42,783
Income tax expense	***9,618***	12,966
Profit	***26,435***	29,817

Income comprises interest and fees from management of the retail investment products, including trustee fees of $70.3 million ($81.5 million in 2007-08). Income fell due to reduced Funds under Management. Expenses include staff expenses of $25.1 million ($32.7 million), administration expenses of $13.3 million ($12.2 million), depreciation and amortisation of $1.9 million ($1.9 million).

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***43,474***	54,516
Non-current assets	***8,554***	8,284
TOTAL ASSETS	***52,028***	62,800
Current liabilities	***13,273***	22,098
Non-current liabilities	***294***	834
TOTAL LIABILITIES	***13,567***	22,932
NET ASSETS	***38,461***	39,868

Funds under Management are not included in the balance sheet. Funds under management reduced by 5.5 per cent to $6.9 billion at 30 June 2009. The Company contracts the investment management of these funds to external investment managers.

COMPANY ACTIVITIES

The Company was established by the SAS Trustee Corporation and is 77.4 per cent owned (at 30 June 2009) by the SAS Trustee Corporation. It provides past and present New South Wales and Commonwealth public sector employees and their family members with financial planning and funds management services. We comment on the Corporation and the SAS Trustee Corporation elsewhere in this report.

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

For further information on the Company, see www.ssfs.com.au.

The Treasury

AUDIT OPINION

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

PERFORMANCE INFORMATION

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

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

Key Performance Indicators	Target	Actual				
	2009	2009	2008	2007	2006	2005
Revenue collected as a percentage of budget (%)	***95.0***	***95.0***	107.0	107.0	98.0	98.0
Cost to collect $100 of tax revenue ($)	***0.61***	***0.60***	0.59	0.63	0.68	0.67
Cost to collect $100 of fine revenue ($)	***<11.23***	***11.02***	10.80	11.29	10.89	11.03
Total overdue tax debt as a percentage of total revenue (%)	***1.6***	***1.54***	0.97	1.05	1.03	1.03

Source: OSR.

Revenue collected as a percentage of budget declined in 2009 after trending upward in 2007 and 2008. This was due to a large decline in the volume of transfer duty transactions. In addition the value of receivables paid through negotiated instalment arrangements increased.

The increase in the target (from <1 in 2008 to 1.6 in 2009) of total overdue tax debt as a percentage of total revenue reflects the difficulties many businesses and individuals are experiencing in meeting their obligations as a result of the economic downturn.

ADMINISTERED ACTIVITIES

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

Year ended 30 June	2009 $m	2008 $m	2007 $m	2006 $m	2005 $m
Payroll tax	***7,212***	7,044	6,440	5,912	5,533
Duties	***4,108***	5,540	5,952	4,830	4,809
Land tax	***2,289***	1,968	2,066	1,748	1,677
Gaming and racing	***1,217***	1,172	1,270	1,144	1,060
Fines	***296***	275	244	256	267
Other	***964***	998	857	675	632
Total	***16,086***	16,997	16,829	14,565	13,978

State revenue from payroll tax has trended upwards over the last five years. The year to year variations in payroll tax reflect employment and wages growth.

Duties decreased by 25.8 per cent in 2008-09. This was primarily due to:

- volume and price reductions experienced in the residential sector, small commercial sector and the large commercial sector
- the abolition of mortgage duty on mortgages securing an advance or advances made for the purpose of investment housing from 1 July 2008, and
- a decline in motor vehicle transfer duty attributable to a significant decline in motor vehicle sales.

The increase in land tax revenue was predominantly due to compliance activities identifying additional revenue, changes in land values and the introduction of a marginal tax rate of two per cent where taxable land holdings are above $2.25 million. The land holding below this amount remains subject to the 1.6 per cent rate.

Large Duties Transaction

In Volume Five of the 2008 Report to Parliament, we reported a $424 million one-off assessment in 2006-07 was subject to appeal and is before the Supreme Court of New South Wales in the legal discovery phase. At June 2009 this transaction including accrued interest totalled $502 million. The outcome of the appeal could have a significant impact on the State's future budget result. While there is uncertainty there are currently no grounds to impair the receivable pending completion of court proceedings sometime between mid to late 2010. We will continue to monitor the appeal process.

Fine Write-offs

During 2008-09, the State Debt Recovery Office (SDRO) identified and wrote off 305,770 fines (243,885 in 2007-08) valued at $62.4 million ($56.5 million). The majority ($53.4 million) relate to offences occurring more than seven years ago and where the client has not been the subject of any further fines in the last five years. All offences are of a relatively minor nature and include parking related infringements and train and traffic offences for which SDRO does not have adequate information from referring entities to recover the debt. The write offs have been processed in accordance with the Treasurer's guidelines for the writing off of fines under Section 101 of the *Fines Act 1996*.

FINANCIAL INFORMATION

Abridged Operating Statement

Year ended 30 June	2009 $'000	2008 $'000
Employee related	***132,852***	120,536
Grants and subsidies	***22,908***	347,772
Other expenses	***56,308***	61,568
TOTAL EXPENSES	***212,068***	529,876
TOTAL REVENUES	***42,088***	41,496
NET COST OF SERVICES	***169,980***	488,380
Government contributions	***169,123***	484,926
DEFICIT	***857***	3,454

Employee related expenses increased in 2008-09 due primarily to the four per cent award increase and higher average staff numbers in the fines enforcement and tax operation areas.

The reduction in grants and subsidies and Government contributions was due largely to the transfer of First Home Owner Grants from OSR's operating activities to an administered activity on behalf of the Crown Entity.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***42,588***	45,932
Non-current assets	***35,229***	37,821
TOTAL ASSETS	***77,817***	83,753
Current liabilities	***19,344***	24,445
Non-current liabilities	***281***	259
TOTAL LIABILITIES	***19,625***	24,704
NET ASSETS	***58,192***	59,049

The reduction in current liabilities was largely due to $4.4 million incorrectly deposited by certain agencies into the Office of Financial Management's bank account last year being transferred to the Crown Entity in 2009.

THE TREASURY ACTIVITIES

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

OSR's major functions are:

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

For further information on OFM, refer to www.treasury.nsw.gov.au.

For further information on OSR, refer to www.osr.nsw.gov.au.

Appendix

Appendix 1
Agencies not reported elsewhere in this Volume

Appendix 1 – Agencies not reported elsewhere in this Volume

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

Entity Name	Website	Period/Year Ended
Crown Employees (NSW Fire Brigades Firefighting Staff Death & Disability) Superannuation Fund	*	30 June 2009
Liability Management Ministerial Corporation	www.treasury.nsw.gov.au	30 June 2009
NSW Fire Brigades Superannuation Pty Limited	*	30 June 2009
Office of the Motor Accidents Authority of New South Wales	www.maa.nsw.gov.au	30 June 2009
Sporting Injuries Committee	www.sportinginjuries.nsw.gov.au	30 June 2009
State Rail Authority Residual Holding Corporation	*	30 June 2009

* This entity does not have a website.

Index

A

Page

A.C.N. 093 230 374 Pty Limited .... Vol 4 2008
Aboriginal Affairs, Department of .... Vol 5 2008
Aboriginal Affairs, Minister for .... Vol 1 2009
Aboriginal Housing Office .... Vol 5 2008
Aboriginal Housing Office Group of Staff .... Vol 5 2008
Aboriginal Land Council, New South Wales .... Vol 1 2009
Access Macquarie Limited .... Vol 2 2009
accessUTS Pty Limited .... Vol 2 2009
ACN 125 694 546 Pty Limited .... Vol 2 2009
Acyte Biotech Pty Ltd .... Vol 2 2009
Adult Migrant English Service, NSW .... Vol 4 2008
Ageing, Minister for .... Vol 5 2008
Ageing, Disability and Home Care, Department of .... Vol 5 2008
Agencies not reported elsewhere in this Volume . Vol 2 2009
Agricultural Business Research Institute .... Vol 2 2009
Agricultural Scientific Collections Trust .... Vol 5 2008
AGSM Limited .... Vol 2 2009
Ambulance Service of New South Wales .... Vol 1 2009
ANZAC Health and Medical Research Foundation . Vol 1 2009
ANZAC Health and Medical Research Foundation Trust Fund .... Vol 1 2009
Architects Registration Board, NSW .... Vol 4 2008
Art Gallery of New South Wales Foundation .... Vol 4 2008
Art Gallery of New South Wales Trust .... Vol 5 2008
Arts Education Foundation Trust .... Vol 4 2008
Arts, Minister for .... Vol 5 2008
Arts, Sport and Recreation, Department of the ... Vol 5 2008
Asbestos Diseases Research Foundation, The ...... Vol 5 2008
Attorney General .... Vol 2 2009
Attorney General's Department .... Vol 5 2008
Audio Nomad Pty Ltd .... Vol 2 2009
Aus Health International Pty Limited .... Vol 6 2007
Australian Centre for Advanced Computing and Communications Pty Ltd .... Vol 5 2008
Australian Education Consultancy Limited .... Vol 2 2009
Australian Institute of Asian Culture and Visual Arts Limited, The .... Vol 5 2008
Australian Museum Trust .... Vol 5 2008
Australian Plant DNA Bank Limited .... Vol 2 2009
Australian Proteome Analysis Facility Limited .... Vol 2 2009
Australian School of European Aviation (JAA) Pty Ltd .... Vol 2 2009
Australian Technology Park Precinct Management Ltd .... Vol 5 2008
Australian Water Technologies Pty Ltd .... Vol 5 2008
AWT International (Thailand) Limited .... Vol 5 2008

B

Banana Industry Committee .... Vol 5 2008
Belgenny Farm Agricultural Heritage Centre Trust .... Vol 1 2009
Biobank Pty Limited .... Vol 2 2009
Board of Studies, Office of the .... Vol 5 2008
Board of Studies, The .... Vol 4 2008
Board of Studies Casual Staff Division .... Vol 4 2008
Board of Surveying and Spatial Information .... Vol 5 2008
Board of Vocational Education and Training, NSW .... Vol 4 2008
Border Rivers-Gwydir Catchment Management Authority .... Vol 4 2008
Bosch Institute, The .... Vol 2 2009
Brett Whiteley Foundation, The .... Vol 4 2008
Building and Construction Industry Long Service Payments Corporation 25
Building Insurers' Guarantee Corporation .... Vol 6 2008
Building Professionals Board .... Vol 4 2008
Buroba Pty Ltd 61
Businesslink Pty Ltd, NSW .... Vol 5 2008

C

C.B. Alexander Foundation .... Vol 5 2008
CADRE Design Pty Limited .... Vol 2 2009
CADRE Design Unit Trust .... Vol 2 2009
Cancer Institute Division ....Vol 1 2009
Cancer Institute NSW ....Vol 1 2009
Casino Control Authority, New South Wales........Vol 5 2008
Casino Control Authority Division ....Vol 5 2008
CCP Holdings Pty Limited ....Vol 3 2009
Centennial Park and Moore Park Trust ....Vol 6 2008
Centennial Parklands Foundation ....Vol 6 2008
Central West Catchment Management Authority ..Vol 4 2008
Centre for United States Studies Pty Limited ......Vol 2 2009
Cessnock Uni-Clinic Trust ....Vol 2 2009
Charles Sturt Foundation Limited ....Vol 2 2009
Charles Sturt Foundation Trust ....Vol 2 2009
Charles Sturt Services Limited ....Vol 2 2009
Charles Sturt University ....Vol 2 2009
Chief Investigator of the Office of Transport Safety Investigations ....Vol 4 2008
Children, Office for ....Vol 5 2008
Chipping Norton Lake Authority ....Vol 4 2008
Citizenship, Minister for ....Vol 5 2008
Chiropractors Registration Board ....Vol 5 2008
City West Housing Pty Limited ....Vol 5 2008
Climate Change and the Environment, Minister for ....Vol 2 2009
Clinical Excellence Commission ....Vol 1 2009
Clinical Excellence Commission Special Purpose Service Entity ....Vol 1 2009
CMBF Limited ....Vol 2 2009
Coal Compensation Board, New South Wales ......Vol 5 2008
Cobar Water Board ....Vol 5 2008
Cobar Water Board Division ....Vol 5 2008
Cobbora Coal Unit Trust ....Vol 3 2009
Cobbora Management Company Pty Limited ....Vol 3 2009
Cobbora Unincorporated Joint Venture ....Vol 3 2009
Coffs Harbour Technology Park Limited ....Vol 4 2008
Commerce, Department of ....Vol 6 2008
Commerce, Minister for ....Vol 6 2008
Commission for Children and Young People, NSW ....Vol 5 2008
Community Relations Commission, Office of the ..Vol 5 2008
Community Relations Commission for a Multicultural New South Wales ....Vol 5 2008
Community Services, Department of ....Vol 5 2008
Community Services, Minister for ....Vol 5 2008
Cooks Cove Development Corporation ....Vol 5 2008
Corporate Governance Arrangements in Large Government Agencies and Universities Vol 2 2009
Corporation Sole 'Minister Administering the Environmental Planning and Assessment Act, 1979' ....Vol 5 2008
Corporation Sole 'Minister Administering the Heritage Act, 1977' ....Vol 5 2008
Corrective Services, Department of ....Vol 5 2008
Country Energy ....Vol 3 2009
Country Energy Gas Pty Limited......................Vol 3 2009
Cowra Japanese Garden Maintenance Foundation Limited ....Vol 5 2008
Cowra Japanese Garden Trust ....Vol 5 2008
Crime Commission, New South Wales ....Vol 4 2008
Crime Commission, Office of the New South Wales ....Vol 4 2008
Crime Commission Division, New South Wales .....Vol 4 2008
Crown Employees (NSW Fire Brigades Firefighting Staff, Death and Disability) Superannuation Fund 71
Crown Entity 29
Crown Lands Homesites Program ....Vol 5 2008
Crown Leaseholds Entity ....Vol 5 2008
Cystemix Pty Limited ....Vol 2 2009

D

Dams Safety Committee ....Vol 4 2008
Delta Electricity ....Vol 3 2009
Delta Electricity Australia Pty Ltd ....Vol 3 2009
Dental Board of New South Wales ....Vol 1 2009
Dental Technicians Registration Board ....Vol 5 2008
Director of Public Prosecutions, Office of the .....Vol 5 2008

Disability Services, Minister for .... Vol 5 2008
Downtown Utilities Pty Limited .... Vol 3 2009
Dumaresq-Barwon Border Rivers Commission ..... Vol 4 2008
Duquesne Utilities Pty Ltd 61

E

Education and Training, Department of .... Vol 4 2008
Education and Training, Minister for .... Vol 2 2009
Education Training Community Television
(ETC TV) Limited .... Vol 2 2009
Elastagen Pty Limited .... Vol 2 2009
Election Funding Authority of New South Wales .. Vol 5 2008
Electoral Commission, New South Wales .... Vol 5 2008
Electricity Industry Overview .... Vol 3 2009
Electricity Tariff Equalisation Ministerial
Corporation 33
Emergency Services, Minister for 3
Emergency Services Overview .... Vol 6 2008
Emergency Services, Office for .... Vol 6 2008
Energy, Minister for .... Vol 3 2009
Energy Industries Superannuation Scheme 35
Energy Investment Fund 38
EnergyAustralia .... Vol 3 2009
EnergyAustralia Pty Limited .... Vol 3 2009
Environment and Climate Change,
Department of .... Vol 6 2008
Environment Protection Authority .... Vol 5 2008
Environmental Trust .... Vol 6 2008
Eraring Energy .... Vol 3 2009
Events New South Wales Pty Limited .... Vol 5 2008

F

Fair Trading Administration Corporation .... Vol 5 2008
Festival Development Corporation .... Vol 3 2009
Film and Television Office, New South Wales ..... Vol 4 2008
Finance, Minister for 5
Financial Counselling Trust Fund .... Vol 5 2008
Financial Reports Not Received by Statutory
Date (as at 5 May 2009) .... Vol 2 2009
Financial Reports Received but Audit Incomplete by
Statutory Date (as at 5 May 2009) .... Vol 2 2009
Fire Brigades, New South Wales .... Vol 6 2008
Fire Brigades Superannuation Pty Limited,
NSW 71
Follow-up Review of CityRail Passenger
Security .... Vol 4 2008
Food Authority, NSW .... Vol 5 2008
Food Authority, Office of the NSW .... Vol 5 2008
Forestry Commission of New South Wales
(Trading as Forests NSW) .... Vol 1 2009
Forestry Commission Division .... Vol 1 2009
Foundation for the Historic Houses Trust
of New South Wales .... Vol 5 2008
Foundation for the Historic Houses Trust
of New South Wales Limited .... Vol 5 2008

G

Game Council of New South Wales .... Vol 5 2008
Game Council Division .... Vol 5 2008
Gaming and Racing, Minister for 17
Gosford Water Supply Authority .... Vol 5 2008
Government Telecommunications Authority
(Telco) , New South Wales .... Vol 6 2008
GraduateSchool.com Pty Limited .... Vol 2 2009
Greater Southern Area Health Service .... Vol 1 2009
Greater Southern Area Health Service
Special Purpose Service Entity .... Vol 1 2009
Greater Western Area Health Service .... Vol 1 2009
Greater Western Area Health Service
Special Purpose Service Entity .... Vol 1 2009
Greyhound and Harness Racing Regulatory
Authority .... Vol 5 2008
Greyhound and Harness Racing Regulatory
Authority Division .... Vol 5 2008
Growth Centres Commission .... Vol 4 2008

H

Hamilton Rouse Hill Trust .... Vol 5 2008
Hawkesbury-Nepean Catchment Management
Authority .... Vol 4 2008
Health Administration Corporation .... Vol 1 2009
Health Administration Corporation
Special Purpose Service Entity .... Vol 1 2009
Health Care Complaints Commission .... Vol 5 2008
Health Care Complaints Commission,
Office of the .... Vol 5 2008
Health Foundation, New South Wales .... Vol 6 2008
Health, Department of .... Vol 1 2009
Health, Minister for .... Vol 1 2009
Health Overview .... Vol 1 2009
HealthQuest .... Vol 1 2009
HealthQuest Special Purpose Service Entity .... Vol 1 2009
HepatoCell Therapeutics Pty Ltd .... Vol 2 2009
Historic Houses Trust of New South Wales .... Vol 5 2008
Home Care Service of New South Wales .... Vol 5 2008
Home Care Service Division .... Vol 5 2008
Home Purchase Assistance Fund .... Vol 5 2007
Housing, Minister for .... Vol 5 2008
Housing NSW .... Vol 5 2008
Housing NSW's $7.0 million Grant to Canterbury
City Council, Review of .... Vol 5 2008
Hunter Development Corporation .... Vol 4 2008
Hunter New England Area Health Service .... Vol 1 2009
Hunter New England Area Health Service
Special Purpose Service Entity .... Vol 1 2009
Hunter Uni-Clinics Pty Limited .... Vol 2 2009
Hunter Water Australia Pty Limited. .... Vol 5 2008
Hunter Water Corporation .... Vol 5 2008
Hunter-Central Rivers Catchment Management
Authority .... Vol 4 2008

I

Illawarra Technology Corporation Limited .... Vol 2 2009
Independent Commission Against Corruption ...... Vol 5 2008
Independent Pricing and Regulatory Tribunal ..... Vol 5 2008
Independent Pricing and Regulatory Tribunal
Division .... Vol 5 2008
Independent Transport Safety and Reliability
Regulator .... Vol 4 2008
Independent Transport Safety and Reliability
Regulator Division .... Vol 4 2008
Industrial Relations, Minister for 23
Infrastructure Implementation Corporation .... Vol 5 2008
Ingham Health Research Institute .... Vol 1 2009
Insearch Limited .... Vol 2 2009
Institute for Magnetic Resonance Research .... Vol 2 2009
Institute of Psychiatry, New South Wales .... Vol 5 2008
Institute of Sport, New South Wales .... Vol 5 2008
Institute of Sport Division .... Vol 5 2008
Institute of Teachers, NSW .... Vol 4 2008
Institute of Teachers, Office of the .... Vol 4 2008
Integral Energy Australia .... Vol 3 2009
Internal Audit Bureau of New South Wales .... Vol 5 2008
Internal Audit Bureau Division .... Vol 5 2008
International Livestock Resources and Information
Centre Ltd .... Vol 2 2009
ITC (Europe) Ltd .... Vol 2 2009
ITC (Middle East) Ltd .... Vol 2 2009
ITC (New Zealand) Limited .... Vol 2 2009
ITC Education Ltd .... Vol 2 2009
ITC Emirates Limited .... Vol 2 2009

J

Jenolan Caves Reserve Trust .... Vol 2 2009
Jenolan Caves Reserve Trust Division .... Vol 2 2009
John Lewis and Pamela Lightfoot Trust .... Vol 2 2009
Judicial Commission of New South Wales .... Vol 5 2008
Justice Health .... Vol 1 2009
Justice Health Special Purpose Service Entity ..... Vol 1 2009
Justice, Minister for .... Vol 5 2008
Juvenile Justice, Department of .... Vol 5 2008

Juvenile Justice, Minister for .... Vol 5 2008

L

Lachlan Catchment Management Authority........ Vol 4 2008
Lake Illawarra Authority .... Vol 4 2008
LAMS Foundation Limited .... Vol 2 2009
LAMS International Pty Limited .... Vol 2 2009
Land Development Working Account................ Vol 5 2008
Landcom .... Vol 5 2008
Lands, Department of .... Vol 6 2008
Lands, Minister for .... Vol 6 2008
Law and Order Overview............................. Vol 5 2008
Legal Aid Commission of New South Wales .... Vol 5 2008
Legal Aid Commission, Office of the .... Vol 5 2008
Legal Aid Temporary Staff Division................. Vol 5 2008
Legal Opinions Provided by the Crown Solicitor .. Vol 1 2007
Legal Profession Admission Board .... Vol 5 2008
Legislature, The .... Vol 5 2008
Legislature (Audit of Members' Additional
Entitlements), The .... Vol 2 2009
Liability Management Ministerial Corporation 71
Library Council of New South Wales .... Vol 5 2008
**Lifetime Care and Support Authority of
New South Wales 7**
Liquor Administration Board .... Vol 5 2008
Local Government, Department of .... Vol 5 2008
Local Government, Minister for...................... Vol 5 2008
Lord Howe Island Board .... Vol 5 2008
Lotteries Corporation, New South Wales...................19
Lower Murray-Darling Catchment Management
Authority .... Vol 4 2008
Luna Park Reserve Trust .... Vol 5 2008

M

Macquarie Generation................................. Vol 3 2009
Macquarie Graduate School of Management
Pty Limited .... Vol 2 2009
Macquarie University Medical Research
Foundation Limited .... Vol 2 2009
Macquarie University Medical Research Trust ..... Vol 2 2009
Macquarie University Private Hospital Trust....... Vol 2 2009
Macquarie University Professorial Superannuation
Scheme .... Vol 2 2009
Macquarie University Property Investment
Company No. 2 Pty Limited...................... Vol 2 2009
Macquarie University Property Investment
Company Pty Limited............................ Vol 2 2009
Macquarie University Property Investment
Trust .... Vol 2 2009
Macquarie University .... Vol 2 2009
Marine Parks Authority .... Vol 5 2008
Maritime Authority of NSW .... Vol 5 2008
Maritime Authority of NSW Division .... Vol 5 2008
Medical Board, New South Wales.................... Vol 5 2008
Mid West Primary Pty Ltd............................ Vol 3 2009
Midwest Development Corporation Pty Limited... Vol 3 2009
Milk Marketing (NSW) Pty Limited .... Vol 5 2008
Mine Subsidence Board .... Vol 1 2009
Mineral Resources, Minister for .... Vol 1 2009
Minerals Industry/University of New South
Wales Education Trust, The New South Wales Vol 2 2009
Ministerial Corporation for Industry................. Vol 5 2008
Mitchell Services Limited .... Vol 2 2009
Motor Accidents Authority of New South Wales 11
**Motor Accidents Authority of New South Wales,
Office of the...71**
Motor Vehicle Repair Industry Authority .... Vol 5 2008
MU Private Hospital Pty Limited.................... Vol 2 2009
MUPH Clinic Pty Limited .... Vol 2 2009
MUPH Clinic Sub-Trust................................ Vol 2 2009
MUPH Hospital Pty Limited .... Vol 2 2009
MUPH Hospital Sub-Trust .... Vol 2 2009
MUPI Holding Trust No. 1 .... Vol 2 2009
MUPI Holding Trust No. 2 .... Vol 2 2009
MUPI Holding Trust No. 3 .... Vol 2 2009
MUPI Holding Trust No. 4 .... Vol 2 2009
MUPI Holding Trust No. 5..............................Vol 2 2009
MUPI Holding Trust No. 6..............................Vol 2 2009
MUPIT Sub-Trust No. 1 ....Vol 2 2009
MUPIT Sub-Trust No. 2 ....Vol 2 2009
MUPIT Sub-Trust No. 3 ....Vol 2 2009
MUPIT Sub-Trust No. 4 ....Vol 2 2009
Murray Catchment Management Authority ....Vol 4 2008
Murrumbidgee Catchment Management
Authority ....Vol 4 2008

N

Namoi Catchment Management Authority ....Vol 4 2008
National Marine Science Centre Pty Ltd ....Vol 2 2009
Natural Resources Commission ....Vol 4 2008
Natural Resources Commission Division ....Vol 4 2008
Newcastle Innovation Limited ....Vol 2 2009
Newcastle International Sports Centre Trust.......Vol 3 2009
Newcastle Port Corporation...........................Vol 5 2008
Newcastle Showground and Exhibition Centre
Trust ....Vol 1 2009
NewSouth Eight Pty Ltd...............................Vol 2 2009
NewSouth Five Pty Ltd................................Vol 2 2009
NewSouth Four Pty Ltd ....Vol 2 2009
NewSouth Global (Thailand) Limited ....Vol 2 2009
NewSouth Innovations Pty Ltd ....Vol 2 2009
NewSouth One Pty Ltd ....Vol 2 2009
NewSouth Seven Pty Ltd...............................Vol 2 2009
NewSouth Six Pty Ltd ....Vol 2 2009
Norsearch Limited ....Vol 2 2009
North Coast Area Health Service ....Vol 1 2009
North Coast Area Health Service
Special Purpose Service Entity...................Vol 1 2009
Northern Rivers Catchment Management
Authority ....Vol 4 2008
Northern Sydney and Central Coast Area
Health Service.....................................Vol 1 2009
Northern Sydney and Central Coast Area
Health Service Special Purpose Service
Entity ....Vol 1 2009
NorthPower Energy Services Pty Limited ....Vol 3 2009
Nurses and Midwives Board ....Vol 5 2008

O

Ombudsman's Office ....Vol 5 2008
Optical Dispensers Licensing Board ....Vol 5 2008
Optometrists Registration Board ....Vol 5 2008
Osteopaths Registration Board ....Vol 5 2008
Ovine Johne's Disease Transaction Based
Contribution Scheme, NSW.......................Vol 5 2008

P

Pacific Industry Services Corporation Pty Limited.Vol 5 2008
Pacific Power (Subsidiary No. 1) Pty Ltd............Vol 3 2009
Pacific Solar Pty Limited ....Vol 3 2009
Pacific Western Pty Limited ....Vol 4 2008
Parklands Foundation Limited ....Vol 5 2008
**Parliamentary Contributory Superannuation
Fund 51**
Parramatta Park Trust ....Vol 5 2008
Parramatta Stadium Trust.............................Vol 2 2009
Parramatta Stadium Trust Division ....Vol 2 2009
Payments to other Government Bodies under the control of
the Minister..Vol 5 2008
Pharmacy Board of New South Wales................Vol 1 2009
Physiotherapists Registration Board ....Vol 5 2008
Planning, Department of ....Vol 5 2008
Planning, Minister for ....Vol 3 2009
Podiatrists Registration Board ....Vol 5 2008
Police Force, NSW ....Vol 5 2008
Police Integrity Commission ....Vol 5 2008
Police Integrity Commission, Office of the ....Vol 5 2008
Police Integrity Commission Division ....Vol 5 2008
Police, Minister for ....Vol 5 2008
Police, Ministry for ....Vol 4 2008
Port Kembla Port Corporation ....Vol 5 2008
Ports and Waterways, Minister for...................Vol 5 2008

Premier .... Vol 2 2009
Premier and Cabinet, Department of .... Vol 5 2008
Primary Industries, Department of .... Vol 1 2009
Primary Industries, Minister for...................... Vol 3 2009
Probiotic Health Pty Limited .... Vol 2 2009
Protective Commissioner – Common Fund,
Office of the .... Vol 2 2009
Protective Commissioner and Public Guardian,
Office of the .... Vol 5 2008
Psychologists Registration Board .... Vol 5 2008
Public Transport Ticketing Corporation .... Vol 5 2008
Public Transport Ticketing Corporation
Division .... Vol 5 2008
Public Trustee NSW................................... Vol 5 2008

Q

Qualified Independent Audit Reports Issued....... Vol 5 2008
Qucor Pty Ltd .... Vol 2 2009

R

Rail Corporation New South Wales .... Vol 4 2008
Rail Infrastructure Corporation .... Vol 4 2008
Rail Services Overview .... Vol 4 2008
Redfern and Waterloo, Minister for .... Vol 5 2008
Redfern-Waterloo Authority.......................... Vol 5 2008
Redfern Waterloo Authority, Office of the .... Vol 5 2008
Regional Land Management Corporation Pty Ltd . Vol 5 2008
Remarkspdf Pty Ltd................................... Vol 2 2009
Rental Bond Board .... Vol 5 2008
Rental Housing Assistance Fund .... Vol 5 2008
Residual Business Management Corporation .... Vol 3 2009
Responsible Gambling Fund .... Vol 5 2008
Rice Marketing Board for the State of
New South Wales .... Vol 5 2008
Risk Frontiers Flood (Australia) Pty Limited .... Vol 2 2009
Risk Frontiers Group Pty Limited .... Vol 2 2009
Riverina Citrus.. Vol 5 2008
Rivservices Limited .... Vol 2 2009
Roads, Minister for.................................... Vol 6 2008
Roads and Traffic Authority of New South Wales . Vol 6 2008
Roads and Traffic Authority Division................ Vol 6 2008
Rocky Point Holdings Pty Ltd........................ Vol 3 2009
Rouse Hill Hamilton Collection Pty Limited .... Vol 5 2008
Royal Alexandra Hospital for Children............. Vol 1 2009
Royal Alexandra Hospital for Children
Special Purpose Service Entity .... Vol 1 2009
Royal Botanic Gardens and Domain Trust .... Vol 5 2008
Rural Assistance Authority, New South Wales ..... Vol 6 2008
Rural Assistance Authority, Office of the .... Vol 6 2008
Rural Australia Foundation Limited .... Vol 2 2008
Rural Fire Service, NSW............................... Vol 6 2008

S

SAS Trustee Corporation 61
SAS Trustee Corporation - Pooled Fund 55
SAS Trustee Corporation Division of
the Government Service of NSW 61
Self Insurance Corporation, NSW 46
Services UNE Ltd .... Vol 2 2009
Sesquicentenary of Responsible Government
Trust Fund.. Vol 5 2008
SGSM Limited .... Vol 2 2009
Small Business, Minister for .... Vol 5 2008
Small Business Development Corporation
of New South Wales.............................. Vol 5 2008
South Eastern Sydney and Illawarra Area Health
Service .... Vol 1 2009
South Eastern Sydney and Illawarra Area Health
Service Special Purpose Service Entity .... Vol 1 2009
Southern Cross University .... Vol 2 2009
Southern Rivers Catchment Management
Authority .... Vol 4 2008
Sport and Recreation, Minister for .... Vol 3 2009
Sporting Injuries Committee................................. 71
Sports Knowledge Australia Pty Limited........... Vol 2 2009
State and Regional Development, Department of Vol 5 2008
State Council of Rural Lands Protection Boards ... Vol 3 2009
State Council of Rural Lands Protection Boards
Division .... Vol 3 2009
State Development, Minister for .... Vol 5 2008
State Emergency Service .... Vol 6 2008
State Library of New South Wales Foundation ..... Vol 5 2008
State Plan... Vol 2 2009
State Property Authority .... Vol 5 2008
State Property Authority, Office of the .... Vol 5 2008
State Rail Authority Residual Holding
Corporation 71
State Records Authority of New South Wales ...... Vol 5 2008
State Rescue Board.................................... Vol 6 2008
State Sports Centre Trust .... Vol 4 2008
State Sports Centre Trust Division .... Vol 4 2008
State Super Financial Services Australia Limited 62
State Transit Authority of New South Wales .... Vol 5 2008
State Transit Authority Division .... Vol 5 2008
State Water Corporation .... Vol 5 2008
Statement of the Budget Result...................... Vol 4 2009
Superannuation Administration Corporation
(trading as Pillar Administration)....................... 14
Sydney 2009 World Masters Games Organising
Committee.. Vol 5 2008
Sydney 2009 World Masters Games Organising
Committee Division............................... Vol 5 2008
Sydney 2009 World Masters Games Organising
Committee Division, Office of the .... Vol 5 2008
Sydney Business School Pty Ltd .... Vol 2 2009
Sydney Catchment Authority .... Vol 5 2008
Sydney Catchment Authority Division .... Vol 5 2008
Sydney Cricket and Sports Ground Trust............ Vol 4 2008
Sydney Cricket and Sports Ground Trust
Division .... Vol 4 2008
Sydney Desalination Plant Pty Limited .... Vol 5 2008
Sydney Educational Broadcasting Limited .... Vol 2 2009
Sydney Ferries Corporation .... Vol 5 2008
Sydney Harbour Foreshore Authority .... Vol 5 2008
Sydney Harbour Foreshore Authority,
Office of the....................................... Vol 5 2008
Sydney Harbour Foreshore Authority
Casual Staff Division, ... Vol 5 2008
Sydney Institutes of Health and Medical
Research, The .... Vol 2 2009
Sydney International Film School Pty Limited ..... Vol 2 2009
Sydney Metropolitan Catchment Management
Authority .... Vol 4 2008
Sydney Olympic Park Authority .... Vol 5 2008
Sydney Olympic Park Authority, Office of the ..... Vol 5 2008
Sydney Olympic Park Authority Sydney
Olympic Park Aquatic and Athletic Centres
Division .... Vol 5 2008
Sydney Opera House Trust .... Vol 5 2008
Sydney Pilot Service Pty Ltd .... Vol 5 2008
Sydney Ports Corporation .... Vol 5 2008
Sydney South West Area Health Service .... Vol 1 2009
Sydney South West Area Health Service
Special Purpose Service Entity .... Vol 1 2009
Sydney Talent Pty Limited .... Vol 2 2009
Sydney Water Corporation .... Vol 5 2008
Sydney West Area Health Service .... Vol 1 2009
Sydney West Area Health Service Special
Purpose Service Entity .... Vol 1 2009
Sydney West International College Pty Limited ... Vol 2 2009
SydneyLearning Pty Limited .... Vol 2 2009

T

TCorp Nominees Pty Limited................................ 45
Teacher Housing Authority of New South Wales... Vol 5 2008
Technical and Further Education Commission,
New South Wales .... Vol 4 2008
Technical and Further Education Commission
Division, New South Wales .... Vol 4 2008
Technical Education Trust Funds .... Vol 2 2009
Television Sydney (TVS) Limited .... Vol 2 2009
Total State Sector Accounts .... Vol 4 2009

Tourism, Minister for .... Vol 5 2008
TransGrid .... Vol 3 2009
Transport, Minister for .... Vol 5 2008
Transport, Ministry of .... Vol 5 2008
Transport Infrastructure Development
Corporation .... Vol 4 2008
Transport Services Overview .... Vol 5 2008
Treasurer 27
Treasury, The 65
Treasury Corporation, New South Wales 39
Treasury Corporation Division of the
Government Service 45
Trustees of the ANZAC Memorial Building.......... Vol 2 2009
Trustees of the Farrer Memorial Research
Scholarship Fund .... Vol 3 2009
Trustees of the Museum of Applied Arts
and Sciences .... Vol 5 2008
TVS Limited .... Vol 2 2009

U

U@MQ Limited .... Vol 2 2009
Ucom Fifteen Pty Limited .... Vol 2 2009
Ucom Sixteen Pty Limited .... Vol 2 2009
UNE Partnerships Pty Limited .... Vol 2 2009
UNE Vision Pty Ltd .... Vol 2 2009
UniCentre Conferences and Functions Pty Limited Vol 2 2009
UNILINC Limited .... Vol 2 2009
Uniprojects Pty Limited .... Vol 5 2008
United States Studies Centre Limited .... Vol 2 2009
Universities Admissions Centre (NSW & ACT)
Pty Limited .... Vol 5 2008
Universities Overview .... Vol 2 2009
University of New England .... Vol 2 2009
University of New England Professorial
Superannuation Fund .... Vol 2 2009
University of New England Sports Association ..... Vol 2 2009
University of New South Wales .... Vol 2 2009
University of New South Wales Foundation .... Vol 2 2008
University of New South Wales Foundation
Limited .... Vol 2 2009
University of New South Wales International
House Limited .... Vol 2 2009
University of New South Wales Press Limited ..... Vol 2 2009
University of Newcastle .... Vol 2 2009
University of Sydney, The .... Vol 2 2009
University of Sydney Professorial Superannuation
System .... Vol 2 2009
University of Technology, Sydney .... Vol 2 2009
University of Western Sydney .... Vol 2 2009
University of Western Sydney Foundation
Limited .... Vol 2 2009
University of Western Sydney Foundation Trust .. Vol 2 2009
University of Wollongong .... Vol 2 2009
University of Wollongong Recreation
Aquatic Centre Limited .... Vol 2 2009
UNSW & Study Abroad – Friends and U.S.
Alumni, Inc. .... Vol 2 2009
UNSW (Thailand) Limited .... Vol 2 2009
UNSW Asia School Limited .... Vol 2 2009
UNSW Global (Singapore) Pte Limited .... Vol 2 2009
UNSW Global India Private Limited .... Vol 2 2009
UNSW Global Pty Limited .... Vol 2 2009
UNSW Hong Kong Foundation Limited .... Vol 2 2009
UNSW Hong Kong Limited .... Vol 2 2009
UTSM Services (Malaysia) Sdn Bhd .... Vol 2 2009
UON Foundation Ltd .... Vol 2 2009
UON Foundation Trust .... Vol 2 2009
UON Services Limited .... Vol 2 2009
UON, Singapore Pte Ltd .... Vol 2 2009
Upper Parramatta River Catchment Trust .... Vol 4 2008
Upper Parramatta River Catchment Trust
Division .... Vol 4 2008
UWS College Pty Limited .... Vol 2 2009
UWS Conference and Residential Colleges Limited Vol 2 2009
uwsconnect Limited .... Vol 2 2009

V

Valley Commerce Pty Limited 61
Veterinary Practitioners Board .... Vol 5 2008
Vocational Education and Training
Accreditation Board, NSW .... Vol 4 2008

W

Warren Centre for Advanced Engineering
Limited, The .... Vol 2 2009
Waste Recycling and Processing Corporation ...... Vol 2 2009
Water and Energy, Department of .... Vol 5 2008
Water Industry Overview .... Vol 5 2008
Water, Minister for .... Vol 5 2008
Wayahead Pty Limited .... Vol 2 2009
Wentworth Annexe Limited .... Vol 2 2009
Wentworth Park Sporting Complex Trust .... Vol 4 2008
Western Catchment Management Authority........ Vol 4 2008
Western Research Institute Limited .... Vol 2 2009
Western Sydney Buses Division .... Vol 5 2008
Western Sydney Parklands Trust .... Vol 5 2008
Whitlam Institute Within the University of
Western Sydney Limited .... Vol 2 2009
Whitlam Institute Within the University of
Western Sydney Trust .... Vol 2 2009
Wild Dog Destruction Board .... Vol 2 2009
Wild Dog Destruction Board Division................. Vol 2 2009
Wine Grapes Marketing Board .... Vol 2 2009
Wollongong Sportsground Trust .... Vol 5 2008
Wollongong Sportsground Trust Division .... Vol 5 2008
Wollongong UniCentre Limited .... Vol 2 2009
WorkCover Authority, Office of the .... Vol 6 2008
WorkCover Authority of New South Wales .... Vol 6 2008
Workers Compensation Commission of
New South Wales .... Vol 6 2008
Workers Compensation Nominal Insurer
(trading as The NSW WorkCover Scheme)...... Vol 1 2009
Workers' Compensation (Dust Diseases) Board .... Vol 5 2008
World Youth Day Co-ordination Authority .... Vol 2 2009
World Youth Day Co-ordination Authority,
Office of .... Vol 2 2009
Wyong Water Supply Authority .... Vol 5 2008

Y

Youth, Minister for .... Vol 5 2008

Z

Zoological Parks Board of New South Wales........ Vol 5 2008
Zoological Parks Board Division .... Vol 5 2008

AUDITOR-GENERAL'S REPORT
FINANCIAL AUDITS

Volume Six 2009

focusing on Human Services and Technology

The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

Pursuant to the *Public Finance and Audit Act 1983*, I present Volume Six of my 2009 Report.

Sydney
November 2009

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 one section which provides comments on financial audits of government agencies. It is divided into ministerial portfolios, each containing one or more government agencies.

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

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

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

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

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

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

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

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

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

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

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

Appendix 1 contains the names of agencies not reported elsewhere in this Volume. These agencies received unqualified audit opinions and have no significant issues to report.

Contents

Significant Items iii

SECTION ONE – Commentary on Government Agencies

Minister for Aboriginal Affairs 3

Department of Aboriginal Affairs 5

New South Wales Aboriginal Land Council 8

Minister for Ageing 15

Department of Ageing, Disability and Home Care 17

Home Care Service of New South Wales 27

Minister for Climate Change and the Environment 33

Minister for Commerce 35

Australian Centre for Advanced Computing and Communications Pty Limited 37

Building Insurers' Guarantee Corporation 40

Department of Commerce 43

Motor Vehicle Repair Industry Authority 52

Rental Bond Board 54

State Records Authority of New South Wales 56

Minister for Community Services 59

Department of Community Services 61

NSW Businesslink Pty Ltd 73

Minister for Education and Training 77

Teacher Housing Authority of New South Wales 79

Minister for Finance 81

State Property Authority 83

Minister for Housing 89

Aboriginal Housing Office 91

City West Housing Pty Limited 95

Home Purchase Assistance Fund 98

Housing NSW 100

Minister for Juvenile Justice 113

Department of Juvenile Justice 115

Minister for Lands 119

Minister for Youth 121

Treasurer 123

APPENDIX

Appendix 1 – Agencies not reported elsewhere in this Volume 127

INDEX 129

Significant Items

	Page
New South Wales Aboriginal Land Council	
The Council continues to fund underperforming Local Aboriginal Land Councils.	8
23 per cent of Local Aboriginal Land Council’s financial reports for 2007-08 were unsatisfactory or not received.	9
The Council continues to incur losses from its rural property businesses.	10
Department of Ageing, Disability and Home Care	
Defects in agreements for capital grants to external parties, expose the Department to possible breaches of the *Public Authorities (Financial Arrangements) Act 1987*.	17
Grant payments to NGOs totalling $48.0 million were made without the required agreements being signed.	17
The John Williams Memorial Charitable Trust has $9.9 million in net assets and has never been audited.	18
Capital expenditure is being approved by officers without the appropriate delegation.	18
Matters I have reported for at least the past two years relating to salary overpayments and processing of journals have not been addressed.	19
In 2008-09, 180 employees earned 30 per cent or more of their base salary in overtime.	21
Home Care Service of New South Wales	
Matters I have reported for at least two years related to controls over purchasing, processing of journals, payment of invoices, follow up of outstanding debts and changes to master file data have not been addressed.	27
The average hours per client in Home Care increased from 71 in 2007-08 to 81 in 2008-09.	28
Building Insurers’ Guarantee Corporation	
The estimated claims liability for HIH insurance policies at 30 June 2009 increased to $112 million from an expected $53.4 million.	40
Department of Commerce	
Previously I recommended the implementation of a review mechanism to ensure agencies comply with the Government’s procurement reforms. This has not been actioned.	43
State Contracts Control Board contracts only account for 28 per cent of whole-of-government expenditure.	45

Department of Community Services

Matters I have reported for at least two years related to: monitoring compliance with legislative requirements; placement reviews for children in Out-of-Home Care; controls over computer user access; processing of journals; and payment of invoices have not been addressed. 64

Over the last five years total child protection reports have increased by 43.1 per cent. During the same period the number of reports referred for further assessment rose by 61.9 per cent. 67

The volume of calls answered by Helpline has increased to 166,228 in 2008-09 from 93,691 in 2004-05. 67

Expenditure on child protection services per investigation for 2007-08 at $2,052 is the lowest of all States. 68

For the three years 2006 to 2008, New South Wales' rate of notifications per 1,000 children aged 0-16 was significantly higher than the national average for both indigenous and non-indigenous children. 69

NSW Businesslink Pty Ltd

Matters I have reported for at least two years relating to controls over assets and payment of invoices have not been addressed. 73

State Property Authority

The Queanbeyan Government Service Centre costing $34.5 million and the Penrith Government Office Building costing $43.5 million were completed during the year. At 30 June 2009 both properties were independently valued. Queanbeyan was valued at $24.3 million and Penrith at $26.5 million. 83

Home Purchase Assistance Fund

The Fund is not complying with the *Public Authorities (Financial Arrangements) Act 1987*. 98

Housing NSW

Housing is to receive $2.1 billion from the Commonwealth to build approximately 6,000 dwellings in the next two to three years. 100

Previously I recommended The Treasury make amendments to the *Public Finance and Audit Act 1983* to clarify the reporting requirements of New South Wales Land and Housing Corporation. This has not been actioned. 102

Department of Juvenile Justice

Despite the increase in the average daily number of juveniles in custody, the Department has managed to control costs and deliver a consistent average daily cost per juvenile in custody of $543 in 2008-09 compared to $541 in 2007-08. 115

Section One

Commentary on Government Agencies

Minister for Aboriginal Affairs

Department of Aboriginal Affairs

New South Wales Aboriginal Land Council

Department of Aboriginal Affairs

AUDIT OPINION

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

KEY ISSUES

In May 1998, the Minister for Aboriginal Affairs announced a seven year, $200 million, Aboriginal Communities Development Program (ACDP). The ACPD has now developed into a 12 year $240 million housing and infrastructure program aimed at improving the health and living conditions of Aboriginal people throughout New South Wales and, in particular, in 22 Priority Communities. The program is due for completion in June 2010 and total program expenditure to June 2009 was $226 million ($211 million to June 2008). The Department of Commerce, as program manager, engages and monitors the performance of project managers.

The Department of Aboriginal Affairs was abolished by the 'Public Sector Employment and Management (Departmental Amalgamations) Order 2009', effective 27 July 2009. It is now an agency titled Aboriginal Affairs NSW within the Department of Human Services.

FINANCIAL INFORMATION

Year ended 30 June	2009 $'000	2008 $'000
Employee related	***8,591***	7,285
Grants and subsidies	***16,332***	17,805
Other expenses	***6,482***	3,670
OPERATING EXPENSES	***31,405***	28,760
Government contributions	***24,271***	21,590
Other revenue	***7,200***	7,248
OPERATING REVENUE	***31,471***	28,838
SURPLUS	***66***	78

Grants and subsidies include $15.6 million ($16.9 million in 2007-08) paid during the year under the ACDP. Achievements to June 2009 include: the completion of refurbishments and urgent works to over 1,000 dwellings; construction of 183 new dwellings; replacement of 80 existing dwellings with new dwellings; the purchase of 92 existing dwellings; and the roll-out of 79 water and sewerage schemes in 44 locations. In addition, 939 dwellings in 29 communities had works undertaken as part of the ACPD 'Housing for Health' program component.

A crucial component of the ACPD has been the creation of employment and training opportunities to over 230 participants, with participants receiving qualifications in plumbing, carpentry, painting and horticulture. Eleven Aboriginal building companies have been established since the inception of the ACPD. These companies delivered about 50 per cent of the works under the ACPD and provided employment to the local community for a number of years. Some of these companies continue to operate although the program is winding down.

Grants and subsidies also include $557,000 ($769,000) paid under the Aboriginal Assistance Fund (formerly Indigenous Education Projects). This was spent on: the establishment of Aboriginal Employment Compacts throughout the State; language preservation and restoration projects; community working party support; significant Aboriginal events; and funeral grants.

Other Expenses of $6.5 million ($3.7 million) increased due to funds being made available for State Plan Priority F1 programs 'Community Partnerships', 'Safe Families' and 'Focus Groups'. Expenditure increased due to the advertising of new positions, consultations with local community groups and sponsoring of some significant community events.

Other revenue includes a grant of $6.9 million ($7.0 million) from the Aboriginal Housing Office for the housing component of the ACDP.

Abridged Service Group Information

The Department's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget $'000	2009 Actual $'000	2008 Actual $'000	2009 Actual $'000	2008 Actual $'000
Support and Promote Culture and Community Resilience	***12,375***	***13,225***	9,709	***(297)***	125
Support and Build Prosperous and Safe Communities and Lead Government Policy	***12,632***	***11,042***	11,803	***(163)***	(799)
Total all service groups	***25,007***	***24,267***	21,512	***(460)***	(674)

Service Group 1 - Support and Promote Culture and Community Resilience

This service group covers strategies to build communities and strengthen Aboriginal culture and heritage. This comprises regional support programs, administration of the *Aboriginal Land Rights Act 1983*, community engagement strategies and language services.

Service Group 2 – Support and Build Prosperous and Safe Communities and Lead Government Policy

This service group covers coordinating and monitoring the Government's indigenous policy objectives through the 'Two Ways Together Package' and delivering the ACDP. The ACPD is a capital construction and upgrade program to raise the health and living standards of Aboriginal communities with urgent environmental health needs. The program includes many of the functions of the former Aboriginal Environmental Health Infrastructure Forum.

The 'Two Ways Together Package' is part of a multi-agency response to the Aboriginal Affairs Plan which commenced in 2004-05. It comprises additional funding of $6.8 million over four years to achieve better outcomes for Aboriginal people in the areas of health, housing, education, culture and heritage, justice, economic development, and for families and young people.

ABORIGINAL AFFAIRS NSW ACTIVITIES

Aboriginal Affairs NSW assists and advises the Minister for Aboriginal Affairs on efficient, effective and coordinated management of Aboriginal policies, legislation, programs and issues. It also assists Aboriginal communities and individuals as an advocate, adviser or contact point to support their self management and self determination so they can improve their socio-economic standing and enhance their image within the general community.

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

New South Wales Aboriginal Land Council

AUDIT OPINION

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

KEY ISSUES

Investment balance and expenditure

> In view of the fall in the value of its investments, I believe it would be prudent for the Council to review its ability to maintain its current levels of expenditure.

The Council's investment losses over the last two financial years totalled $181 million, including $89.6 million in 2008-09, $59.0 million of which were unrealised. Financial investments at 30 June 2009 were valued at $513 million ($600 million at 30 June 2008). The Council has advised that it believes the performance of its investments are consistent with that of other comparable investment portfolios.

The Council has to comply with s150 of the *Aboriginal Land Rights Act 1983* (the Act) 'Preservation of money in the New South Wales Aboriginal Land Council Account' by maintaining the capital value of its Statutory Fund, which was $485 million as at 31 December 1998. To ensure the capital value has been maintained since that date, the Council has applied the annual rate of inflation to this benchmark on a compounding basis and compared this indexed amount to all funds held as at 30 June of each year. The inflation adjusted benchmark as at 30 June 2009 was $657 million, compared with net assets of $552 million, a shortfall of $105 million.

The Council has recently written to the Minister highlighting the impact of the global financial crisis and requesting support for an amendment to the Act to delete the mandatory benchmark on the statutory fund. As part of this request, the Council is proposing to implement a 'Spending Rule' that will allow more guidance and flexibility with respect to its annual financial budgeting.

Local Aboriginal Land Councils

> I recommend the Council stop funding underperforming Local Aboriginal Land Councils.

The Council continues to experience high levels of impaired receivables, mainly due to an escalation in Local Area Land Council (LALC) debt. During the year, LALC debts increased by $3.5 million to $23.1 million while the related provision for impairment increased by $1.6 million to $17.4 million. Koompahtoo and Mungindi Local Aboriginal Land Councils are the largest debtors, with balances of $8.7 million and $2.1 million respectively, largely for long-term loans and administrator's costs.

The Council has negotiated agreements with some LALCs to assign a portion of their annual funding towards debt repayment or to sell property to recover the debt. For the LALCs with outstanding local government rate debts, Council's policy is to deduct 30 per cent or more of the LALC's annual funding allocation for repayment of debt.

A major operational achievement during the year was the development and introduction of the LALC Management Support System (LMSS). This is a diagnostic tool to assess the performance of LALCs across five operational areas. The assessment provides each LALC a score out of a possible 100 per cent and a risk rating. The LMSS also produces a management support plan by identifying when the LALC is not reaching a minimum level of performance. This information then forms the basis of a support plan which identifies actions required by Council to assist the LALC as well as actions required by the LALC to address the identified deficiencies.

The LMSS is tied to a new and simplified two tiered Funding and Financial Obligations Policy, designed to improve the performance of all LALCs.

The Council provides for the uncollectability of LALC debts based on the following criteria:

- if the LALC is an unfunded LALC, provide 100 per cent of the outstanding balance.
- if the LALC does not have the capacity to make repayments, provide 100 per cent of the outstanding balance.
- if no repayment has been made in financial year 2008-09, provide 100 per cent of the outstanding balance.
- if there is an agreement in place for repayment, no provision is made.

For the purpose of financial reporting, each LALC is a separate reporting entity. A number of LALCs have failed to comply with the reporting requirements of the Act. Although the Council has used its statutory powers to improve internal control and financial reporting by LALCs, for example by stopping annual funding to non complying LALCs, the results remain unsatisfactory.

The Council determined LALCs' 2008-09 funding based on the audit results of LALCs' 2007-08 financial reports. Audit results for 2008-09 are not yet known. An analysis of the 2007-08 audit results is provided in the following table:

Financial Reporting by LALCs For Year ended 30 June	**2008**	**2007**	**2006**	**2005**
Satisfactory	***93***	91	90	93
Unsatisfactory	***10***	14	7	10
Not received	***18***	16	24	18
Total	***121***	121	121	121

The table shows that 23 per cent of LALC's financial reports for 2007-08 (25 per cent in 2006-07) were unsatisfactory or not received.

There were seven LALCs under administration at 30 June 2009, the same amount as the previous year. The reasons for appointment of administrators vary and include failure to comply with statutory reporting requirements, possible disposal of land without proper approval, possible fraudulent activity and unsatisfactory audit reports.

Water and sewerage services

Despite the global financial crisis, the Council, in partnership with the NSW Government, maintained its commitment to a major program to deliver better water and sewerage services to discrete Aboriginal communities across the State. Together they will invest more than $200 million over the next 25 years to improve these services. The roll out of the program began in 2008-09 and Council advised that it is already making a difference in the first surveyed communities.

OTHER INFORMATION

We identified areas for the Council to improve its internal controls which we reported to management. The Council's response was generally favourable and the Council advised that many of our recommendations have either been or are in the process of being implemented.

Rural Properties

The Council engaged Riverina F.A.R.M. Pty Limited, and Riverina Farm Services Pty Ltd as sub-manager, in 2004 to manage the Council's rural properties.

The rural properties managed by Riverina F.A.R.M. are:

Name of Property	Location	Size (ha)
Appin Station	Menindee	31,704
Barooga-Karrai	Euabalong	9,890
Calooma/Nulty Springs	Bourke	35,609
Kaituna-Uno	Coonamble	5,184
Total		82,387

Source: New South Wales Aboriginal Land Council Annual Report 2007-08.

Under Riverina F.A.R.M.'s management, the loss from rural properties in 2008-09 was $584,000 ($915,000 loss). Council has advised that they are reconsidering their strategy regarding rural properties.

Endowment Fund

In 2007-08, the Council established a $30.0 million Education Endowment Fund which aims to help fund up to two hundred education scholarships a year. The scholarships are available for primary schools, secondary schools, universities, vocational and TAFE courses. No government grants were received for this program. The intention is that the interest earned on the Fund, which is invested in a short-term deposit, will be sufficient to cover the cost of the scholarship program. Council spent $1.2 million on Scholarship grants in 2008-09. Applications for scholarship grants are reviewed and paid on an ongoing basis.

In March 2008, Council retained the services of Charities Australia Foundation (CAF) to help assess applications, make recommendations and administer the scheme on a day to day basis. CAF is an international not-for-profit organisation operating in Australia since 1999.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2009 $'000	2008 $'000
Interest and investment income	***43,505***	46,953
Other income	***3,995***	4,460
OPERATING REVENUE	***47,500***	51,413
Employee expenses	***10,814***	9,263
Funding of local Aboriginal Land Councils	***14,317***	13,648
Net decrement on investment revaluation	***89,591***	90,934
Other expenses	***15,602***	23,069
OPERATING EXPENSES	***130,324***	136,914
DEFICIT	***82,824***	85,501

Interest and investment income of $43.5 million ($46.9 million) comprised the income distribution from the Council's managed fund of $40.4 million ($43.5 million) and interest of $3.1 million ($3.4 million). Income distribution from the managed fund is based on the capital gains on investments.

Grants paid

In addition to the annual allocation of funds to LALCs, the Council provided major grants of $1.3 million ($100,000) and minor grants of $900,000 ($700,000) to community organisations and individuals. The grants are included in 'Other expenses' above and comprise:

MAJOR GRANTS (more than $5000)

Payee	Purpose	Amount 2008-09	Amount 2007-08
NSW Aboriginal Rugby League & Sports Inc	Sponsorship NSW Rugby League Knockout Competition & 27 Teams participating	--	18,500
National Rugby League Limited	Sponsorship of Indigenous Dreamtime team in Rugby World Cup	15,000	--
Merritt Patten Memorial Rugby Leagues Club	Grant for Annual Rugby League competition in Lismore	--	15,000
Thubbo Aboriginal Medical Co-Op	Assist in David Peachey Foundation Rugby League competition	--	18,181
Vibe Australia	2007 National Indigenous Music, Sports Entertainment and Community Awards	--	10,000
Gaele Sobott	The research of the book on the life story Aboriginal boxer Wally Carr	--	8,200
Hay Local Aboriginal Land Council	Health funding & disability upgrade	--	14,545
Gadigal Information Service	Yabun Concert 2008		10,000
NSW Aboriginal Housing Office	Contribution to the joint NSW Community Housing Conference and Aboriginal Housing Summit	100,000	--
CAF AUSTRALIA	Education Scholarship Grant	1,090,202	--
Newington College	Education Scholarship Grant	6,199	--
Presbyterian Ladies College	Education Scholarship Grant	13,600	--
Australian Indigenous Leadership Centre	Education Scholarship Grant	90,909	--
Total Major Grants		1,315,910	94,426

MINOR GRANTS ($5000 or less)

Category	2008-09 Number	2008-09 Amount	2007-08 Number	2007-08 Amount
Discretionary	***71***	***390,812***	43	81,446
Funeral	***399***	***550,598***	457	655,073
Total	***470***	***941,410***	500	736,519

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***523,181***	609,996
Non-current assets	***37,692***	33,139
TOTAL ASSETS	***560,873***	643,135
Current liabilities	***8,590***	9,198
Non-current liabilities	***188***	178
TOTAL LIABILITIES	***8,778***	9,376
NET ASSETS	***552,095***	633,759

Investment Portfolio

The Council has largely retained the investment strategy adopted in 1998-99 following the cessation of land tax funding. The strategy's objectives are mainly achieved by placing funds with a fund manager to obtain capital growth over the long-term and provide funds for the Council's operations.

The portfolio incurred an average loss of 8.3 per cent in 2008-09 (6.9 per cent loss). Investment data for the last four years is summarised below.

Year	2009 $'000	2008 $'000	2007 $'000	2006 $'000
Opening balance	***600,061***	682,319	622,203	573,066
Closing balance	***513,259***	600,061	682,319	622,203
Net (loss)/income	***(46,086)***	(43,981)	88,643	74,356
Average fund balance	***556,660***	641,190	652,261	597,635
Average (loss)/earning (%)	***(8.28)***	(6.86)	13.59	12.44

COUNCIL ACTIVITIES

The Council was constituted under the *Aboriginal Land Rights Act 1983* (the Act), which was amended in 2007 to substantially increase the scope and range of responsibilities and functions of the Council. The Council comprises nine members, each elected by voting members of the LALCs within the nine regions of New South Wales. The functions of the Council include the following:

- administering the New South Wales Aboriginal Land Council Account and the Mining Royalties Account established under the Act
- acquiring and managing land on its own behalf, on behalf of, or to be vested in a LALC
- making claims to Crown lands, either on its own behalf, or on behalf of a LALC if requested
- purchasing, leasing or holding any property, or acquiring property by gift, devise or bequest
- exploring for and exploiting mineral or other natural resources
- considering applications from LALCs to purchase, sell, exchange, mortgage or otherwise dispose of land
- paying rating authorities in certain situations where rates are unpaid by LALCs
- compiling and maintaining a register of all land held by LALCs
- managing the affairs of a LALC, with the agreement of that LALC
- advising the Minister on matters relating to Aboriginal Land Rights
- preparing and implementing policies relating to its functions under the Act and the functions of LALCs
- exercising certain functions conferred or imposed by the *Commonwealth Native Title Act 1994*
- protecting and promoting Aboriginal culture and heritage
- preparing and implementing policies relating to the community, land and business plans required to be adopted by LALCs
- managing the investment of any assets of the Council
- granting funds for the payment of costs and expenses of LALCs
- providing community benefits under relevant schemes, and approving and supervising those of LALCs (including social housing schemes)
- making grants, lending money to, or investing money for or on behalf of Aboriginal persons
- providing, acquiring, constructing, upgrading, or extending residential accommodation for Aboriginal persons in the State
- increasing the total number of voting members of LALCs in the State by not less than three per cent per annum for the five year period commencing 1 July 2007.

For further information on the Council, refer to www.alc.org.au.

Minister for Ageing

Department of Ageing, Disability and Home Care

Home Care Service of New South Wales

Department of Ageing, Disability and Home Care

AUDIT OPINION

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

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

KEY ISSUES

Transfer of functions to the Department of Human Services NSW

On 27 July 2009, the 'Public Sector Employment and Management (Departmental Amalgamations) Order 2009' transferred the functions of the Department of Ageing, Disability and Home Care (now known as Ageing, Disability and Home Care) to the Department of Human Services NSW and abolished the Department of Ageing, Disability and Home Care.

Capital Grants

> Ageing, Disability and Home Care should take action to rectify defective agreements related to capital grants to external parties, otherwise it could be in breach of the *Public Authorities (Financial Arrangements) Act 1987* (PAFA Act).

Ageing, Disability and Home Care provides capital grants to non government, not-for-profit entities for the acquisition, development and enhancement of land and/or buildings to assist in the provision of services to the aged and disabled. In 2008-09 certain exclusion clauses were omitted from agreements entered into with three service providers. Management advised these clauses should not have been omitted.

The effect of these omissions may entitle Ageing, Disability and Home Care to share in sales proceeds when service providers sell their property. If that happens Ageing, Disability and Home Care could be in breach of its investment powers. Management has confirmed that remedial action is being taken to incorporate the exclusion clauses into the relevant agreements.

Grants paid without signed Funding Variation Agreements

> I recommend that grant payments to NGOs should not be made without the required agreements being signed.

Grant payments totalling $48.0 million were made to non-government organisations (NGOs) in late June 2009 without 'Funding Variation Agreements' having been signed and received from the NGOs. This is contrary to the normal practice. Ageing, Disability and Home Care advised this was approved by its Executive team at the time. We were further advised this was done to allow service providers to manage their funding and to ensure Ageing, Disability and Home Care spent its grants in a timely manner.

Funding Variation Agreements require the recipient to do certain things, including:

- to provide agreed services for the funding stated
- to return to Ageing, Disability and Home Care any unexpended funds.

In the absence of signed Agreements, it may be difficult to ensure that the recipients provide appropriate services for the funds granted to them.

John Williams Memorial Charitable Trust

I recommend that the reporting status of this Trust be clarified and an assessment made whether an audit is required.

The former Director-General of the Department of Ageing, Disability and Home Care administers the John Williams Memorial Charitable Trust (the Trust), which provides both respite care accommodation and other care accommodation for children with disabilities. In June 2009, the Director-General approved a payment of $2.0 million from Ageing, Disability and Home Care to the Trust. Management advised that the Trust has net assets of $9.9 million and that it has never been audited.

Management's view is that the Trust Deed does not require an audit of the Trust to be undertaken, but it is nevertheless assessing the necessity for an audit to be performed.

Delegation Limits Exceeded

I recommend that financial delegations should be strictly adhered to at all times. Where delegations are unclear, they should be clarified with appropriate senior officers.

An officer with a financial delegation limit of $1.0 million approved two capital expenditure payments of $1.6 million and $1.7 million respectively. An asset with a value of $340,000 was also approved to be written off by an officer who was not delegated to do so. Management advised that in all cases the transactions were processed in accordance with the relevant officers' interpretation of the delegations. Appropriate delegated approval has been retrospectively obtained, and changes to delegations are being implemented to address any misinterpretation.

Before invoices greater than $5,000 are processed for payment by Ageing, Disability and Home Care's service provider, the service provider should check that appropriately delegated officers have approved the invoices for payment. This check is not always being done. The service provider has advised it is addressing this issue.

Repeat Management Letter Issues

The following matters have been reported to Ageing, Disability and Home Care for at least the past two years and should be addressed as a matter of priority.

Segregation of Duties for Manual Journals

There is inadequate segregation of duties over the processing of journals by the service provider. Although there are some processes in place that lower this risk, management will meet with the service provider shortly to determine an appropriate solution.

Salary overpayments

Salary over-payments have increased from last year, and total $1.6 million as at 30 June 2009 ($1.1million in 2007-08). Reasons for the over-payments include the late receipt of advice of actual hours worked by shift workers as opposed to rostered hours. Although management continues its attempts to recover these overpayments, a provision for doubtful debts has been raised in the financial report for $1.3 million. Management advised it has increased the training for line managers to reduce the incidence of overpayments occurring, and has implemented improved recovery processes.

PERFORMANCE INFORMATION

Services Provided by Ageing, Disability and Home Care

Ageing, Disability and Home Care’s primary role is to assist older people, people with a disability and their carers to participate in community life. It is both a purchaser and provider of services, and shares responsibility for clients with a number of other Government agencies that deliver services in areas such as health care, transport, family and children’s services and housing. It delivers its services under three service groups (programs), namely Supported Accommodation, On Going Community Support and Short Term Interventions.

Supported Accommodation

This program provides accommodation to people with a disability to assist them to live in suitable accommodation and to participate in the community. Accommodation includes large residences, group homes and hostels. Services are provided directly by Ageing, Disability and Home Care or through non-government organisations it funds.

The table below provides some statistics relating to clients in supported accommodation places for the past four years.

Year ended 30 June	2009	2008	2007	2006
Number of supported accommodation places *	***8,766***	7,560	7,496	7,579
Number of supported accommodation places provided by Ageing, Disability and Home Care	***2,711***	2,642	2,671	2,621
Number of supported accommodation places provided by non-government organisations	***6,055***	4,918	4,825	4,958
Total expenditure incurred on supported accommodation ($’000)	***1,006,356***	938,096	921,182	751,064

Source: Ageing, Disability and Home Care statistics (unaudited).
* The number of supported accommodation places for the comparative years have been amended from those previously reported to reflect revised totals.

Since 2006 the total number of supported accommodation places has increased by 15.7 per cent, including an increase of 1,206 places in 2008-09. The rise in 2008-09 is mainly due to an increase of 1,137 places provided by non-government organisations, emanating from the ‘Stronger Together: a new direction for disability services in NSW’ strategy and improved reporting by NGOs.

On Going Community Support

This program provides a range of services to older people and people with a disability including community services, respite, skills development and day programs, and a wide range of personal assistance services.

The following table shows information relating to On Going Community Support services for the past four years.

Year ended 30 June	2009	2008	2007	2006
Number of HACC services*	***1,767***	1,785	1,822	1,822
Total expenses incurred on On Going Community Support ($'000)**	***817,052***	709,346	n/a	n/a

Source: Ageing, Disability and Home Care statistics (unaudited).
* This data does not include disability services
** The New South Wales 2009 Budget Papers replaced programs with service groups. Ageing, Disability and Home Care changed from two to three programs following the Government's decision to present the budget based on the Results and Services Plan which has three programs. As there was only a two program split in 2006 and 2007, there is no comparative data available.

Expenditure incurred under the program continues to rise mainly in response to the ageing of the population.

Waiting Lists for Respite Care and Group Homes

Ageing, Disability and Home Care does not maintain data on the number of people waiting for its operated respite care services, as well as those waiting to enter a group home. Management advised that:

- families who have completed "Orientation to Respite" are included on the respite service request register. Each quarter families on the register are asked to indicate what respite they would like.
- in the quarter April to July 2009, a total of 1,443 people made requests for Ageing, Disability and Home Care's centre-based respite care. Of these, 1,434 (or 99 per cent) of requests were met.
- in relation to the non-government sector, Ageing, Disability and Home Care does not have a policy which requires the maintenance of a respite service request register, although a number of NGOs maintain them. Ageing, Disability and Home Care does not have access to these registers. Carers and families can gain access to non-government respite services through numerous gateways.
- although it does not have waiting lists for supported accommodation, including group homes, Ageing, Disability and Home Care maintains regional registers for its own operated and funded services, group homes and other models such as villas, apartments etc.

Short Term Interventions

Services provided under this program include intensive personal care in home settings, therapy services, case management and other assistance to older people and people with a disability to develop skills and abilities to live in the community with minimal support.

The table below shows some statistics relating to the level of service provided under this program.

Year ended 30 June	2009	2008	2007	2006
Number of families and children receiving support	***9,000***	7,500	6,570	6,220
Number of people receiving therapy and interventions	***70,000***	67,400	63,330	59,680

Source: Ageing, Disability and Home Care statistics (unaudited)

Over the last four years, the number of families and children receiving short term support has increased by 44.7 per cent. During the same period, there has been a 17.3 per cent rise in the number of people receiving therapy and intervention services.

OTHER INFORMATION

Property transfers from the former Department of Community Services

Last year we reported that in 2001, Ageing, Disability and Home Care received land and buildings from the former Department of Community Services as part of an administrative restructure. Although control of these assets transferred to Ageing, Disability and Home Care at the time, titles to some properties still remain with Community Services. Management advised that it is continuing its efforts to resolve this issue.

Overtime

As shown in the table below, 180 employees (176) earn 30 per cent or more of their base salary in overtime.

Overtime to Base Salary %	Number of employees who earned overtime 2009 *	Number of employees who earned overtime 2008 *
90-100	***1***	1
80 - 90	***4***	1
70 – 80	***5***	--
60 – 70	***6***	4
50 – 60	***26***	27
40 – 50	***42***	56
30 – 40	***96***	87
20 – 30	***250***	216
10 – 20	***556***	639
0 - 10	***3,291***	3,260
Total	***4,277***	4,291

Source: Ageing, Disability and Home Care statistics (unaudited).
* Base salaries include penalties and allowances.

In 2008-09, 42 employees (33 employees) received overtime that was more than 50 per cent of their base salary. This level of overtime expense raises questions about how efficiently and effectively overtime is being managed, as well as occupational health and safety issues. Ageing, Disability and Home Care has advised it uses overtime as one measure to deliver services, which reflects the around-the-clock nature of the disability sector, and of maintaining a skilled workforce on all shifts. Management advised that improved rostering principles are being developed to minimise reliance on overtime to fill vacant shifts.

Vacant Shift Worker Positions

Ageing, Disability and Home Care has two categories of shift workers, namely nurses who care for clients with complex health care needs and residential support workers who provide clients with personal development and community integration. They both also assist with the development and implementation of individual support plans.

The table below provides some statistics relating to the number of Full Time Equivalent (FTE) shift worker positions that are both available and vacant as at 30 June.

As at 30 June	2009		2008	
	Nurses	Residential Support Workers	Nurses	Residential Support Workers
Number of FTE shift worker positions available	***1,365***	***2,373***	1,395	2,388
Number of FTE shift worker positions vacant	***286***	***394***	301	418

Source: Ageing, Disability and Home Care statistics (unaudited).
Note: Figures exclude Home Care careworkers. The 2008 data for nurses have been amended from those previously reported as they included nurses in non shift worker positions.

Since 2008, the number of shift worker positions available for nurses and residential support workers has decreased by 2.2 per cent and 0.6 per cent respectively. At 30 June 2009, there were significant vacancies in shift worker positions. For nurses, 20.9 per cent (21.6 per cent) of FTE positions available were vacant, and for residential support workers 16.6 per cent (17.5 per cent) were vacant. Where staff are not available to fill rosters, Ageing, Disability and Home Care uses agency staff. In 2008-09 $19.8 million ($18.7 million) was spent on agency staff.

Management advised that a number of actions are being taken to fill these vacancies including:

- funding National Disability Services NSW to develop and deliver a recruitment campaign for the disability sector, and
- the enhancement of the Aboriginal Residential Support Worker Program which will employ 180 Aboriginal trainee residential support workers over the next two years.

Ageing, Disability and Home Care advised that the use of ‘available’ positions to determine vacancies for residential support workers is not an appropriate measure, as it includes positions maintained to allow for workforce flexibility, not all of which will be filled. The precise mix of permanent, casual and agency staff used to deliver services at any one time will vary according to operational need, as well as vacancies and staff absences. They also advised this applies to group homes below.

Vacant Permanent Staff Positions

As at 30 June	2009	
	Community Support Teams	Group Homes
Number of FTE positions available	***825***	***2,311***
Number of FTE positions vacant	***77***	***362***

Source: Ageing, Disability and Home Care statistics (unaudited).

At 30 June 2009, there were also a significant number of permanent unfilled positions within community support teams (CSTs) and group homes. For CSTs 9.3 per cent of FTE positions available and 15.7 per cent for group homes were vacant. Ageing, Disability and Home Care advised that the high number of vacancies in 2008-09 has led to an under spend of $3.8 million in employee related expenses.

Management advised there have been extensive recruitment programs for both CST and group home staff, and the vacancies reflect the difficulty in recruiting to these positions.

Internal Control Issues

We identified a number of opportunities for Ageing, Disability and Home Care to improve accounting and internal control procedures. These included:

No Funding Agreement with Home Care Service

There is no funding agreement in place for grant payments Ageing, Disability and Home Care makes to Home Care Service of New South Wales. Management advised that a draft agreement is in the process of being finalised.

Excessive Annual Leave Balances

There is a need to better manage the number of employees with recreation leave balances in excess of 40 days (21 per cent at 30 June 2009). Management advised that a directive has been issued to all staff to reduce recreation leave balances to below 40 days by February 2010.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Department	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Employee related	***760,298***	717,528	***594,628***	549,606
Grants and subsidies	***1,151,552***	1,010,135	***1,326,124***	1,173,880
Other expenses	***235,137***	205,711	***195,406***	171,086
OPERATING EXPENSES	***2,146,987***	1,933,374	***2,116,158***	1,894,572
OPERATING REVENUE	***101,192***	90,623	***68,538***	59,524
Other losses	***4,955***	3,153	***4,389***	1,096
NET COST OF SERVICES	***2,050,750***	1,845,904	***2,052,009***	1,836,144
Government contributions	***2,151,332***	1,883,494	***2,151,332***	1,883,494
SURPLUS	***100,582***	37,590	***99,323***	47,350
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Net increase/(decrease) in asset revaluation reserve	***(32,802)***	14,343	***(32,963)***	14,346
Superannuation actuarial losses	***(6,596)***	(5,739)	**--**	--
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***61,184***	46,194	***66,360***	61,696

In 2008-09, the Stronger Together strategy completed its third year. Stronger Together is a ten year plan aimed at providing more assistance for people with disabilities to live in their own home, and increasing the range of specialist accommodation services for those unable to live at home. The continued implementation of this strategy accounted for a large part of the increase in grants and subsidies expenses.

Abridged Consolidated Balance Sheets

Year ended 30 June	Consolidated		Department	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***128,364***	95,071	***91,944***	61,843
Non-current assets	***685,890***	631,143	***665,102***	611,434
TOTAL ASSETS	***814,254***	726,214	***757,046***	673,277
Current liabilities	***124,882***	101,469	***96,231***	76,570
Non-current liabilities	***22,510***	11,720	***13,633***	8,538
TOTAL LIABILITIES	***147,392***	113,189	***109,864***	85,108
NET ASSETS	***666,862***	613,025	***647,182***	588,169

Current assets increased due to more cash on hand at year end.

Non-current assets increased mainly due to the purchase of new accommodation facilities for clients as well as improvements to, or replacement of, existing accommodation facilities such as group homes. The increases were offset by a reduction in the value of property, plant and equipment on revaluation, $32.8 million.

The increase in total liabilities mainly resulted from increased annual leave and long service leave liabilities, the recognition of a "make good" provision, as well as a rise in the superannuation liability.

Abridged Service Group Information

Ageing, Disability and Home Care's consolidated net cost of services by service group is detailed below.

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget** $'000	2009 Actual $'000	2008 Actual $'000	2009 Actual $'000	2008 Actual $'000
Supported accommodation	***917,241***	***963,771***	900,636	***504,815***	465,131
Ongoing community support	***778,951***	***766,081***	660,372	***92,589***	85,024
Short-term intervention	***274,101***	***320,898***	284,896	***76,290***	69,810
Not Attributable *	**--**	**--**	--	***(6,832)***	(6,940)
Total all service groups	***1,970,293***	***2,050,750***	1,845,904	***666,862***	613,025

* Amounts that could not be reliably allocated to a 'service group'.
** Per the New South Wales 2008-09 Budget Papers.

AGEING, DISABILITY AND HOME CARE ACTIVITIES

Ageing, Disability and Home Care provides strategic policy advice, planning, funding, quality assurance, evaluation and monitoring services for older people and people with a disability and their families, as well as providing direct assistance to them and their carers.

Ageing, Disability and Home Care is responsible, for administrative purposes, for the Disability Council of New South Wales and the Guardianship Tribunal. The Disability Council is the official adviser to the New South Wales Government on issues affecting people with a disability and their families. The Guardianship Tribunal appoints guardians and financial managers for people 16 years and over who have a disability and are incapable of making their own decisions or managing their own affairs, and who have no other safe or appropriate arrangements in place. Operating transactions and balances at year end of the Council and the Tribunal are included in Ageing, Disability and Home Care's financial report.

For further information on Ageing, Disability and Home Care, refer to www.dadhc.nsw.gov.au.

CONTROLLED ENTITIES

Home Care Service of New South Wales

Separate comments on Home Care Service of New South Wales and its controlled entity Home Care Service Division are included elsewhere in this Report

Home Care Service of New South Wales

AUDIT OPINION

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

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

KEY ISSUES

Transfer of Home Care to the Department of Human Services NSW

On 27 July 2009, the 'Public Sector Employment and Management (Departmental Amalgamations) Order 2009' transferred the management of Home Care to the Department of Human Services NSW.

Repeat Management Letter Issues

The following matters have been reported to Home Care for at least the past two years and should be addressed as a matter of priority.

Purchase Order Details

Purchase orders raised in branch offices continue to lack sufficient appropriate details. This issue has been reported for the past four years. Management advised that a systemic solution is currently being reviewed with the service provider.

Segregation of Duties for Manual Journals

There is inadequate segregation of duties over the processing of journals by the service provider. Although there are some processes in place that lower this risk, management will meet with the service provider shortly to determine an appropriate solution. This issue has been reported for the past two years.

Financial Delegations

Before invoices greater than $5,000 are processed for payment by Home Care's service provider, the service provider should check that appropriately delegated officers have approved the invoices for payment. This check is not always being done. The service provider has advised it is addressing this issue.

Review of Aged Debtors

Aged debtor reports are not always produced and reviewed at the branch offices in a timely manner. This suggests some branches may not be actively following up outstanding debtors. Management advised this issue has been and will continue to be addressed, and that improvements are being noted.

Customer Master File Changes

Changes made to customer details in the Client Information System are not always supported by an authorised written request. In most instances notifications received are verbal. In addition, the changes are not reviewed by a second officer to ensure accuracy and validity. This issue has been reported for the past two years. Management advised that Branch Managers will implement checking processes during 2009-10.

PERFORMANCE INFORMATION

Home Care met most of its performance targets for 2009, as detailed in the table below.

Activity Levels

Year ended 30 June	Target	Actual			
	2009	2009	2008	2007	2006
Total number of assessments	***17,000***	***15,703***	20,760	17,693	17,906
Total hours of service provided ('000s)	***3,935***	***4,048***	3,903	3,872	3,626
General housework hours (%)	***48***	***48***	48	51	48
Personal care hours (%)	***40***	***40***	37	35	36
Respite care hours (%)	***10***	***9***	12	12	10
Other care hours (%)	***2***	***3***	3	2	6
Total number of clients serviced ('000s)	***52***	***50***	55	54	53
Average hours per client per annum	***76***	***81***	71	71	69
Direct average staffing (EFT)	***3,000***	***3,038***	2,972	2,937	2,862

Source: Home Care (unaudited).

An assessment involves ascertaining a client's eligibility based on: program guidelines, the client's support needs, and developing a care plan. In 2008-09 the total number of assessments undertaken by Home Care declined by 24.4 per cent when compared to 2007-08. Home Care advised the number of assessments in 2007-08 were higher than normal as additional temporary staff were engaged to clear a backlog. In 2008-09 the backlog had been cleared, resulting in a reduced number of assessments.

The total number of assessments in 2008-09 fell short of Home Care's target by 1,297. Management advised that the target number of assessments is based on the estimated need to replace clients who stop receiving a service. In 2008-09, the exit rate was lower than normal, resulting in fewer replacement clients and required assessments. Also some Home Care branches which were forecasting a budget overspend reduced the number of new clients required as a means of controlling expenditure.

In 2008-09, total hours of service provided to clients increased by 3.7 per cent when compared to 2007-08. This exceeded Home Care's target by 113,000 hours. Home Care advised this was due to action being taken to increase outputs as a result of an under-delivery in 2007-08. Also actual hours exceeded target primarily due to improved efficiencies in some branches. This meant additional hours could be delivered with the available funds, and by some branches exceeding their budget.

The average hours per client increased from 71 in 2007-08 to 81 in 2008-09. Management advised the increase resulted from Home Care providing assistance to more clients who require a higher level of service, and a general increase in the amount of service required by an average client.

High Needs Pool

The High Needs Pool sets aside funds for clients requiring more than 15 hours per week of personal care. The guidelines for the pool include a cap on services of 140 hours per four-week period, and intake being determined by priority rather than in chronological order. The table below summarises High Needs information for the past four years.

Year ended 30 June	Actual			
	2009	2008	2007	2006
Funds set aside for High Needs Pool ($'000)	***22,643***	21,920	21,200	20,500
Number of clients waiting for High Needs services	***273***	517	409	470
Number of new clients approved	***36***	121	105	90
Number of clients receiving more than 60 hours of personal care and assistance per four-week period	***390***	475	472	428

Source: Home Care (unaudited).

In 2008-09 there were significant decreases compared to 2007-08 in both the number of clients waiting for, and those approved for High Needs services, 47.2 per cent and 70 per cent respectively. Home Care advised that the approval of new clients to the Attendant Care Program (ACP), and a review it undertook of the application process were the main reasons for the decreases. The number of new approvals in previous years was higher than normal, due to the need to replace clients who transitioned to more suitable service options as they became available. The intake of new clients in 2008-09 represents the normal intake.

The number of clients receiving High Needs services also declined in 2008-09 compared to 2007-08, by 17.9 per cent. Management advised that some clients who were transferred to ACP packages towards the end of the year were not replaced. These packages provide up to 35 hours of personal support to assist people aged 16-65 with a physical disability, and who can manage and direct their own care, to live as independently as possible in the community.

OTHER INFORMATION

Internal Control Issues

We identified opportunities for improvement to accounting and internal control procedures and have reported them to management, including:

Adjustments to Client Billings

Adjustments can be made in the Workforce Management and Client Information systems to service hours already billed to clients. These adjustments are, in most instances, not approved by management and appear on the client's next invoice. In addition, there is no review by a second officer to ensure the accuracy and validity of changes made.

Reconciliation of Client Billing Information

A key internal control for ensuring the completeness of the customer billing information is a fortnightly reconciliation between related systems. We found no evidence of these reconciliations being reviewed by management.

Restriction of User Access

User access levels in the SAP system are not appropriately restricted and controlled. All service coordinators have access to make changes to care worker contract hours, despite there being no procedures in place to ensure management approves the changes. Unauthorised changes increase the risk of care workers being paid for more than their contracted hours.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
REVENUE				
Government grants and contributions	***179,877***	168,627	***179,877***	168,627
Other	***34,271***	33,331	***34,271***	33,331
OPERATING REVENUE	***214,148***	201,958	***214,148***	201,958
EXPENSES				
Employee related	***152,343***	156,096	**--**	--
Personnel services	**--**	--	***158,939***	161,835
Other expenses	***59,980***	53,565	***59,980***	53,565
OPERATING EXPENSES	***212,323***	209,661	***218,919***	215,400
Other losses	***566***	2,057	***566***	2,057
SURPLUS/(DEFICIT)	***1,259***	(9,760)	***(5,337)***	(15,499)
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Superannuation actuarial losses	***(6,596)***	(5,739)	**--**	--
Other gains/(losses)	***161***	(3)	***161***	(3)
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***(5,176)***	(15,502)	***(5,176)***	(15,502)

Home Care reported a $6.6 million loss in the defined benefit superannuation scheme during the year, based on an actuarial assessment ($5.7 million loss in 2007-08).

In 2008-09, Home Care received a workers' compensation hindsight premium adjustment refund of $6.2 million compared to a payment of $7.4 million in 2007-08, which explains the decrease in employee related expenses.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***42,537***	38,615	***41,938***	38,069
Non-current assets	***20,788***	19,709	***20,788***	19,709
TOTAL ASSETS	***63,325***	58,324	***62,726***	57,778
Current liabilities	***34,785***	30,286	***34,186***	29,740
Non-current liabilities	***8,860***	3,182	***8,860***	3,182
TOTAL LIABILITIES	***43,645***	33,468	***43,046***	32,922
NET ASSETS	***19,680***	24,856	***19,680***	24,856

Current assets increased largely due to an increase in cash holdings.

The increase in total liabilities mainly resulted from an increase in annual leave and long service leave liabilities, as well as a rise in the superannuation liability.

HOME CARE ACTIVITIES

The *Home Care Service Act 1988* established Home Care as a corporation. Home Care provides housekeeping, personal care and a range of ancillary services for individuals and families within their own homes. Its operations are conducted through statewide branches and service outlets.

For further information on Home Care, refer to www.dadhc.nsw.gov.au.

CONTROLLED ENTITY

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

Entity Name
Home Care Service Division

Minister for Climate Change and the Environment

Refer to Appendix 1 for:

Chipping Norton Lake Authority

Lake Illawarra Authority

Minister for Commerce

Australian Centre for Advanced Computing and Communications Pty Limited

Building Insurers' Guarantee Corporation

Department of Commerce

Motor Vehicle Repair Industry Authority

Rental Bond Board

State Records Authority of New South Wales

*** Workers Compensation Nominal Insurer**

Refer to Appendix 1 for:

Fair Trading Administration Corporation

Financial Counselling Trust Fund

NSW Architects Registration Board

* The audit was incomplete at the time of compiling this Volume.
The comment will be included in a later 2009 Volume.

Australian Centre for Advanced Computing and Communications Pty Limited

AUDIT OPINION

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

KEY ISSUES

Accumulated losses

I recommend the Board continue to closely monitor future budgets and cash flow projections to ensure the Company's viability is maintained.

The Company's financial performance has improved significantly over the past three years with a profit after income tax expense of $113,000 for 2008-09 ($409,000 for 2007-08 and $185,000 in 2006-07). Prior to 2006-07, the Company had recorded losses each year since its incorporation.

At 30 June 2009, accumulated losses were $12.6 million, remaining capital was $2.3 million and the Company showed positive working capital. The Company has budgeted for a profit of $401,000 in 2009-10.

Financial Arrangements Approval

I recommend the Company obtains the necessary approval under the *Public Authorities (Financial Arrangements) Act 1987* (PAFA Act) for its finance lease credit facility.

Under the PAFA Act, New South Wales Government agencies require approval to borrow funds. The Company has a finance lease credit facility to fund equipment purchases for which it does not hold approval. The Company advises that it is seeking this approval.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2009 $'000	2008 $'000
Rendering of services	***8,300***	6,270
Sale of goods	***727***	1,687
Other	***80***	537
TOTAL REVENUE	***9,107***	8,494
Employee benefits	***3,915***	3,188
Depreciation	***970***	911
Other	***4,159***	4,040
TOTAL EXPENSES	***9,044***	8,139
PROFIT BEFORE TAX	***63***	355
Income tax benefit	***(50)***	(54)
PROFIT	***113***	409

The Company is subject to income tax. However, it has never paid income tax due to losses incurred in previous years.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***3,419***	3,437
Non-current assets	***3,271***	3,033
TOTAL ASSETS	***6,690***	6,470
Current liabilities	***2,342***	2,142
Non-current liabilities	***2,015***	2,108
TOTAL LIABILITIES	***4,357***	4,250
Issued capital	***14,920***	14,920
Accumulated losses	***(12,587)***	(12,700)
NET ASSETS	***2,333***	2,220

Notwithstanding the accumulated losses, the Company has positive working capital at 30 June 2009.

The Company has $11.9 million of income tax losses. These are not reflected within the balance sheet figures above.

COMPANY ACTIVITIES

The Company provides professional management of computers for other organisations, including New South Wales Government agencies, universities and private sector companies. The Company aims to make a profit.

The Company was registered on 10 November 2000 as a proprietary company limited by shares under the *Corporations Act 2001*. The Government and eight New South Wales universities financed the establishment of the Company. The Government provided $12.0 million giving it a 57 per cent shareholding. The universities hold the remaining shares and provided cash and in kind contributions. The New South Wales Government Telecommunications Authority holds the Government's investment.

For further information on the Company refer to www.ac3.com.au.

Building Insurers' Guarantee Corporation

AUDIT OPINION

The audit of the Corporation's financial report for the year ended 30 June 2009 resulted in an unqualified Independent Auditor's Report. However, the Independent Auditor's Report drew attention to significant uncertainty in the valuation of the Corporation's outstanding claims liability.

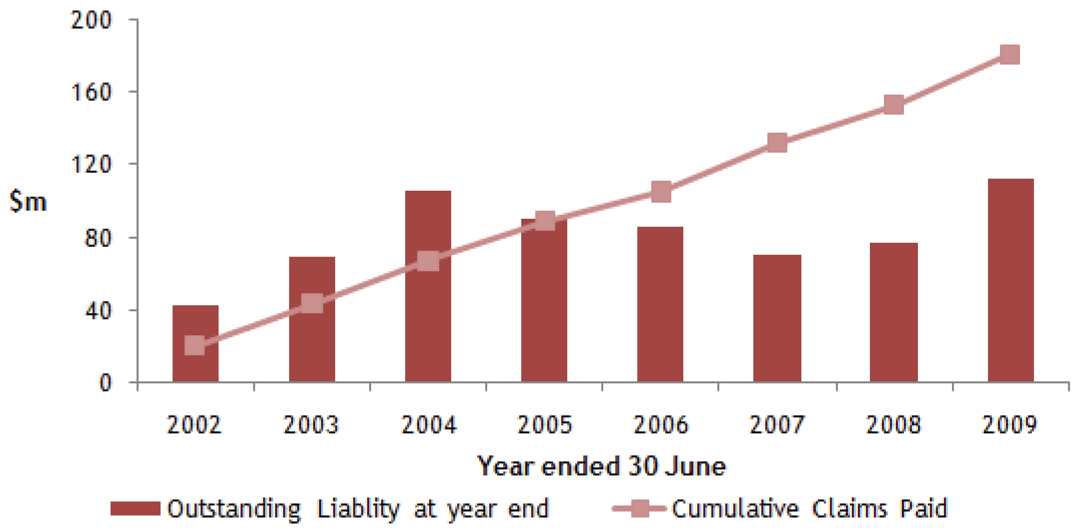
The Corporation administers one of the Government's rescue packages created in response to the collapse of the HIH Insurance Group (HIH). The Corporation recognises a liability in respect of home warranty insurance claims on policies issued by HIH. The Treasury provides funding to the Corporation for all approved claim payments.

The liability is expected to reduce over time as claims are settled. However, the estimated liability has increased significantly in 2009 due to variability of claims costs during the period. This indicates a significant uncertainty exists with the estimation of the liability at 30 June 2009.

KEY ISSUE

The Corporation has paid a total of $180 million for claims made against HIH insurance policies up to 30 June 2009. Offsetting this, the Authority has received a total of $68.0 million in recoveries from the HIH liquidators and reinsurers.

On top of the $180 million paid to date, a further $112 million in claims payments are expected.



After initial growth in the estimate of claims, the claims liability was expected to decrease as claims were settled. Based on previous estimates, the liability at 30 June 2009 was expected to be $53.4 million. However, the estimated claims liability at 30 June 2009 has increased to $112 million ($76.7 million in 2008).

The increase in the liability is mainly due to a significant deterioration in claim estimates during 2008-2009. Payments made during the year for open and settled claims were significantly higher than expected. The expected cost of the claims remaining has increased based on this experience.

I recommend the Corporation:

- continue to closely monitor the claims liability, and
- take any practicable steps to obtain better data on claims to help improve the accuracy of claims liability estimates.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	**2009 $'000**	**2008 $'000**
Government contributions	***33,900***	23,829
Other	***126***	141
TOTAL REVENUE	***34,026***	23,970
Net insurance claims and provisions	***62,755***	25,310
Administrative services	***3,418***	1,785
Other operating expenses	***3,966***	3,444
TOTAL EXPENSES	***70,139***	30,539
DEFICIT	***36,113***	6,659

Government contributions are payments from The Treasury to meet claims on the home insurance policies of insolvent insurers and other costs of the Corporation.

The increased government contribution in 2009 was required to meet the actual claims paid of $28.1 million ($20.7 million) and increased administration costs of $3.4 million ($1.8 million).

The increase in net insurance claims and provisions expense reflects the deterioration in estimates of claims liabilities.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***258***	884
Non-current assets	***1,533***	2,076
TOTAL ASSETS	***1,791***	2,960
Current liabilities	***28,113***	18,032
Non-current liabilities	***83,698***	58,835
TOTAL LIABILITIES	***111,811***	76,867
NET LIABILITIES	***110,020***	73,907

The estimated outstanding claims liability increased to $112 million ($76.7 million). This creates a net liability of $110 million ($74.0 million). The Corporation relies on payments from The Treasury from the Building Insurer's Guarantee Fund to meet claims costs and administration expenses.

CORPORATION ACTIVITIES

The Corporation's principal role is to administer the Building Insurers' Guarantee Fund. The Fund is established under the *Home Building Act 1989* as a consequence of the collapse of the HIH Insurance Group in March 2001. This collapse created a range of serious home warranty insurance difficulties for consumers, builders and developers in New South Wales. The Fund provides indemnity for homeowners to the same extent that would have applied under home warranty policies issued by the HIH Insurance Group.

The Corporation is managed and controlled by the Minister for Commerce jointly with the Minister for Fair Trading.

Department of Commerce

AUDIT OPINION

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

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

KEY ISSUES

Government Licensing Project (Repeat Issue)

The Government Licensing Project is an information technology project that crosses over a number of New South Wales licensing agencies. The project started in 2001 and was expected to be running in all relevant agencies by 2005. However, it is still being implemented and implementation is not expected until 2014.

I had reported on this project and made recommendations in previous years. In 2009, I conducted a performance audit that sought to answer the following questions:

- Was the project sufficiently planned for successful implementation?
- Has the project delivered what it promised?

In October 2009 I reported my findings and recommendations. I found that the Project is running late and over budget and is expected to produce less savings than originally planned. The report is available on our website www.audit.nsw.gov.au.

New South Wales Government Procurement Reforms (Repeat Issue)

I recommend the Department of the Premier and Cabinet implement a review mechanism to ensure agencies comply with the Government's procurement reforms addressing use of:

- State Contract Control Board contracts
- eProcurement
- eTendering.

I have previously recommended the Department of the Premier and Cabinet implement a review mechanism to ensure agencies comply with the Government's procurement reforms. I have seen no evidence that this has been acted upon.

PERFORMANCE INFORMATION

Office of Public Works and Services

The Office of Public Works and Services (the Office) helps other New South Wales Government agencies and local government manage asset procurement and maintenance needs. The Office advises that it manages around $1.0 billion of New South Wales Government capital projects annually. Some of the performance indicators used by the Department to evaluate the Office include:

Year ended 30 June	Target	Actual				
	2009	2009	2008	2007	2006	2005
Projects managed - completed on time (%)	***85***	***93***	92	89	93	88
Projects managed - completed within budget (%)	***85***	***87***	90	92	95	89
Satisfaction with asset solutions developed for clients (%)	***80***	***85***	89	88	83	*

Source: Department of Commerce (unaudited).
* No comparative available

NSW Procurement

NSW Procurement aims to deliver efficiencies and cost savings to the whole-of-government. NSW Procurement does not set or enforce procurement policy for New South Wales Government agencies.

Some indicators used by the Department to evaluate NSW Procurement's performance include:

Year ended 30 June	Target	Actual		
	2009 $m	2009 $m	2008 $m	2007 $m
Aggregated procurement cost savings from whole-of-government contracts (not including duplication avoidance savings)	***335***	***360***	330	*
Savings generated from whole-of-government period contracts as a result of avoiding duplication	***na****	***62***	40	41
Process efficiency savings from eProcurement (includes smartbuy® and eTendering)	***45***	***63***	46	40

Source: Department of Commerce (unaudited).
* No comparative/target available due to changes in savings assessment

New South Wales Government Procurement Reforms

The Government introduced significant procurement reforms in 2006-07. All agencies, except State owned corporations, were required to use State Contract Control Board (SCCB) contracts from July 2006 and to start using the eTendering website by June 2007. Major agencies were to start using eProcurement by June 2007.

Use of State Contract Control Board Contracts

The SCCB arranges the purchase of goods and services on behalf of the public sector through State contracts. These contracts are standing offers by suppliers, which apply for a specific time. The table below compares the procurement of goods and services through SCCB contracts with whole-of-government expenditure on goods and services.

Year ended	Target	Actual				
	2009	2009	2008	2007	2006	2005
Whole-of-government expenditure ($m)	***12,880****	***12,880****	12,715*	12,309*	11,950*	11,600*
SCCB contracts ($m)	***3,900***	***3,578***	3,640	3,600	3,410	3,300
SCCB contracts: whole-of-government expenditure (%)	***30***	***28***	29	29	29	28

Source: Department of Commerce (unaudited).
* Estimate only. For 2009 CPI growth of 1.3 per cent is used over 2008 (Source:ABS)

The Government's requirement for agencies to use State contracts from July 2006 has not resulted in significant increases in procurement via State contracts as a proportion of total procurement. This suggests that a mechanism is needed to ensure agencies comply with the requirements.

smartbuy®

smartbuy® is an electronic procurement system for government agencies. Some of the performance indicators used by the Department to evaluate smartbuy® include:

Year ended 30 June	Target	Actual				
	2009	2009	2008	2007	2006	2005
Value of purchase orders ($m)	***500***	***455***	359	224	109	13
Number of purchase orders ('000s)	***113***	***109***	67	44	23	6

Source: Department of Commerce (unaudited).

Premier's Memorandum 2006-11 required all major agencies to participate in the electronic marketplace by June 2007. However, only seven of the 14 major agencies had implemented smartbuy® by 30 June 2009 (seven by 30 June 2008).

eTendering

eTendering is an electronic tendering system for government agencies. One of the performance indicators used by the Department to evaluate etendering includes:

Year ended 30 June	Target	Actual			
	2009	2009	2008	2007	2006
Number of Government tenders published on the eTendering system	***3,000***	***3,083***	3,281	1,841	1,373

Source: Department of Commerce (unaudited).

Despite the slight decrease in the number of tenders published, suppliers have increased their use of the process. In 2009 46 per cent (27 per cent in 2007-08) of tender responses were lodged electronically by suppliers.

Of the 46 agencies required to adopt eTendering by June 2007 under Premier's memorandum 2006-11, six agencies have yet to initiate implementation of the eTendering website (six in 2007-08).

Government Chief Information Office

The Government Chief Information Office works to ensure that the New South Wales Government's information and communication technology (ICT) strategies and associated programs support front-line service delivery.

People First – New South Wales Government ICT Strategic Plan

People First – New South Wales Government ICT Strategic Plan was released in July 2006. It set priorities direction for government spending on ICT resources.

A key outcome of People First is savings and benefits of $565 million over four years to July 2010. In October 2008, the Department engaged consultants to independently review whether this outcome was achievable and whether the savings and economic benefits reported could be validated. The consultant's report confirmed savings and economic benefits achieved up to 30 June 2008 of $176 million could be validated and that $556 million was achievable by July 2010.

Office of Fair Trading

The Office of Fair Trading safeguards consumer rights and advises traders on fair, ethical practice. Some of the performance indicators used by the Department to evaluate the Office include:

Year ended 30 June	Target	Actual				
	2009	2009	2008	2007	2006	2005
Fair marketplace						
Customers satisfied with service (%)	***90***	***85***	85	90	90	87
Successful prosecutions (%)	***90***	***96***	92	95	86	94

Source: Department of Commerce (unaudited).

The Office advises it has around seven million instances of contact with the public annually including over one million telephone enquiries through its information centre.

Office of Industrial Relations

The Office of Industrial Relations communicates and enforces workplace regulation to ensure the rights of workers and employers are protected. Some of the performance indicators used by the Department to evaluate the Office include:

Year ended 30 June	Target	Actual				
	2009	2009	2008	2007	2006	2005
Fair and productive workplaces						
Enquiries and complaints satisfactorily resolved within targeted time frames (%)	***85***	***87***	89	92	90	85
Non-compliant employers who complied or were prosecuted within six months of notification (%)	***85***	***88***	87	87	87	91

Source: Department of Commerce.

The Office advises it received in excess of 150,000 telephone enquiries and in excess of 5,600 email enquiries during the year, also that its website had 2.7 million visits.

OTHER INFORMATION

Shared Corporate Services

The Department provides corporate services to other government agencies via ServiceFirst. ServiceFirst was formed in 2008 bringing together three separate shared service providers.

In 2008 I reported that internal controls over the processing of fixed asset transactions did not operate effectively throughout the 2007-08 financial year within part of ServiceFirst operations. I recommended the Department ensure its shared corporate services businesses maintain effective internal controls over processing of all client agency transactions.

In 2009, the Department's internal auditors co-ordinated reviews of internal controls within ServiceFirst, and whilst they identified some opportunities for improvement, they detected no material weaknesses.

Our own engagements to report on internal controls operating within ServiceFirst during the 2009 financial year resulted in unqualified independent auditor's reports.

Administrative Restructures

In June 2009 the Premier announced a new structure of the New South Wales Government comprising thirteen super agency clusters. On 27 July 2009, the 'Public Sector Employment and Management (Departmental Amalgamations) Order 2009' abolished the Department of Commerce and transferred all branches of the Department of Commerce to the Department of Services, Technology and Administration (DSTA).

Opportunities for Improvement

We identified opportunities for the Department to improve some internal control procedures and accounting processes. We have reported some recommendations to management and further recommendations will be reported shortly.

FINANCIAL INFORMATION

Abridged Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Department	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Employee related expenses	***386,827***	362,901	***382,912***	359,713
Depreciation and amortisation	***188,497***	179,408	***187,527***	178,497
Other operating expenses	***200,448***	208,486	***196,490***	204,616
Finance costs	***41,265***	37,565	***41,064***	37,395
OPERATING EXPENSES	***817,037***	788,360	***807,993***	780,221
Project and asset management services	***181,936***	168,160	***181,936***	168,160
Motor vehicle leasing	***236,424***	228,729	***236,424***	228,729
Business and personnel services	***109,301***	88,716	***109,301***	88,716
Other services	***142,399***	142,860	***133,372***	134,903
Retained taxes, fees and fines	***45,049***	57,550	***45,049***	57,550
Investment revenue	***17,392***	22,614	***17,312***	22,509
Other revenue	***15,596***	16,182	***15,596***	15,750
OPERATING REVENUES	***748,097***	724,811	***738,990***	716,317
Gain/(loss) on disposal of non-current assets	***9,894***	10,701	***9,894***	10,701
NET COST OF SERVICES	***59,046***	52,848	***59,109***	53,203
Government contributions	***161,063***	162,358	***161,063***	162,358
SURPLUS BEFORE TAX	***102,017***	109,510	***101,954***	109,155
Deferred tax benefit/(expense)	***50***	54	**--**	--
SURPLUS	***102,067***	109,564	***101,954***	109,155
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY				
Superannuation actuarial losses	***(169,296)***	(35,098)	***(169,296)***	(35,098)
Net increase/(decrease) in property, plant and equipment asset revaluation reserve	***(12,227)***	6,577	***(12,227)***	6,577
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY	***(181,523)***	(28,521)	***(181,523)***	(28,521)
Other				
Outside equity interest	***(49)***	(176)	**--**	--
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***(79,505)***	80,867	***(79,569)***	80,634

Increases in employee related expenses are mainly attributed to a four per cent salary increase and adjustments to estimates used in the long service leave provision calculation. Business and personnel services income increased to cover additional employee expenses.

Whilst the income tax equivalent regime is not applicable to the Department, one of its subsidiaries is subject to Commonwealth income tax.

The Department returned $22.1 million to The Treasury during the year ($28.7 million). This was treated as a transfer directly out of equity.

Abridged Balance Sheets for the Year

At 30 June	Consolidated		Department	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Cash and cash equivalents	***491,594***	435,178	***489,393***	432,814
Receivables	***279,461***	237,636	***278,704***	236,909
Property, plant and equipment	***665,186***	719,326	***662,358***	716,745
Other assets	***88,973***	133,832	***88,069***	133,034
TOTAL ASSETS	***1,525,214***	1,525,972	***1,518,524***	1,519,502
Payables and other liabilities	***293,655***	269,802	***292,887***	269,091
Borrowings	***550,941***	548,551	***550,941***	548,551
Provisions	***143,646***	122,590	***143,422***	122,290
Other liabilities	***111,690***	6,633	***108,325***	3,394
TOTAL LIABILITIES	***1,099,932***	947,576	***1,095,575***	943,326
NET ASSETS	***425,282***	578,396	***422,949***	576,176

Cash includes $57.8 million held in the Motor Vehicle Reserve account ($31.9 million in 2008). This account is maintained to quarantine and manage risk arising from the Government's motor vehicle fleet operations (StateFleet). By the end of September 2009, the balance reached $68.3 million and The Treasury has indicated to the Department that it will be directed to transfer $50.0 million to the Consolidated Fund.

Property, plant and equipment reduced as a result of the transfer of $68.5 million of properties to other New South Wales Government agencies during the year.

The significant movement in other assets and liabilities reflects the change in the Department's superannuation obligations. At 30 June 2008, the Department recorded a prepaid superannuation asset of $43.1 million. This had become a liability of $106 million by 30 June 2009.

The Department has borrowings from New South Wales Treasury Corporation to fund StateFleet operations. StateFleet motor vehicles are included in property, plant and equipment.

Abridged Service Group Information

The Department's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget $'000	2009 Actual $'000	2008 Actual $'000	2009 Actual $'000	2008 Actual $'000
Public Works and Services	***1,504***	***(15,780)***	(21,783)	***(64,954)***	(106,248)
NSW Procurement	***(43,938)***	***(52,862)***	(47,011)	***85,800***	52,018
Fair Trading	***52,758***	***64,664***	37,722	***144,677***	135,215
Industrial Relations	***22,619***	***22,375***	19,540	***972***	1,342
Corporate Services	***31,942***	***(10,068)***	26,660	***5,489***	76,349
Government Chief Information Office	***48,158***	***44,062***	37,966	***54,444***	60,778
Strategic Communications and Government Advertising	***2,316***	***6,718***	109	***990***	5,178
Net Assets not attributable	***na***	***na***	na	***195,531***	351,544
Total all service groups	***115,359***	***59,109***	53,203	***422,949***	576,176

The favourable variance from budgeted net cost of services was mainly due to a greater than expected workload within Public Works and Services, a larger surplus from StateFleet operations and an unexpected surplus from Corporate Services. This occurred because actuarial losses attributable to the provision of personnel services to other agencies were not recognised in net cost of services as a result of a change in accounting policy.

DEPARTMENT'S ACTIVITIES

The Department's main role is to provide services to New South Wales Government agencies.

The Department's major operational units include:

- Office of Public Works and Services
- NSW Procurement
- Government Chief Information Office
- Office of Fair Trading
- Office of Industrial Relations
- Strategic Communications and Government Advertising.

The Department has five major goals:

- maximise value for government agencies in delivering services to clients, customers and the community
- simplify processes for dealing with government
- promote a fair marketplace for consumers and traders
- promote fair and productive workplaces
- contribute to a credible, efficient and effective organisation.

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

CONTROLLED ENTITIES

The Department of Commerce has two controlled entities.

The New South Wales Government Telecommunications Authority has not been reported on separately as it is not considered material by its size or the nature of its operations to the consolidated entity.

Comment on Australian Centre for Advanced Computing and Communications Pty Limited appears elsewhere in this Volume.

Motor Vehicle Repair Industry Authority

AUDIT OPINION

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

KEY ISSUES

The Authority sold its premises during 2009 realising $2.1 million in proceeds. These proceeds were returned to The Treasury.

Separate premises are no longer required as a result of the integration of the Authority's operations with the Office of Fair Trading. The Office of Fair Trading operated as part of the Department of Commerce during 2008-09. From July 2009, the Authority's operations remain within the Office of Fair Trading, as a part of the Department of Services, Technology and Administration.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2009 $'000	2008 $'000
Fees from regulatory activities	***2,856***	1,351
Investment income and other	***91***	207
TOTAL REVENUE	***2,947***	1,558
Administration charges	***1,983***	3,209
Other	***92***	137
TOTAL EXPENDITURE	***2,075***	3,346
Loss on disposal of non-current assets	***213***	--
SURPLUS/(DEFICIT)	***659***	(1,788)

In 2008, the Authority's licensing processes moved to the Government Licensing System (GLS). Using the GLS, renewals are issued on the anniversary date of the original application. Previously, all renewals were issued in March. This change brought about a one-off reduction in revenue during the 2008 year.

The Department of Commerce's corporate services charges reduced in 2009 due to a combination of reduced personnel services costs and reduced Consumer, Trader and Tenancy Tribunal costs. Costs in 2008 also included some one-off integration and relocation costs.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***3,169***	4,429
TOTAL ASSETS	***3,169***	4,429
Current liabilities	***194***	28
TOTAL LIABILITIES	***194***	28
NET ASSETS	***2,975***	4,401

The reduction in net assets reflects the sale of property and transfer of funds to The Treasury.

AUTHORITY ACTIVITIES

The Authority's principal function is to regulate repairs to motor vehicles by licensing repair businesses and certifying repair tradespeople. The Authority also promotes improvements in the standard of motor vehicle repair work and assists in the settlement of disputes between motor vehicle owners and repairers.

The Authority is a statutory body constituted under the *Motor Vehicle Repairs Act 1980*.

The Authority is controlled by the Minister for Commerce jointly with the Minister for Fair Trading.

Rental Bond Board

AUDIT OPINION

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

KEY ISSUES

Trust Funds Shortfall

I recommend the Board continue to:

- closely monitor the difference between amounts owed to bond depositors and the value of trust fund investments
- closely monitor its investment strategy
- investigate appropriate changes to legislation to clarify responsibilities and enable resolution if a shortfall in the Trust Fund eventuates.

The Board holds residential bonds in trust. It invests these funds and at 30 June 2009, the market value of the investments exceeded the value of residential bonds held in trust by $1.5 million.

At 30 June 2008, the value of residential bonds held in trust exceeded the market value of the related investments by $27.7 million.

At 30 June	2009 $'000	2008 $'000
Amounts owing to bond depositors	***798,292***	741,874
Market value of rental bond investments	***799,757***	714,184
Excess/(shortfall)	***1,465***	(27,690)

The *Landlord and Tenant (Rental Bonds) Act 1977* does not explicitly address the circumstances of a shortfall such as that occurring in 2008. Last year I recommended that the Board seek clarification of its legal obligations in respect of any shortfall.

During 2009 the Board obtained a legal opinion from the Crown Solicitor's Office that indicated the Board would be liable for any shortfall. However, current legislation does not allow payments from the Board's funds to make good any shortfall.

The Board is seeking a review of the *Landlord and Tennant (Rental Bonds) Act 1977* with a view to amending the legislation to allow the Board to make payments to fund any shortfall.

PERFORMANCE INFORMATION

Rental Bonds

The Board holds 644,000 bonds at 30 June 2009 (635,000 in 2008). The increase of 1.3 per cent is higher than last year's increase of 1.1 per cent, but less than the five year average of 2.2 per cent.

The Board processed a total of 520,000 rental bond lodgements and disbursements during 2009 (527,000).

OTHER INFORMATION

Major Projects

The Department of Services, Technology and Administration provides supporting services to the Board on a cost recovery basis. The Department's project to upgrade the computer systems supporting rental bond operations is expected to cost $4.9 million and be operational in September 2010.

FINANCIAL INFORMATION

Summary financial information

Year ended 30 June	2009 $'000	2008 $'000
TOTAL INVESTMENT INCOME	***49,202***	45,224
Administrative services	***24,281***	24,832
Tenancy function of Consumer, Trader and Tenancy Tribunal	***10,756***	8,578
Grants	***6,283***	4,127
Tenancy services	***386***	498
Interest on rental bonds	***104***	97
Other operating expenses	***798***	773
OPERATING EXPENSES	***42,608***	38,905
SURPLUS	***6,594***	6,319
NET ASSETS	***32,985***	26,391

The Board receives income from the investment of rental bonds lodged by tenants. The increase in investment income is mainly due to the increase in rental bonds lodged.

Grants increased in 2009 with the implementation of new funding arrangements for credit counselling and 'no interest' loans schemes. These programs fund assistance mainly to low income tenants.

The rate of interest payable on rental bonds is prescribed in clause 10 of the Landlord and Tenant (Rental Bonds) Regulation 2003 and is equivalent to the rate payable by the Commonwealth Bank of Australia on a Streamline Account Balance of $1,000.

BOARD ACTIVITIES

The Board is constituted by the *Landlord and Tenant (Rental Bonds) Act 1977*. The Board is an independent and impartial guardian of rental bonds on private residential tenancies in New South Wales. The Board also provides access to tenancy information to help uphold the rights and responsibilities of tenants and landlords.

The Board is controlled by the Minister for Commerce jointly with the Minister for Fair Trading.

For further information on the Board, refer to the Office of Fair Trading's website www.fairtrading.nsw.gov.au.

State Records Authority of New South Wales

AUDIT OPINION

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

PERFORMANCE INFORMATION

The Authority provided the following information regarding its performance:

Year ended 30 June	Target	Actual			
	2009	2009	2008	2007	2006
Records in storage (metres)	***410,000***	***413,320***	395,477	373,737	348,000
Number of file retrieval operations	***320,000***	***327,122***	313,920	321,216	312,095
Number of catalogued record items discoverable online	***270,000***	***269,832***	239,876	205,460	174,242
Number of website visits*	***1,100,000***	***1,598,503***	1,553,894	976,382	--*

* Statistic not comparable (and not included) due to change in basis of gathering statistic (unaudited).

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2009 $'000	2008 $'000
Sale of goods and services	***11,591***	11,101
Grants and contributions	***6,068***	6,609
Other	***111***	158
TOTAL REVENUE	***17,770***	17,868
Personnel services	***10,673***	10,697
Other	***6,138***	5,657
TOTAL EXPENSES	***16,811***	16,354
SURPLUS	***959***	1,514

Personnel services to the Authority are provided by the Department of Services, Technology and Administration.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***6,107***	5,167
Non-current assets	***55,546***	56,748
TOTAL ASSETS	***61,653***	61,915
Current liabilities	***2,751***	2,915
Non-current liabilities	***5,812***	6,869
TOTAL LIABILITIES	***8,563***	9,784
NET ASSETS	***53,090***	52,131

Non-current assets comprise mainly the Authority's records centre in Western Sydney.

State Archives

Whilst the Authority is the custodian of State archival collections, these collections are not included in net assets. Due to the unique and irreplaceable nature of the collections and no legal market for them, the Authority cannot reliably measure these items for inclusion in its assets.

Records are considered worthy of being retained permanently as State archives because of their administrative or legal value, or their value for historical or other research. They include records created by current and past New South Wales government agencies relating to subjects such as convicts, shipping, land settlement, Aboriginal people, public works, court cases and hotel licences.

The quantity of State archives is currently around 66 linear kilometres.

AUTHORITY ACTIVITIES

The Authority is established under the *State Records Act 1998*. It is responsible for managing the New South Wales State archives collection, setting the rules and providing guidance on the management of official records. The Authority also provides records storage services to the New South Wales public sector, local government, universities and other public sector entities.

The Authority is subject to the control and direction of the Minister for Commerce.

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

Minister for Community Services

Department of Community Services

NSW Businesslink Pty Ltd

Department of Community Services

AUDIT OPINION

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

KEY ISSUES

Transfer of functions to the Department of Human Services NSW

On 27 July 2009, the 'Public Sector Employment and Management (Departmental Amalgamations) Order 2009' transferred the functions of the former Department of Community Services (now known as Community Services) to the Department of Human Services NSW. The Department of Community Services was abolished.

Special Commission of Inquiry into Child Protection Services (the Wood Commission)

> Community Services is in varying stages of implementing the recommendations made in the Wood Commission. It needs to ensure it meets the timeframes for implementation of the recommendations.

The Wood Commission Report into child protection services in New South Wales was released in November 2008, and contained 111 recommendations. 'Keep Them Safe: A shared approach to child wellbeing (2009-2014)' is the Government's response to each of the recommendations. Of these, five have not been supported, and 106 have been supported in part or in full by the Government. Community Services advised that it is lead or joint-lead agency for implementation of 70 of the recommendations, of which five have been completed.

Community Services advised that although it does not have a Child Wellbeing Unit (CWU), it has been actively involved in the establishment of these units, including development of a comprehensive training program for CWU staff, and input into the development of:

- common policies and procedures
- data governance and management arrangements
- key performance indicators
- business process maps
- ICT business requirements, and
- information exchange arrangements.

Community Services has also developed the IT system to be used by CWUs, to assist them in identifying children and young people who may be known to a number of agencies. The platform also links agency staff together to better support vulnerable children and young people who do not meet the new threshold, but where early intervention may reduce problems before they escalate.

In response to the Wood Commission, the NSW Government will invest $750 million over five years to implement 'Keep Them Safe'. More than 40 per cent of this funding will be to NGOs.

Community Services provided an implementation update for fifteen of the key priorities for which it is lead or joint-lead agency:

Wood Commission Recommendation	Time-frame	Current Status
2.1 The KiDS Core Redesign Update Project should be funded and implemented.	Immediate	Before the KiDS redesign update occurs, Community Services has recognised the need to complete comprehensive business process mapping; structured decision-making; and feedback to mandatory reporters.
6.6 The trial of e-reporting should be extended to NSW Health, each Area Health Service, the Children's Hospital at Westmead, the Department of Juvenile Justice and the NSW Police Force.	Long Term**	Work is on track for e-reporting to be available to the newly established Child Wellbeing Units.
8.5 The NSW Government should develop a strategy to build capacity in Aboriginal organisations to enable one or more to act as advisers to Community Services in all facets of child protection work.	Long Term	Formal consultation with peak groups has commenced, and a key stakeholder visit to Victoria to research its approach was recently undertaken.
9.1 Community Services should test the use of Structured Decision Making tools at the Helpline and at Community Service Centres in relation to assessments and interventions, including restoration.	Short Term	Completed. A Report on the field test at the Helpline went to the Minister and KTS SOG in September 2009.
9.2 A common assessment framework should be developed for use by Community Services and other agencies in child protection work which encompasses all risk factors.	Short Term	A Mandatory Reporter Guide has been developed and is currently being finalised. In addition, the NSW Interagency Guidelines for Child Protection Intervention are currently being revised and broadened to capture the full scope of child wellbeing under the new system. These will provide the basis for the common assessment framework.
9.8 The work of the Drug and Alcohol Expertise Unit should be expanded to include mental health and domestic violence.	Short Term	A model for the expansion of the Unit has been approved. Implementation of consultation strategy is well advanced with new linkages across mental health and domestic violence policy arenas articulated. Key Health partners engaged in cross-agency projects.
10.6 The capacity of NGOs, Aboriginal and non-Aboriginal, to staff and deliver the services to children, young persons and families detailed in Recommendations 10.4 and 10.5 a, b, c, e, f and g of the Wood Report, particularly those who present with a range of needs, including those which are complex and chronic, should be developed.	Five years	Progress on track or mainly on track.
10.11 Within three to five years, case management of all families in Brighter Futures should be by Lead Agencies.	Three to five years	Progress on track or mainly on track, pending the outcome of a Brighter Futures evaluation, scheduled for completion in September 2010. The Government will consider any further transfer of case management to Lead Agencies, following completion of the evaluation.

Wood Commission Recommendation	Time-frame	Current Status
11.5 Community Services should develop Guidelines for staff in order to ensure adherence to the Aboriginal and Torres Strait Islander Child and Young Person Placement Principles in s.13 of the Children and Young Persons (Care and Protection) Act 1998.	Short Term	Initial consultations with key stakeholders have been undertaken and a draft Aboriginal Consultation Guide has been developed.
13.3 Care applications under relevant legislation should be made by way of an application filed in the Court supported by a written report containing sufficient information to support a determination that a child is in need of care and protection.	Immediate	New policies, procedures and templates will be in place in time for the proclamation of the relevant legislative provisions.
13.7 Guidelines should be developed for Community Services caseworkers based on the Code of Conduct applicable to the Office of the Director of Public Prosecutions.	Short Term	Community Services will develop the guidelines in consultation with interested parties, including the Court and Legal Aid.
16.2 Over the next three to five years, there should be a gradual transition to increase the provision of Out-of-Home Care (OOHC) services by the NGO sector for children and young persons under a number of different scenarios.	Long Term	A review is currently being finalised to develop the plan to gradually increase the provision of OOHC services by the NGO sector. While the transition is occurring, Community Services will continue in the recruitment of foster carers. It is improving processes to deliver more timely and efficient recruitment and assessment across government and non-government organisations.
16.10 The Memoranda of Understanding (MOU) between Community Services and respectively, the Department of Ageing, Disability and Home Care (ADHC), NSW Health and the Department of Education and Training should be revised to reflect the increasing responsibilities of NGOs for the provision of OOHC.	Immediate	The work on the Community Services/ADHC MoU has been completed. The other MoUs are mainly on track (the Government's response was that all MoUs would be updated by the end of March 2009).
23.6 Community Services should centralise its Allegations Against Employees Unit and receive sufficient funding to enable this restructure, and to resource it to enable it to respond to allegations in a timely fashion.	Immediate	Community Services has conducted a cost benefit analysis and consulted major stakeholders. Recruitment to the new positions in Head Office will be finalised by December 2009.
25.1 All NSW Government funding to NGOs delivering universal, secondary and tertiary services to children, young persons and their families to prevent or otherwise address child protection concerns should be reviewed, so as to establish a coordinated system for the allocation of their funded resources.	Long Term	Progressing. The Government's response was that it would take a staged approach, commencing with a review of Community Services funded programs, with a specific component addressing the service delivery needs of Aboriginal families and communities.

Notes: Timeframe:
Immediate = substantially commenced within 6 months
Short Term = substantially commenced within 12-18 months
Long Term = substantially commenced within 2-3 years
** Differs from the timeframe recommended by the Wood Commission.

Renwick Redevelopment Project

In 2003-04, the Department of Community Services entered into an Agreement with Landcom for the development and sale of the Department's Renwick property located in Mittagong. The project involved the staged subdivision and development of the land to create at least 400 lots. In accordance with the agreement, the Department received advances of $10.0 million in January 2009 and $8.0 million in 2004-05 from projected sales proceeds.

In December 2008, rezoning of the property was completed. Under the agreement this meant all conditions that may have required the Department to return the advances to Landcom had been satisfied, and all the risks and rewards of ownership of the land effectively transferred to Landcom. Community Services no longer has any financial interest in the development and consequently the carrying value of the land, including rezoning costs of $13.9 million, has been de-recognised in the financial report.

Breaches of Financial Delegations

Community Services staff need to adhere to financial delegations. Where delegations are changed they need to be more effectively communicated to staff.

From 5 May 2008 some projects funded under the *Community Welfare Act 1987* were approved by officers without the appropriate delegation. This occurred primarily because some Community Services staff were not aware of reduced delegations. After we reported this issue to management, an 'Instrument of Ratification' was issued by the Minister for Community Services to validate all previous expenditure incurred above delegated limits for the period 5 May 2008 to September 2009.

A grant for $6.6 million made to a non-government organisation to provide OOHC services was approved by an officer whose delegation limit was only $1.0 million. The grant should have been approved by the Minister. An 'Instrument of Ratification' was subsequently issued by the Minister to approve the grant.

Repeat Management Letter Issues

The following matters have been reported to Community Services for at least the past two years and should be addressed as a matter of priority.

Lack of Formal Compliance Framework

Community Services does not have a formal compliance framework to identify all relevant legislation, regulations and policies it is required to comply with; the risks associated with non-compliance; the basis on which risks are controlled; and a monitoring mechanism for identifying and reporting compliance/non compliance and remedial action(s) taken. Community Services advised that with the formation of the Department of Human Services NSW, a project to prepare a compliance monitoring framework, encompassing all the agencies within the lead Department, is underway. Community Services expects to have a framework in place by the end of January 2010.

Restriction of User Access

User access levels in the Key Information Directory System (KiDS) are not appropriately restricted and controlled. This puts the validity of information in the KiDS system at risk.

Out-of-Home Care Placement Reviews

Placement reviews for children in Out-of-Home Care are not always performed at appropriate intervals. Community Services' policies require children in permanent placements to be reviewed every 12 months, and those in temporary placements every three months.

Segregation of Duties for Manual Journals

There is inadequate segregation of duties over the processing of journals by the service provider. Although there are some processes in place that lower this risk, management will meet with the service provider shortly to determine an appropriate solution.

Financial Delegations

Before invoices greater than $5,000 are processed for payment by Community Services' service provider, the service provider should check that appropriately delegated officers have approved the invoices for payment. This check is not always being done. The service provider has advised it is addressing this issue.

PERFORMANCE INFORMATION

Services Provided by Community Services

Community Services' primary role is to promote and enhance the safety and wellbeing of children, young people and their families and to provide services that support and strengthen the community. In 2008-09 Community Services delivered its role under four service groups:

- Community Services ($199 million)
- Prevention and Early Intervention ($270 million)
- Statutory Child Protection ($377 million)
- Out-of-Home Care ($580 million).

Community Services

The Community Services program provides, amongst other things, general community support, including disaster welfare assistance and transitional support and accommodation services to children, young people and adults who are homeless or at risk of homelessness. Some services are provided by Community Services while others are provided in collaboration with non-government organisations and other government agencies.

The Supported Accommodation Assistance Program (SAAP) is a joint State/Commonwealth program that provides accommodation and support services to adults and unaccompanied children who are homeless or at risk of becoming homeless. The number of clients, including accompanying children assisted by SAAP services has increased from 30,050 in 2004-05 to 56,700 in 2007-08. Community Services advised this partly reflects a move towards early intervention and post crisis support in SAAP in New South Wales.

Violence against Women and Children

Calls to the Domestic Violence line decreased slightly from 23,285 calls in 2007-08 to 23,061 calls in 2008-09. The majority of calls related to verbal, physical and psychological abuse. More than 6,971 calls involved over 14,200 children living in the affected households in 2008-09.

Prevention and Early Intervention Services

This program provides funds towards the delivery of early childhood services, including licensing and monitoring of child care services.

Statistics relating to children's services are provided below.

Year ended 30 June	2009	2008	2007	2006	2005
Number of funded children's services	***1,583***	1,609	1,619	1,641	1,663
Estimated total licensed/funded capacity places per day	***45,477***	45,957	46,008	46,132	46,319
Licensed children's services	***3,440***	3,419	3,341	3,236	3,174
Estimated total licensed capacity places per day	***154,351***	150,776	146,120	138,648	133,217
Number of children aged 0-5 years who attended funded licensed children's services	***87,470***	66,797	68,859	69,691	66,748
Number of children from low income families for whom child care fees were reduced	***23,978***	11,617	10,843	12,435	13,457
Total funds expended on prevention and early intervention services ($'000)	***167,881***	149,618	152,579	121,564	102,228

Source: Community Services (unaudited).

In 2008-09 the number of funded children's services, including centre based services, mobile services, vacation care and early childhood services continued to decline. Between 2008 and 2009 there was a significant rise (106.4 per cent) in the number of children from low income families for whom childcare fees were reduced, due to a number of factors including the Preschool Investment and Reform Plan.

Over the last five years, licensed children's services and estimated licensed places per day have increased 8.4 per cent and 15.9 per cent respectively. Community Services advised that a contributing factor was the Preschool Investment and Reform Plan, which in 2008-09 resulted in funding of $10.2 million, allowing Community Services to increase funding to 51 per cent of community preschools in New South Wales.

Total expenditure incurred on prevention and early intervention services significantly increased in 2008-09, due to the dedicated funding of the Brighter Futures Early Intervention Program. The Program supports vulnerable families with children under nine years experiencing domestic violence, drug and alcohol misuse, child behaviour problems and lack of parenting skills. At 30 June 2009, almost 9,000 children participated in the program, a 38.0 per cent increase from 2007-08.

Community Services advised that an interim evaluation of the Brighter Futures program shows a significant reduction in the average number of reports received for children in Brighter Futures families at three and six months after exit, compared to the number of reports these children received in the same time periods before entry.

Statutory Child Protection

Responsibilities under this program include:

- responding to reports of child abuse and neglect
- assessing and investigating reports
- developing case plans and
- initiating and supporting court action.

Community Services works with other agencies to ensure that the safety, welfare and wellbeing of children are assured.

The table below provides some statistics relating to child protection.

Year ended 30 June	2009	2008	2007	2006	2005
Total child protection reports	***309,676***	303,121	286,033	241,003	216,386
Rate per 1,000 children and young people 0-17 years who were subject of a report	***83.5***	81.0	78.8	68.8	64.1
Rate per 1,000 children and young people 0-17 years who were subject of a report requiring further assessment	***71.1***	65.7	65.1	54.8	50.1
Number of reports referred for further investigation	***226,946***	209,015	201,208	160,842	140,184
Number of JIRT* referrals accepted	***3,436***	3,180	3,023	3,338	3,620
Volume of calls answered by Helpline	***166,228***	152,037	132,433	109,340	93,691
Average waiting time (minutes)	***2:51***	2.56	2.59	3.49	3.57

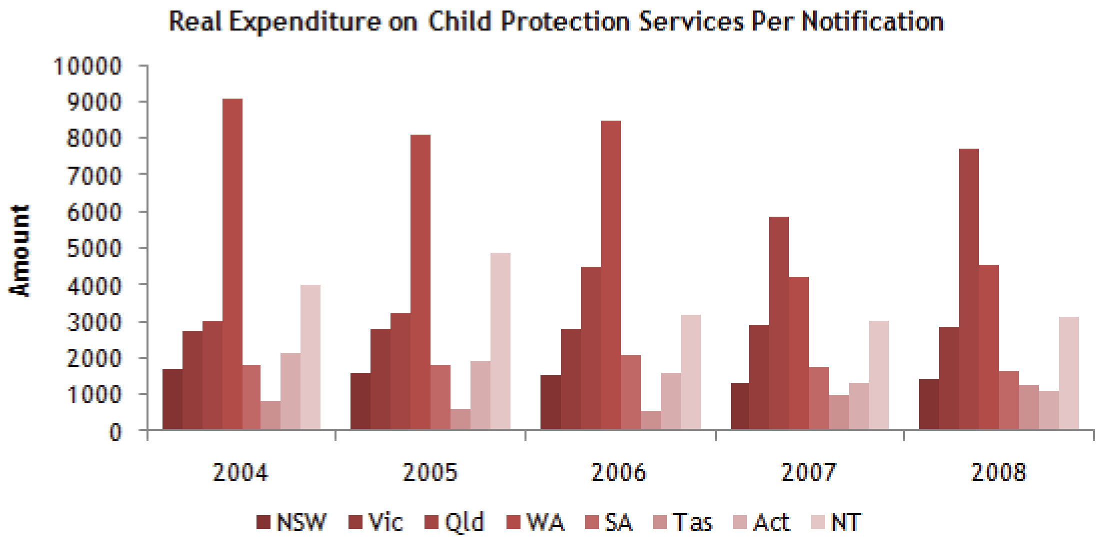
Source: Community Services (unaudited)
* refers to joint investigation response team referrals of child abuse which might be of a criminal nature.

Over the last five years total child protection reports have increased by 43.1 per cent. During the same period, the number of reports referred for further assessment rose by 61.9 per cent. The proportion of reports referred for further assessment in relation to total child protection reports increased from 64.8 per cent in 2004-05 to 73.3 per cent in 2008-09.

Calls answered by Helpline increased by 14,191 in 2008-09, an increase of 77.4 per cent on 2005. The Helpline is required to answer calls in an average of three minutes. In 2009 the average waiting time per call was two minutes and 51 seconds, an improvement of five seconds on 2008.

Real Recurrent Expenditure on Child Protection Services

This expenditure varies greatly between the States. The following three graphs show expenditure on child protection services ‘per notification’, ‘per investigation’, and ‘per substantiation’ for States and Territories for the period 2003-04 to 2007-08.

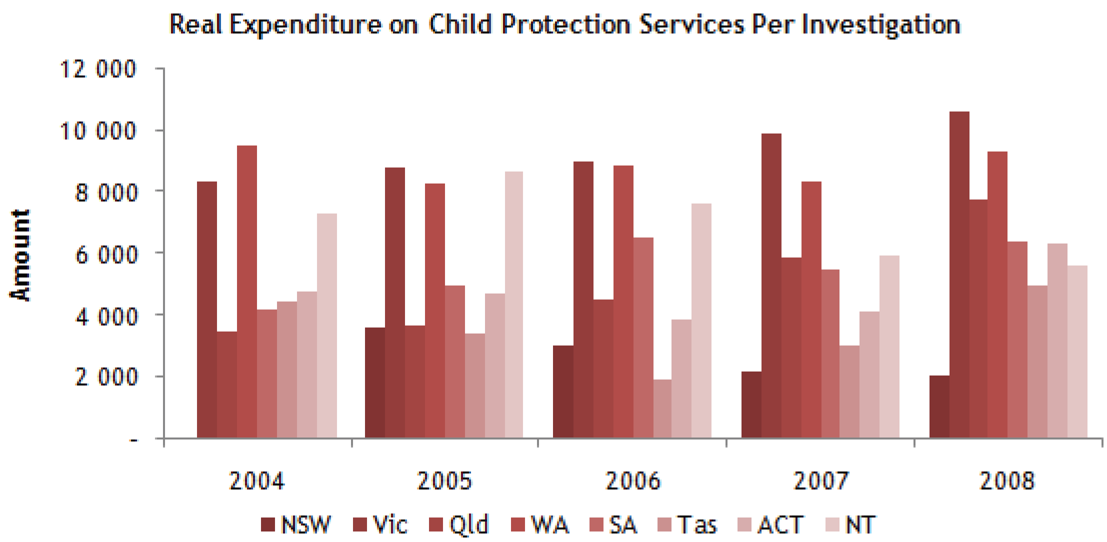


Source: Productivity Commission Report on Government Services 2009.
Notes by the Productivity Commission:

- The data needs to be interpreted with care. This data is based on total expenditure on child protection activities; the expenditure does not represent and cannot be interpreted as unit costs for notifications, investigations or substantiations. The data cannot be added together to determine overall cost of child protection services.
- 2006-07 data for some jurisdictions may not be strictly comparable with previous years, due to the introduction of a new investigation category 'Investigation closed - no outcome possible' in 2006-07. Cases where an investigation was closed and where no outcome was possible may previously have been recorded.
- New South Wales provided limited data for 2003-04 due to the introduction of a new client information system. Financial data for early intervention is included in child protection.
- Number of notifications, investigations and substantiations is not strictly comparable across jurisdictions.

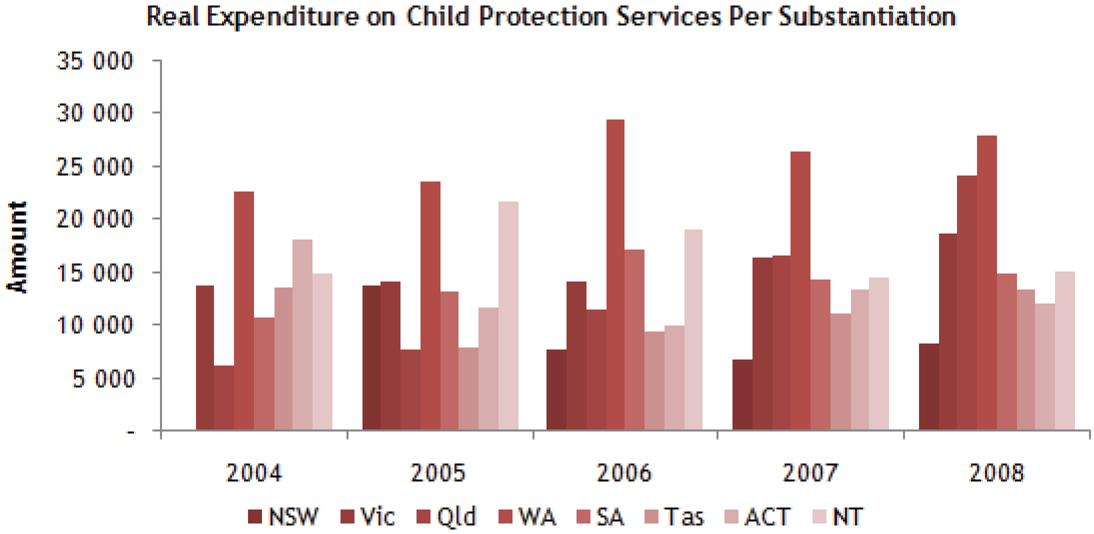
(These notes also apply to the two graphs that follow.)

New South Wales expenditure on child protection services per notification increased from $1,319 in 2006-07 to $1,443 in 2007-08. Queensland had the highest expenditure ($7,714) per notification in 2007-08, while the lowest was $1,106 for the Australian Capital Territory.



Source: Productivity Commission Report on Government Services 2009.

Since 2004-05, expenditure on child protection services per investigation has increased in all states and territories except for New South Wales and the Northern Territory. In New South Wales, expenditure per investigation has declined from $3,614 in 2004-05 to $2,052 in 2007-08 and was by far the lowest expenditure of all states. Community Services advised this decrease was mainly due to a significant increase in the number of notifications and associated investigations and substantiations, without a commensurate increase in total child protection funding.



Source: Productivity Commission Report on Government Services 2009.

In 2007-08, Western Australia had the highest expenditure ($27,884) on child protection services per substantiation and New South Wales the lowest ($8,271). Since 2004-05 the expenditure per substantiation in New South Wales has declined by 39.5 per cent.

Children Aged 0-16 Years in Protection Notifications, Finalised Investigations and Substantiations

Indigenous children continue to be over represented in the child protection system.

Year ended 30 June	NSW 2008	National Average 2008	NSW 2007	National Average 2007	NSW 2006	National Average 2006
Children Aged 0-16 years in notification (rates per 1,000 children)						
Indigenous (i)	256.2	143.8	221.0	124.8	181.2	100.9
Non-indigenous	59.1	36.5	58.4	36.3	50.9	33.4
All children	67.0	41.3	64.9	40.2	56.2	36.5
Children Aged 0-16 Years in finalised investigations as a proportion of children in notifications (ii)						
Indigenous %	70.0	61.8	63.3	56.3	57.2	57.0
Non-indigenous %	52.1	45.7	44.2	39.0	42.1	43.1
All children %	54.9	48.2	46.9	41.4	44.1	44.8
Children Aged 0-16 Years in substantiations as a proportion of children in finalised investigations						
Indigenous %	29.6	39.7	38.2	42.7	42.6	51.2
Non-indigenous %	21.9	33.0	27.7	36.1	32.2	45.4
All children %	23.5	34.3	29.6	37.4	33.9	46.3

Source: Productivity Commission Report on Government Services 2009.

(i) Data on the number of notifications by indigenous status should be interpreted with care. Data are collected very early in the child protection process and often before the agency has full knowledge of the child's family circumstances. As a result of this lack of full knowledge and other inherent difficulties in identifying indigenous status, the data are not considered to have a high level of reliability.

(ii) For 2006-07, national data on finalised investigations for indigenous, non-Indigenous and all children does not include Queensland.

For the three years 2006 to 2008, New South Wales' rate of notifications per 1,000 children aged 0-16 was significantly higher than the national average for both indigenous and non-indigenous children.

In New South Wales, 55,939 children aged 0-16 years were the subject of finalised investigations in 2007-08, an increase from 46,227 in 2006-07. Of those children who had a finalised investigation in 2007-08, 23.5 per cent were substantiated. If an investigation results in substantiation, intervention by Community Services may be needed to protect the child. The intervention can be supervision and support, application to court and placement in Out-of-Home Care.

Out-of-Home Care (OOHC)

This program seeks to provide children and young people with a safe, stable, culturally appropriate environment in which they can develop optimally when they cannot live at home. It provides a range of OOHC options, including:

- foster care and kinship care for children separated from their parents
- monitoring and reviewing of placements
- recruiting and supporting carers and
- supporting young people who have exited care.

The table below provides some statistics relating to OOHC.

Year ended 30 June	2009	2008	2007	2006	2005
Annual actual OOHC expenditure ($'000)	***552,449***	463,890	364,688	295,938	291,845
Number of children and young people in OOHC	***16,524***	14,667	12,712	10,623	10,041
Cost per child ($)	***33,433***	31,628	28,688	27,858	29,065

Source: Community Services (unaudited).
Notes: The figures are not adjusted for inflation to real dollars.

The increases in the 2008-09 figures reflect reforms that began in 2007 to improve OOHC services, mainly in the non-government sector. Community Services advised that funding is being allocated through an expression of interest process to agencies that have expertise in managing and delivering services for children and young people in care. As at 30 April 2009, 28 new service agreements were approved as part of this process.

OOHC Individual Client Agreements (ICAs)

Individual Client Agreements (ICAs) are a temporary measure used by Community Services to purchase OOHC services when there is no available placement in the funded service system, and there is no foster care available. Community Services advised that ICAs are primarily used for high needs children. High needs children are those exhibiting extremely challenging and self-harming behaviours.

Community Services intends to gradually replace ICAs with purchased bulk placements under new three to five year service agreements. Community Services advised that in 2008-09 it replaced 442 ICAs with purchased bulk placements, leaving 879 ICAs to be replaced.

The table below shows the cost of ICAs to Community Services over the last five years.

Year ended 30 June	2009 $'000	2008 $'000	2007 $'000	2006 $'000	2005 $'000
Total Cost Incurred by Community Services for ICAs	***104,800***	84,162	61,247	62,038	67,828

Source: Community Services (unaudited).

The total cost incurred in 2008-09 increased by 24.5 per cent when compared with 2007-08. Community Services advised that the increase was due to an influx of children into OOHC during the year, as well as the lack of sufficient funded and foster care placements. Community Services also advised that the average cost per ICA (i.e. per child) was $95,400 in 2008-09, a decrease from $97,119 in 2007-08.

OTHER INFORMATION

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

FINANCIAL INFORMATION

Abridged Operating Statement

Year ended 30 June	2009 $'000	2008 $'000
Employee related	***394,289***	359,322
Grants and subsidies	***857,607***	753,473
Other expenses	***174,251***	192,939
TOTAL EXPENSES	***1,426,147***	1,305,734
Grants and contributions	***3,468***	6,267
Other revenue	***11,717***	17,134
TOTAL REVENUE	***15,185***	23,401
Loss on disposal of non-current assets	***5,240***	1,600
Other losses	***42***	109
NET COST OF SERVICES	***1,416,244***	1,284,042
Government contributions	***1,419,473***	1,283,713
SURPLUS/(DEFICIT)	***3,229***	(329)

Employee related expenses increased mainly due to salary increases and higher staff numbers.

The increase in grants and subsidies expenses was mainly due to increased OOHC expenses as well additional preschool opportunities to children.

The decrease in other expenses is primarily due to a decrease in computer service costs of $14.2 million, and $3.6 million in staff development costs.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***32,637***	25,419
Non-current assets	***112,767***	161,500
TOTAL ASSETS	***145,404***	186,919
Current liabilities	***80,275***	74,558
Non-current liabilities	***376***	12,813
TOTAL LIABILITIES	***80,651***	87,371
NET ASSETS	***64,753***	99,548

The decrease in non-current assets was mainly due to a reduction of $22.3 million in the value of property, plant and equipment on revaluation; the transfer of 19 properties with a value of $15.7 million to the State Property Authority in accordance with a Premier's Memorandum; and the de-recognition of the Renwick property (refer to 'Key Issues').

Non-current liabilities declined primarily due to a decrease in unearned revenue of $8.0 million, also relating to the Renwick property.

Abridged Service Group Information

Community Services' net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget** $'000	2009 Actual $'000	2008 Actual $'000	2009 Actual $'000	2008 Actual $'000
Community Services	***193,204***	***194,403***	187,801	***4,021***	5,593
Prevention and Early Intervention Services	***262,540***	***269,154***	218,082	***10,719***	14,015
Statutory Child Protection	***389,825***	***374,162***	389,125	***28,062***	54,952
Out-of-Home Care	***492,740***	***578,525***	489,034	***(132)***	10,135
Not Attributable *	-	-	-	***22,083***	14,853
Total all service groups	***1,338,309***	***1,416,244***	1,284,042	***64,753***	99,548

* Amounts that could not be reliably allocated to a 'service group'.
** Per the New South Wales 2008-09 Budget Papers.

COMMUNITY SERVICES ACTIVITIES

Community Services administers a large portion of the State's community welfare programs. The programs provide assistance to disadvantaged or vulnerable families and children, adolescents and communities, based on the *Community Welfare Act 1987* and related legislation.

For further information on Community Services, refer to www.community.nsw.gov.au.

NSW Businesslink Pty Ltd

AUDIT OPINION

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

KEY ISSUES

Repeat Management Letter Issues

> As a matter of priority, management should address issues identified during the course of this and prior audits, which have been reported to it for at least the last two years.

Stock Take and Recording of Assets

Discrepancies between assets identified during the annual stock take and those recorded in the general ledger indicate that stock take procedures, and procedures for the recording and tracking of assets, need to be strengthened to ensure assets are adequately accounted for.

Verification of Financial Delegations

Before invoices greater than $5,000 are processed for payment by the Company for clients, it should check that appropriately delegated officers have approved the invoices for payment. This check is not always being done. Management has advised it is addressing this issue.

PERFORMANCE INFORMATION

The Company provided the following information regarding its financial performance.

Year ended 30 June	Target	Actual		
	2009*	2009**	2008**	2007**
Fee for service cost to revenue ratio (%)	***87.5***	***87.9***	88.2	80.7
Earnings before interest, income tax, depreciation and amortisation (EBITDA) margin (%)	***10.7***	***(4.4)***	9.1	13.5
EBITDA margin (excluding superannuation actuarial losses) (%)	***na***	***8.2***	12.8	8.8

Source: * Company Statement of Business Intent (SBI) 2008-09.
** Company statistics (unaudited).
na: No agreed target included in the Company's SBI.

The fee for service cost to revenue ratio has increased from 80.7 per cent in 2006-07 to 87.9 per cent in 2008-09. Management advised that the increase resulted from CPI and annual salary increases, while the Company's product prices remained static over the same period. In 2008-09 the ratio was slightly above target.

The deterioration in the EBITDA margin from a positive 9.1 per cent last year to a negative 4.4 per cent this year was mainly due to the need to recognise superannuation actuarial losses of $21.1 million (refer to ‘Financial Information’ section).

OTHER INFORMATION

Service Partnership Agreements

The Company has Service Partnership Agreements in place with its clients for the exclusive provision of designated corporate services. The agreements with two of its clients expired in August 2009 whilst a third expired in August 2007. All parties to the agreements are continuing to comply with the terms of the original agreements. Management has advised that new agreements are being developed.

Future Developments

The ‘Public Sector Employment and Management (Departmental Amalgamations) Order 2009’ created the Department of Human Services NSW, which includes the Company’s three existing clients plus another three agencies which may become clients in the future.

Internal Control Issues

We identified opportunities for improvement to accounting and internal control procedures and have reported them to management, including the following:

Segregation of Duties for Manual Journals

There is inadequate segregation of duties over the processing of journals. Although there are some processes in place that lower this risk, management will meet with client agencies shortly to determine an appropriate solution.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2009 $'000	2008 $'000
Fees for services	***127,559***	121,435
Project fees	***38,858***	36,621
Other	***699***	1,195
TOTAL REVENUE	***167,116***	159,251
Personnel services	***73,257***	53,006
Contractors	***57,334***	55,473
Information technology	***20,828***	14,974
Depreciation and amortisation	***12,415***	14,222
Telecommunication	***9,071***	9,307
Other expenses	***14,543***	13,235
TOTAL EXPENDITURE	***187,448***	160,217
DEFICIT	***20,332***	966

Personnel services expenses increased by 38.2 per cent largely due to actuarially assessed losses on superannuation of $21.1 million. The Company is required to pay fees to the Department of Commerce equivalent to all employee related costs and all employment administration costs.

The rise in information technology expenses was mainly due to increased expenses for the maintenance of computer software licenses.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***22,553***	26,400
Non-current assets	***42,585***	29,618
TOTAL ASSETS	***65,138***	56,018
Current liabilities	***57,378***	35,162
Non-current liabilities	***5,112***	5,223
TOTAL LIABILITIES	***62,490***	40,385
NET ASSETS	***2,648***	15,633

Current assets decreased largely due to a decrease in cash holdings and project work in progress.

The increase in non-current assets was mainly due to the replacement of desktop computers and the transfer of the Department of Ageing, Disability and Home Care's Funding Management System valued at $7.3 million to the Company in June 2009.

Current liabilities include $38.9 million ($15.9 million) payable to the Department of Commerce for employee services. The increase is mainly attributable to the actuarial losses on superannuation.

COMPANY ACTIVITIES

NSW Businesslink Pty Ltd is a State Government owned company established under the *Corporations Act 2001*. It is the shared corporate service provider for administrative services, such as human resources, property and records management, information technology services and other financial services for Housing NSW, Community Services and Ageing, Disability and Home Care. It was established to support these agencies in their service delivery by providing better and more efficient services through economies of scale, productivity gains and process improvements.

NSW Businesslink Pty Ltd shareholders are the Treasurer and the Ministers for the participating agencies.

For more information on NSW Businesslink Pty Ltd, refer to www.businesslink.nsw.gov.au.

Minister for Education and Training

Teacher Housing Authority of New South Wales

Teacher Housing Authority of New South Wales

AUDIT OPINION

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

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2009 $'000	2008 $'000
Rental income	***9,588***	9,342
State Government contribution	***5,265***	5,115
Other	***422***	385
TOTAL REVENUE	***15,275***	14,842
Depreciation	***2,793***	2,876
Personnel expenses	***2,345***	1,874
Property expenses	***8,549***	7,483
Other	***1,975***	1,780
TOTAL EXPENSES	***15,662***	14,013
(DEFICIT)/SURPLUS	***(387)***	829

Personnel expenses rose mainly from an increase in the related superannuation cost. The majority of the increase in property expenses was from refurbishment of the Authority's dwellings.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***7,464***	5,147
Non-current assets	***145,258***	141,051
TOTAL ASSETS	***152,722***	146,198
Current liabilities	***4,749***	1,539
TOTAL LIABILITIES	***4,749***	1,539
NET ASSETS	***147,973***	144,659

The increase in current assets was largely due to unspent funding received in June 2009 from the Department of Education and Training. The majority of the increase in non-current assets was from property additions and a new property valuation.

OTHER INFORMATION

At 30 June 2009, the Authority's property portfolio comprised 1,296 properties (1,278), consisting of 540 houses (547), 714 villa units (697) and 42 vacant allotments (34). In addition, the Authority manages 235 school residences (252) on behalf of the Department of Education and Training.

AUTHORITY ACTIVITIES

The Authority's principal function is to provide and maintain suitable and adequate housing accommodation for teachers.

The Authority is a statutory body under the *Teacher Housing Authority Act 1975*.

As at 30 June 2009 the Authority operated under the control and direction of the Minister for Education and Training. Since July 2009 the Authority has operated under the control and direction of the Minister for Commerce.

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

Minister for Finance

State Property Authority

State Property Authority

AUDIT OPINION

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

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

PERFORMANCE INFORMATION

Vacancy Rates

The Authority sets a vacancy benchmark of 1.5 per cent. Records maintained by the Authority show vacancy rates for properties managed by the Authority ranged from 0.9 per cent in July 2008 to 1.6 per cent in March 2009. This performance is comparable with the prior year when vacancy rates ranged from 0.7 per cent to 1.4 per cent.

At 30 June 2009, 5,200 square metres representing 1.2 per cent of the Authority's office accommodation remained vacant (3,162 square metres representing 0.9 per cent at 30 June 2008). This is better than reported vacancy rates for Sydney commercial office space, being 7.7 per cent at July 2009 and 4.3 per cent at July 2008.

OTHER INFORMATION

Major Projects

The Queanbeyan Government Service Centre was completed during the year at a project cost of $34.5 million. This building consolidated eleven New South Wales Government agencies into a single location.

The Penrith Government Office Building was completed during the year at a project cost of $43.5 million. This building acts as headquarters for one New South Wales Government agency and local offices for others.

The Authority advises that these projects were completed on time and within budget.

At 30 June 2009, the Queanbeyan and Penrith properties were independently valued having regard to the future economic benefit they provide to the Authority. The Authority obtains benefits in the form of rental income. Queanbeyan was valued at $24.3 million and Penrith at $26.5 million. These values do not reflect the cost of replicating the assets nor the benefits to other government agencies or the public from relocating government agencies to the new facilities.

It is not uncommon for the total construction cost of properties to exceed subsequent valuations. This is because the main purpose of these buildings is to satisfy government service delivery needs, not commercial investment.

Vesting Program

Premier's Memorandum 2008-06, 'State Property Authority and Government Property Principles' established the framework for management of government property assets. Key initiatives of the framework included:

- ownership of all government owned office accommodation vesting in the Authority
- transferring to the Authority of management responsibility of all government leased office accommodation.

As a consequence, ownership of seventy properties and management of 41 leases vested with the Authority during 2008-09. On 1 July 2009, a further four properties and 309 leases transferred.

Contaminated Land

The Authority acquired three properties in Hunters Hill owned by NSW Health during the year. These properties are contaminated by residues from an uranium processing plant that operated on the site from 1911 to 1916. The plant was run by the Radium Hill Company, a commercial enterprise that no longer exists.

The Authority will manage the remediation of the properties to make them suitable for residential development.

At 30 June 2009, the properties had an estimated fair value of $1.0 million in an unremediated state. At this time, costs of remediation were estimated at $4.9 million.

The Authority also has significant land holdings in Newcastle, some of which are contaminated. These properties were acquired by government in 2002 from BHP Billiton.

On 30 June 2009, the Treasurer approved the transfer of various parcels of the Newcastle land to Newcastle Ports Corporation (NPC) for $75.0 million and indemnified NPC from any liability for contamination on the transferred lands. The transfer occurred in July 2009.

Prior to this approval, the Authority had estimated the remediated fair value of the land transferred at $270 million and recognised a liability of $63.2 million for remediation. At 30 June 2009, the Authority adjusted the fair value of the land to the amount it would receive as proceeds, realising a $195 million impairment loss.

On the basis of the indemnity provided in respect of contamination, the Authority still recognises a liability for remediation at 30 June 2009.

Transfer of Land to Hunter Development Corporation (HDC)

In July 2007, the State Government approved for negotiations to occur between the Authority and HDC in relation to the transfer of various other parcels of the Authority's Newcastle lands. Arrangements for these transfers progressed in 2008-09 with a significant portion of the land, $54.6 million, transferred on 1 February 2009. A further $41.7 million of land is expected to transfer in 2009-10.

Administrative Restructures

In June 2009 the Premier announced a new structure of the New South Wales Government comprising 13 super agency clusters. The Authority is allocated to the Department of Services, Technology and Administration within the Land and Property Management Authority.

There has been no change to the Authority's status as a statutory body representing the Crown under the *State Property Authority Act 2006* or to its objectives or functions as set out in that Act.

On 27 July 2009, the 'Public Sector Employment and Management Order (Departmental Amalgamation) Order 2009' abolished the Office of the State Property Authority. This Office had provided personnel services to the Authority. After this date the Authority will obtain personnel services from the Land and Property Management Authority.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Property rental income	***185,336***	159,664	***185,336***	159,664
Grants and contributions	***23,357***	80,316	***23,357***	80,316
Other income	***9,585***	13,185	***9,585***	13,185
OPERATING REVENUE	***218,278***	253,165	***218,278***	253,165
Property related outgoings	***121,031***	109,436	***121,031***	109,436
Depreciation and amortisation	***21,983***	14,265	***21,983***	14,265
Other operating expenses	***16,896***	(1,651)	***16,896***	(1,651)
Employee related expenses	***11,948***	8,938	***17,272***	10,552
OPERATING EXPENSES	***171,858***	130,988	***177,182***	132,602
Net gain on disposal and revaluation of property	***2,094***	11,980	***2,094***	11,980
SURPLUS	***48,514***	134,157	***43,190***	132,543
Net gain on revaluation of property	***31,835***	147,454	***31,835***	147,454
Impairment losses on property	***(195,396)***	--	***(195,396)***	--
Superannuation actuarial losses	***(5,324)***	(1,614)	**--**	--
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***(120,371)***	*279,997*	***(120,371)***	*279,997*
Distributions to government	***39,035***	73,755	***39,035***	73,755

Property related income and outgoings increased as a result of the additional owned and managed properties in 2009.

Grants and contributions received from the State Government include $17.4 million ($74.7 million in 2008) for major capital projects and asset renewals.

Distributions to government represent $39.0 million of surplus on rental operations ($32.5 million). The 2008 distribution also included $41.3 million of proceeds from asset sales.

Abridged Balance Sheet

At 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Cash and cash equivalents	***140,583***	120,628	***140,583***	120,628
Receivables	***46,553***	34,070	***43,751***	31,656
Property	***975,567***	1,109,000	***975,567***	1,109,000
TOTAL ASSETS	***1,162,703***	1,263,698	***1,159,901***	1,261,284
Payables	***30,729***	19,008	***38,248***	21,379
Finance lease liabilities	***52,576***	54,565	***52,576***	54,565
Provision for land remediation and other	***136,843***	106,274	***126,522***	101,489
Deferred rental income	***168,992***	172,164	***168,992***	172,164
TOTAL LIABILITIES	***389,140***	352,011	***386,338***	349,597
NET ASSETS	***773,563***	911,687	***773,563***	911,687

Cash and cash equivalents include $100 million ($95.3 million) set aside for remediation of land acquired by the government from BHP Billiton. Cash and cash equivalents also includes $13.9 million (nil) held in trust for another government agency for property acquisitions in progress.

The Authority's property portfolio includes:

At 30 June	2009 $'000	2008 $'000
Land and buildings held for operations and investment	***728,319***	572,767
Vacant land	***152,563***	386,939
Finance lease assets	***81,793***	92,633
Emerging interests in properties subject to long term leases	***5,750***	9,400
Work in progress	***3,912***	44,884
Other	***3,230***	2,377
Total Property	***975,567***	1,109,000

Land held for operations and investment increased as a result of the acquisition of properties from other agencies and the completion of major projects. Vacant land decreased as a result of an impairment write down arising from government's decision to transfer land to another agency at an amount less than carrying amount.

The Authority advises that its property portfolio exceeds 1 million square metres at 30 June 2009.

AUTHORITY'S ACTIVITIES

The *State Property Authority Act 2006* established the Authority as a statutory body from 1 September 2006. The Authority's principal objectives are to:

- improve operational efficiencies in the use of properties by government agencies
- manage properties of government agencies in a way that supports the delivery of government services by agencies
- advise government on property matters
- operate at least as efficiently as any comparable business.

The Authority is subject to the control and direction of the Minister for Finance.

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

CONTROLLED ENTITY

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

Entity Name
Office of the State Property Authority

Minister for Housing

Aboriginal Housing Office

City West Housing Pty Limited

Home Purchase Assistance Fund

Housing NSW

Refer to Appendix 1 for:

Payments to other Government Bodies under the control of the Minister

Aboriginal Housing Office

AUDIT OPINION

The audit of the Aboriginal Housing Office (AHO) and its controlled entity's financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

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

KEY ISSUES

Commonwealth and State Grants Funding

Last year, we recommended management review its operations to determine the level of services it could realistically offer to various Aboriginal communities given the funding uncertainties at the time. Since then these funding concerns have been resolved.

The Commonwealth State Housing Agreement (CSHA), the Community Housing and Infrastructure Program (CHIP) and the Healthy Indigenous Housing Initiative (HIHI) ended in June 2008, but the Commonwealth Government then extended the funding for the CSHA and HIHI programs to December 2008. National Affordable Housing Agreement (NAHA) replaced CSHA from 1 January 2009 and Australian Remote Indigenous Accommodation (ARIA) replaced CHIP from 1 July 2008.

Total Asset Management Plan

Last year we recommended management include comprehensive details of its asset acquisition program in the AHO's Total Asset Management Plan (TAM) and Statement of Business Intent (SBI). AHO included its asset acquisition program in its 2009-10 TAM Plan, which it attached to the SBI.

Tax Ruling

The AHO recently submitted two separate requests to the Australian Taxation Office (ATO) for private rulings in relation to the Goods and Services Tax treatment of various transactions arising in relation to both the Repairs and Maintenance Community Assets Program and the Housing Aboriginal Communities Program. The AHO received ATO rulings in August 2009 and is seeking external advice on the implications of these rulings. The AHO advised that it is not possible to accurately determine whether a liability exists until the rulings have been fully reviewed.

PERFORMANCE INFORMATION

The AHO has developed targets as a measure of its performance including:

Management of Housing Stock

Year ended 30 June	Target	Actual				
	2009	2009	2008	2007	2006	2005
AHO dwellings planned repairs and maintenance ($m)*	***7.8***	***9.2***	7.9	4.3	5.3	7.9
Management of repairs and maintenance budget (community) ($m)	***10.5***	***11.1***	5.5	6.9	7.0	7.2
Average cost per dwelling upgraded/repaired:						
- AHO dwellings ($)	***40,625***	***47,917***	29,306	36,402	29,170	na
- Aboriginal community dwellings ($)	***6,470***	***6,839***	5,971	10,633	10,350	na

Source: Aboriginal Housing Office (unaudited).
na: not available
* Prior to 2009 this program was known as the AHO Upgrade program.

The AHO's planned maintenance program, undertaken on AHO housing stock, now includes works to ensure its repairs and maintenance liability is minimised. The program ranges from relatively minor works on newer dwellings to large works on older dwellings. During 2009, modifications to comply with disabled access requirements were undertaken on 48 dwellings in the Western Region. Management advised that while a lower number of modifications were initially targeted these significantly higher value works were essential for tenant wellbeing.

Expenditure on community property repairs and maintenance program was $600,000 more than budget ($2.8 million less than budget in 2007-08). Management advised this program is limited to the comparatively small value of works required to either improve or maintain health and safety needs.

The major difference in the average cost per dwelling to upgrade/repair AHO dwellings and Aboriginal community dwellings is that the AHO fully funds its own dwellings and only partly funds the Aboriginal community dwellings.

Tenant and Property Management

Year ended 30 June	Target	Actual				
	2009	2009	2008	2007	2006	2005
Rental income (net of property expenses) ($m)	***5.2***	***5.3***	5.8	3.8	2.7	2.7
Rental income arrears (%)	***8.0****	***8.5****	7.2*	7.5*	7.2*	7.5*

Source: Aboriginal Housing Office (unaudited).
*: Percentage of gross rental income.

The AHO manages a property portfolio with a value of $909 million ($893 million) with gross annual rental income of $28.1 million ($26.4 million). Rental income arrears increased in 2009 due to the global financial crisis.

FINANCIAL INFORMATION

Abridged Income Statements

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Grants and contributions	***42,628***	53,588	***42,628***	53,588
Rental income	***28,058***	26,423	***28,058***	26,423
Other	***12,417***	10,267	***12,417***	10,267
TOTAL REVENUE	***83,103***	90,278	***83,103***	90,278
Depreciation	***6,963***	6,420	***6,963***	6,420
Employee related*	***7,958***	7,425	***7,958***	7,425
Housing program	***34,571***	39,122	***34,571***	39,122
Property expenses	***22,798***	20,633	***22,798***	20,633
Other expenses	***4,648***	11,309	***4,648***	11,309
TOTAL EXPENSES	***76,938***	84,909	***76,938***	84,909
SURPLUS	***6,165***	5,369	***6,165***	5,369

* Including superannuation actuarial losses.

The decrease in other operating expenses is primarily due to less assets being disposed of at a loss.

The AHO's housing program incurred the following expenditure:

Year ended 30 June	2009 $'000	2008 $'000
Community asset acquisition of dwellings – Aboriginal communities program	***2,769***	12,591
AHO dwelling planned repairs and maintenance	***9,069***	7,829
Community dwelling repairs and maintenance	***10,721***	5,212
Aboriginal Community Development Program	***6,921***	7,000
Other	***5,091***	6,490
	34,571	39,122
Employee related expenses	***1,123***	2,086
Total	***35,694***	41,208

Management advised the decrease in housing expenditure was largely due to the 20.5 per cent fall in grants received by the AHO as a result of:

- cessation of the Commonwealth Government's Community Housing Infrastructure Program required the AHO to significantly reduce the acquisition of dwellings for Aboriginal communities
- revised Commonwealth Funding Agreements being finalised during the year the AHO undertook a mid-year revision of its works program. Funds were reallocated between various programs when compared to the 2008 result. This was done to comply with the terms and conditions of the new Agreements.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***44,555***	57,059	***42,583***	55,239
Non-current assets	***925,347***	904,058	***925,347***	904,058
TOTAL ASSETS	***969,902***	961,117	***967,930***	959,297
Current liabilities	***20,024***	23,783	***21,199***	23,583
Non-current liabilities	***3,297***	1,796	***150***	176
TOTAL LIABILITIES	***23,321***	25,579	***21,349***	23,759
NET ASSETS	***946,581***	935,538	***946,581***	935,538

Current assets decreased due mainly to lower cash levels from the decrease in grants received by the AHO. Non-current assets increased mainly due to $16.9 million of asset acquisitions and a $4.9 million revaluation of the AHO's existing properties. Current liabilities decreased due to the timing of payments made to its major service provider.

OTHER INFORMATION

The 'Public Sector Employment and Management (Department Amalgamations) Order 2009' transferred all branches of the AHO to the New South Wales Department of Human Services and abolished the Aboriginal Housing Group of Staff, effective July 2009.

AHO'S ACTIVITIES

The AHO's principal functions are to plan, develop, deliver and evaluate programs and services to assist Aboriginal and Torres Strait Islander peoples within New South Wales to meet their dwelling needs. Other functions relate to registering and funding Aboriginal community housing providers; the power to enter into agreements with registered Aboriginal community housing providers; and the management of property owned by the AHO.

The AHO was constituted by the *Aboriginal Housing Act 1998*. It is subject to the control and direction of the Minister for Housing.

For further information on the AHO, refer to www.aho.nsw.gov.au.

CONTROLLED ENTITY

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

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

Entity Name	Website
Aboriginal Housing Office Group of Staff	www.aho.nsw.gov.au

City West Housing Pty Limited

AUDIT OPINION

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

PERFORMANCE INFORMATION

The Company had 491 residential units at 30 June 2009. This includes 446 units in Ultimo/Pyrmont, accommodating 850 people and 45 units in Green Square, accommodating 85 people. This is consistent with 30 June 2008.

The Company reported a 99 per cent average occupancy in 2009 and 2008.

In May 2009, the Company commenced a further development of 57 residential units on a site owned in Green Square. Completion is expected in August 2010 at a cost of $19.7 million (average cost per unit $345,000).

Accommodation is allocated to eligible applicants according to need. Eligibility is determined by applicants':

- gross household income and financial circumstances
- connections to the local area
- current housing adequacy and suitability
- need for long term housing in the local area
- Australian residency.

The Company assesses applications and determines rents using three income bands. At six month intervals, tenants are reassessed to ensure they still meet eligibility requirements and are charged appropriate rents.

The Company provided the following information about its actual and prospective tenants:

At 30 June 2009	**Income level**		
	Band 1 **$** **<29,094**	**Band 2** **$** **29,095** **to** **47,381**	**Band 3** **$** **47,382** **to** **80,180**
Portion of household income contributed to rent (%)	***25.0***	***27.5***	***30.0***
Occupancy mix (%)	***22.0***	***39.0***	***39.0***
Applicants on eligibility list (#)	***133***	***97***	***134***

(unaudited).

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2009 $'000	2008 $'000
Developer contributions	***6,556***	7,726
Rental income and tenants' contributions to outgoings	***5,385***	4,807
Investment income	***2,380***	2,148
Other	***24***	1,214
TOTAL REVENUE	***14,345***	15,895
Depreciation	***3,768***	3,302
Property outgoings and maintenance	***1,475***	1,275
Employee benefits	***420***	388
Other	***204***	165
TOTAL EXPENDITURE	***5,867***	5,130
SURPLUS	***8,478***	10,765

The Company's main sources of revenue are contributions from developers and rent from tenants. In 2008, the Company received $1.2 million from a one-off land sale.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Cash and investments	***51,679***	40,512
Property, plant and equipment	***208,373***	210,588
Other	***368***	294
TOTAL ASSETS	***260,420***	251,394
Trade and other payables	***881***	332
Employee benefits	***202***	203
TOTAL LIABILITIES	***1,083***	535
NET ASSETS	***259,337***	250,859

The Company's current Green Square development will be funded from cash and investments held at 30 June 2009.

Property, plant and equipment include $206 million of units rented to tenants ($210 million at 30 June 2008). The average cost of construction is approximately $243,000 per unit. Costs per unit range from approximately $160,000 for a development in Pyrmont completed in 1997 to approximately $398,000 for a development in Waterloo completed in 2007. The average fair value of units at 30 June 2009 is $420,000 ($428,000 in 2008).

COMPANY ACTIVITIES

The Company was established in 1994, with its principal function to provide affordable rental housing to very low, low and moderate-income households in Pyrmont, Ultimo and Green Square. It develops and manages affordable housing, which contributes to the maintenance of a socially diverse community in the inner city.

The Company has two classes of shares; ordinary shares and redeemable preference shares. Ownership of the Company is vested in the ordinary shares; one held by the Minister for Housing and one by the Treasurer. Redeemable preference shares are issued to organisations with a direct interest in the development and management of affordable rental housing in the City West area. There are currently 11 preference shareholders.

For further information on the company, refer to www.citywesthousing.com.au.

Home Purchase Assistance Fund

AUDIT OPINION

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

KEY ISSUES

Investment powers compliance

Under the Public Authorities (Financial Arrangements) Regulation 2005, the Trustee of the Home Purchase Assistance Fund (the Fund) is defined as an entity included in the definition of an 'authority', thereby having Part 1 investment powers under the *Public Authorities (Financial Arrangements) Act 1987* (the Act).

Currently the Trustee, under the directions of Housing NSW, invests in bank bills and bonds which are only allowable under part 2 of the Act. As a result, the Fund is investing in instruments beyond its investment powers. Housing NSW is liaising with The Treasury to seek legislative change to increase its investment powers under the Act.

Net assets attributable to beneficiaries

Net assets attributable to beneficiaries were not split between capital contributions and accumulated funds. In addition, the Fund should determine the extent of entitlement each beneficiary has in the Fund.

FINANCIAL INFORMATION

Year ended 30 June	2008 $'000	2007 $'000
Revenue	***28,394***	26,244
Expenses	***594***	714
Surplus	***27,800***	25,530
Distributions	***97,249***	25,181
Net assets attributable to beneficiaries (at 30 June)	***366,388***	435,837

Revenue comprises interest earned on investments, while expenditure mainly comprises the operational support payment paid to Housing NSW and the Trustee's fee.

Distributions made by the Fund were:

- $21.5 million ($21.5 million in 2006-07) to the Crown Entity for reimbursement of loan and interest repayments made to the Commonwealth Government. The nominal value of the Crown Entity's loans was $258 million at year end ($268 million)
- $725,000 ($752,000) to special beneficiaries for revenue shortfalls of individual FANMAC Trusts and Shared Equity Schemes
- $75.0 million ($2.9 million) to Housing NSW as a return of capital.

The majority of assets are market traded bonds and bank bills.

FUND ACTIVITIES

A Trust Deed established the Fund on 14 February 1989 to support the State's home purchase assistance program. The Fund is required to make distributions including:

- meeting any income shortfalls in the FANMAC Trusts and some Shared Equity Schemes. These distributions are paid to the Special Beneficiary, Permanent Trustee Company Limited, as Trustee of these Trusts and Schemes. The FANMAC Trusts were established to raise funds on behalf of the State and to lend funds to a certain class of homebuyers under conditions specified by the Government. As at 30 June 2008 the only mortgage trust still operating was the FANMAC Master Trust
- those as directed by the beneficiary. The beneficiary is the Minister of the Crown of the State of New South Wales for the time being charged with the administration of the *Housing Act 2001*.

Housing NSW

AUDIT OPINION

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

KEY ISSUES

Transfer of functions to the Department of Human Services

On 27 July 2009, the 'Public Sector Employment and Management (Departmental Amalgamations) Order 2009' transferred the functions of the former Department of Housing to the Department of Human Services. The Department of Housing was abolished.

Social Housing Implementation Plan

During the year ended 30 June 2009, Housing received $84.7 million under the Social Housing Implementation Plan. In the same period, it spent $65.2 million on repairs and maintenance and $47.5 million on new construction. The Plan is part of the Commonwealth Government's Nation Building Economic Stimulus Plan. Under the Plan, Housing will build approximately 6,000 dwellings in the next two to three years in addition to its existing plans to build around 3,000 dwellings.

The table below details the cash received and the spending across the three components of the Plan:

Year Ended 30 June 2009	Cash received $m	Actual Expenditure $m	Accrued Expenditure for Completed and Work in Progress $m	Total $m
Repairs and maintenance	65.2	33.8	31.4	65.2
Stage 1	19.5	32.2	6.8	39.0
Stage 2	--	3.9	4.6	8.5
Total expenditure	**84.7**	**69.9**	**42.8**	**112.7**

Source: Housing NSW (unaudited).

At 30 June 2009, Housing advised they incurred $39.0 million and completed approximately 17 per cent of Stage 1 of the Plan. This stage will see approximately $226 million deliver 858 dwellings through 119 projects. Stage 1 brings forward already planned and approved construction for social housing dwellings. Housing's financial report shows an increase in current liabilities at 30 June 2009, which is mostly due to Stage 1 activity.

Housing incurred $8.5 million on Stage 2 of the Plan by 30 June 2009. This stage involves tendering for new construction, including the spot purchase of house and land packages for use in social housing.

The program model adopted by Housing involves the outsourcing of project work to a number of major development/project management firms and Landcom.

The breakdown of approved funding under Stage 1 and Stage 2 by area is detailed below:

Region	Stage 1		Stage 2		Total	
	No. of Dwellings	$m	No. of Dwellings	$m	No. of Dwellings	$m
Central Sydney	135	38.5	1,025	332.8	1,160	371.3
Greater Western Sydney	289	75.7	1,741	535.0	2,030	610.7
Northern Division	346	90.8	1,738	503.6	2,084	594.4
Southern and Western Division	88	20.6	1,145	331.8	1,233	352.4
Total	**858**	**225.6**	**5,649**	**1,703.2**	**6,507**	**1,928.8**

Source: Housing NSW (unaudited).

Initial funding allocations from the Commonwealth Government, compared with other jurisdictions is detailed below. Since 30 June, the Commonwealth Government amended New South Wales' funding for Stage 2 to $1.7 billion.

	Repairs and maintenance $m	Stage 1 $m	Stage 2 $m	Total $m
NSW	130.4	225.6	1,725.2	2,081.2
Vic	99.2	171.5	1,313.0	1,583.7
Qld	80.0	138.6	1,062.2	1,280.8
WA	40.0	70.0	538.1	648.1
SA	32.1	51.9	395.3	479.3
Tas	9.3	16.1	122.6	148.0
ACT	6.5	11.2	85.2	102.9
NT	2.5	7.1	54.4	64.0
Total	**400.0**	**692.0**	**5,296.0**	**6,388.0**

Source: Commonwealth Government Nation Building Economic Stimulus Plan.

Repairs and maintenance funding is over two years. The Commonwealth Government expects this funding to be spent by 30 June 2010. Housing will receive funding for Stages 1 and 2 from 2008-09 to 2011-12. The Commonwealth Government expects Housing to complete 75 per cent of the dwellings under Stage 1 and Stage 2 no later than 31 December 2010.

Housing Governance over the Plan Project

Housing has developed a comprehensive governance structure suited to its delivery model. It is relying on existing governance structures as well as:

- establishing an Integrated Program Office responsible for implementation, management and delivery of the project
- engaging its Audit and Risk Management Committee to review and monitor the management and delivery of the project.

Housing's internal audit function will have an ongoing assurance role in relation to the expenditure incurred.

Reporting Entity (Repeat Issue)

I recommend The Treasury make amendments to the *Public Finance and Audit Act 1983* (the Act) or New South Wales Land and Housing Corporation prepare a financial report.

Housing should assist Parliament amend its legislation to clarify its functions and those of the New South Wales Land and Housing Corporation (the Corporation) and establish the Department of Human Services as the controlling entity.

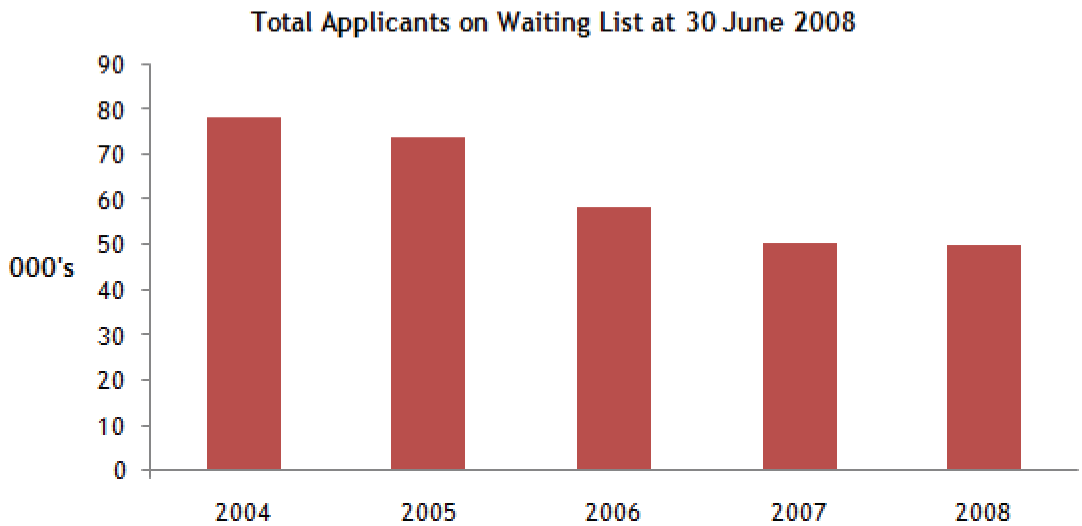
Housing has completed all the proposed changes to the *Housing Act 2001* (Housing Act) including clarification of the functions of Housing and the Corporation. However, due to the current Housing Review commissioned by the Department of Premier and Cabinet, the amendments to the Housing Act have been delayed.

I first reported this matter in Volume One of 2007.

PERFORMANCE INFORMATION

Waiting Lists

Housing's public housing waiting lists including transfer applicants have decreased over the past five years from 77,984 in 2004 to 49,950 in 2008, a 35.9 per cent reduction (35.5 per cent reduction for the four years to 2007). About 13,300 applicants were housed annually in this period. Housing advised the reduction in waiting lists is mainly from improved management of the housing registers, including regular surveys of applicants to determine their ongoing eligibility and needs.



Source: Productivity Commission Report on Government Services, 2009

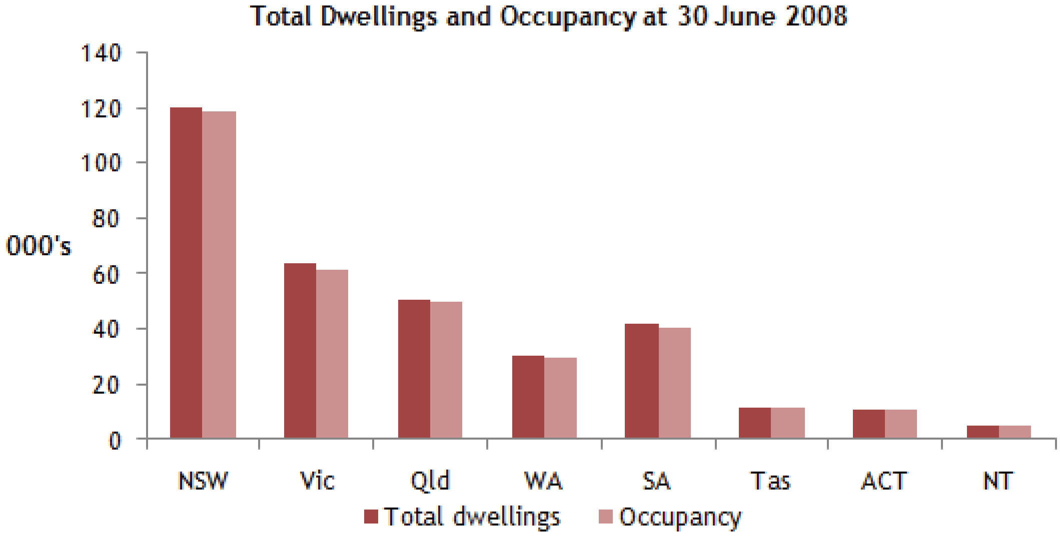
Provision of Social Housing

During 2007-08 Housing assisted 346,200 (352,600) people through the provision of social housing. The New South Wales Government's RentStart Program helped approximately 32,649 (approximately 28,000) households into the private rental market.

Private Rental Assistance provided was $26.4 million ($24.5 million). This includes payment of rental arrears to salvage existing tenancies and assistance in bonds and advance rent.

Number of Public Housing Properties and Occupancy Rates

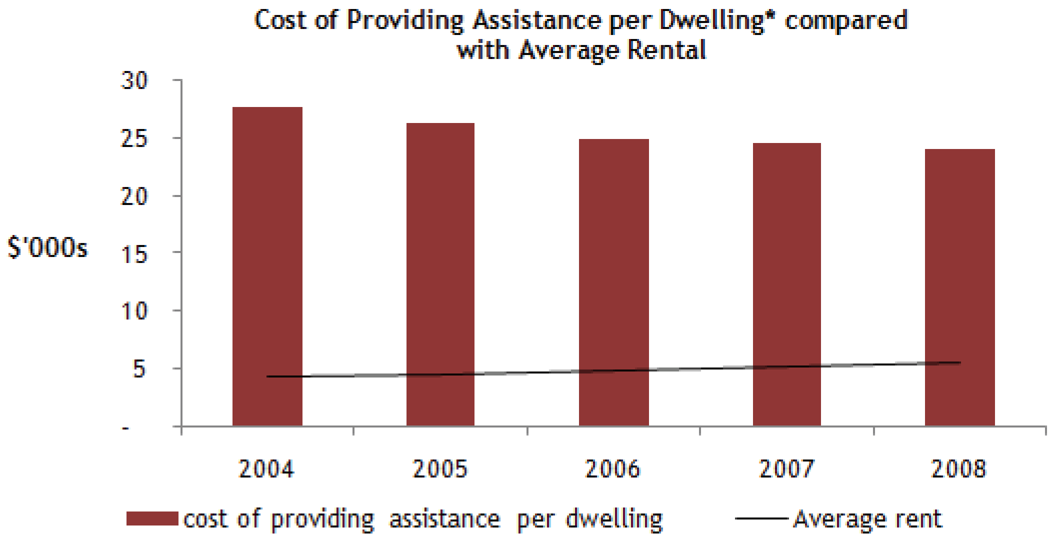
At 30 June 2008, New South Wales had the greatest number of public housing properties in Australia. Queensland had the highest occupancy rate at 99.1 per cent (99.1 per cent). New South Wales had an occupancy rate of 99 per cent (98.6 per cent) which was higher than the national average of 98 per cent (98 per cent).



Source: Productivity Commission Report on Government Services, 2009

Cost of Providing Assistance per Dwelling compared with Average Rental

There has been a slight increase in average rent. As compared, over the same period, the cost of providing Assistance per Dwelling has declined. Housing attributes this to declining cost of capital offset by rent increases.

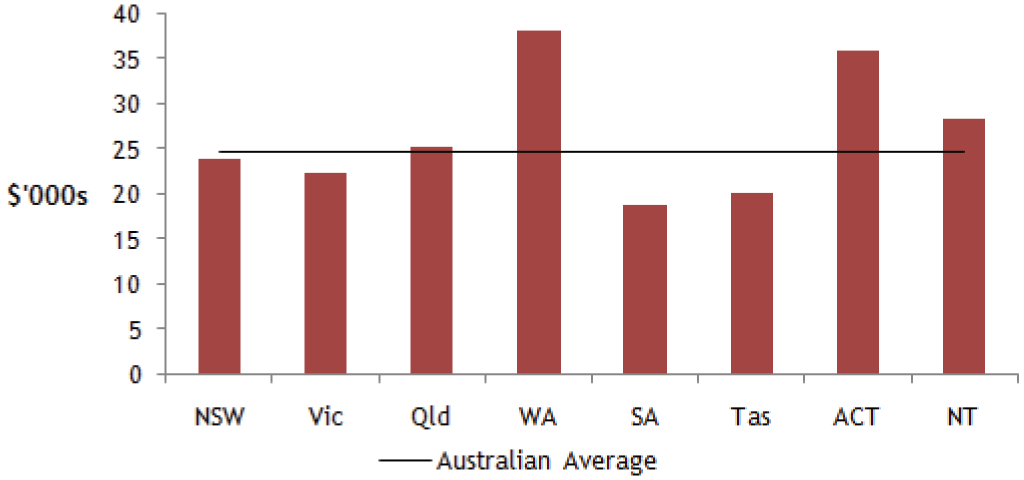


Source: Compiled by the Audit Office of New South Wales, based on information in the Productivity Commission Report on Government Services, 2009
* Cost of providing assistance per dwelling includes the cost of capital.

Cost of Providing Assistance per Dwelling

In 2007-08, New South Wales had the fifth (fourth) highest cost of providing assistance (including the cost of capital) per dwelling at $23,938 ($23,497), 3.2 per cent lower (3.4 per cent higher) than the national average.

Cost of Providing Assistance per Dwelling 2008



Source: Productivity Commission Report on Government Services, 2009

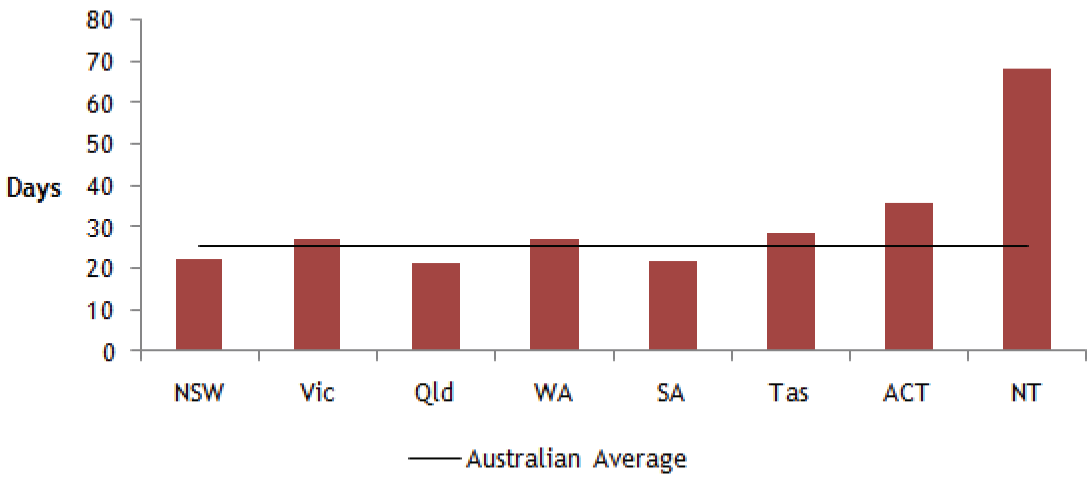
Cost of providing assistance per dwelling comprises recurrent costs (excluding payroll tax) plus depreciation and cost of capital, less interest paid. Issues on the comparability of the cost data across jurisdictions include consistency of data collection, completeness of data and the possibility of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

Average Turnaround Time

In 2007-08, New South Wales' public housing turnaround time of 22.2 days (25.7 days) was lower than the Australian average of 25.2 days (27.6 days).

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

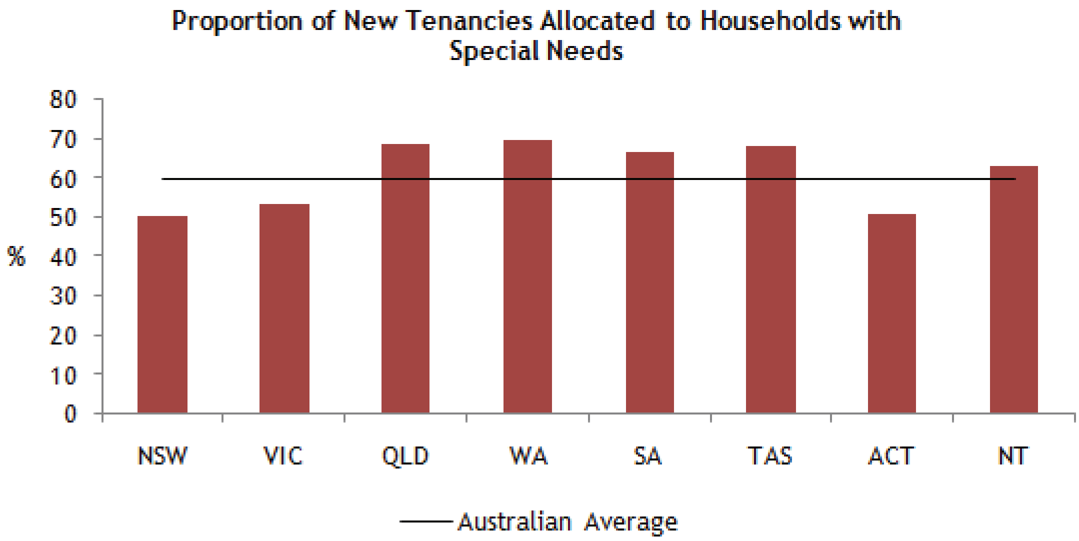
Average Turnaround Times for Vacant Stock 2008



Source: Productivity Commission Report on Government Services, 2009

Proportion of New Tenancies to Households with Special Needs

The Australian average of new tenancies allocated to 'special needs' households in 2007-08 was 59.5 per cent (57.8 per cent). At 50.3 per cent (52.3 per cent), New South Wales was lower than the national average.



Source: Productivity Commission Report on Government Services, 2009

OTHER MATTERS

We identified opportunities to improve accounting and internal control procedures and reported them to management.

Tenant Amnesty

Housing will collect an extra $3.5 million in rent over the next year from adjusted rental subsidies.

Housing waived debts to the value of $2.7 million and adjusted future rental subsidies resulting from a tenant amnesty that ran from 1 July 2008 to 30 September 2008. Housing received 2,286 self-nominations from tenants under the amnesty. At 30 September 2009, Housing resolved all self-nomination matters.

Under the same amnesty, Housing received 1,476 reports from third parties and at 30 September 2009, investigated 98 per cent of the reports. Of the matters investigated, Housing proved 45 per cent of the matters. It raised debts of approximately $300,000.

Parliament amended the *Housing Act, 2001* during 2007-08. These amendments included a temporary rental amnesty that ran from 1 July 2008 to 30 September 2008. The amnesty included self-nomination and also responded to reports from third parties.

The objective of the amnesty was to:

- encourage tenants to notify Housing if they are incorrectly or improperly obtaining a benefit from Housing
- encourage tenants to notify Housing of any change in their circumstances that removes or reduces their entitlement to a benefit from Housing
- protect any such tenant from prosecution or civil proceedings in respect of the matters notified before the end of the amnesty period.

Bonnyrigg Project

Housing expects the new estate to be constructed in 18 stages over 12 years.

Tenants in Stage 1 began to be rehoused in the first half of 2008. Stage 1 will include 67 new private dwellings and 39 public housing dwellings. The developers opened display homes to the public in September 2009 and plan to complete the first new houses by mid 2010.

The project will redevelop and renew 833 public housing properties into a mixed community of 1,600 private and 700 public housing homes through a 30-year public-private partnership. In October 2007, Bonnyrigg Partnerships, comprising Becton Property Group, Westpac Banking Corporation, St George Community Housing Association and the Spotless Group Limited, were selected by the New South Wales Government to undertake the $733 million redevelopment of Bonnyrigg. The transfer of dwellings and tenants from Housing to Bonnyrigg Partnerships also occurred in October 2007, with St George Community Housing Association becoming the social housing landlord.

The project aims to improve the quality of public housing and community facilities and services provided to tenants and the local community. To encourage the achievement of these goals Housing has designed the payments to the private sector to be predominantly performance based. Key performance indicators have been agreed for most aspects of service delivery, including tenant's satisfaction with each broad category of service provision.

One Minto Project

The One Minto Project incorporates extensive deconcentration of the estate with redevelopment of the townhouse precincts, upgrading of the cottage precincts and refurbishment of the roads, parks and common areas across Minto. Management advised on completion of the development:

- there will be approximately 1,200 lots of land. Housing will own 30 per cent of the properties and the remaining 70 per cent will be private housing
- approximately 50 of Housing's properties will be refurbished for private sale
- 644 demolished properties at Minto will be replaced with properties in other areas of South Western Sydney with high demand for public housing.

Since sales commenced in late 2008, approximately 33 per cent of the lots released have been sold.

The One Minto Concept Plan (formerly Minto Renewal Project) was developed after extensive community consultation and was approved in June 2006. Housing, Campbelltown City Council and Landcom are working together to redevelop the area. Landcom has been engaged as the development manager. The initial budget set for this project was $226 million.

Project Meridian

The objective of Project Meridian is to replace the Integrated Housing System (IHS) with a new IT system. This is a major project for Housing as IHS currently supports core business activities associated with the management of tenants, applicants and the property portfolio.

Management has advised recent achievements include:

- receipt all of the major components of the software delivery – some updates and change requests will be received in November
- completing the fourth round of Integration Testing. User Acceptance Testing and System Performance Testing are planned for next year
- undertaking the fifth data migration and in parallel to this activity migration tuning is occurring
- training material development is well progressed and the virtual classroom solution, to support training delivery, is in place.

The budget for this project is $42.0 million and management has advised it is on track for implementation in 2010.

New Maintenance Contracts

In 2008-09, Housing spent $345 million ($385 million) on repairs and planned maintenance under the new maintenance contracts. Housing's maintenance contracts are designed to move from predominantly responsive maintenance to planned and systematic maintenance.

Housing updated its condition assessment of properties and estimated backlog maintenance to be $540 million at 30 June 2009 ($647 million). The decline is in line with work undertaken through the New Maintenance Contracts, which plan for maintenance rather than respond to maintenance requests.

The objectives of the New Maintenance Contracts are to:

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

The New Maintenance Contracts became effective during 2008-09. They involve the provision of maintenance services to 22 contract areas and bundle services to achieve savings.

Fire Safety Program

At 30 June 2009, Housing has completed cumulative works to improve the fire safety standards of 54,150 (52,000) units and buildings at a cost of $202 million ($190 million). The total Fire Safety Program includes 81,000 (72,764) properties at an estimated cost of $310 million ($231 million).

The program has been reduced to a scale that is both fundable from within Housing's resources and retains specialist expertise whilst achieving the program objectives, albeit over a longer timeframe. Program completion has been revised to 2016.

The program was initially funded until 30 June 2008.

Affordable Housing Grants

Housing received grants in 2005-06 and 2006-07 totaling $39.5 million from the Rental Bond Board (RBB) to establish the Affordable Housing Innovations Fund (AHIF) and for the St Mary's Development affordable housing project. The AHIF aims to provide grants to registered community housing providers for the development or acquisition of affordable rental dwellings. At the St Mary's Development, these funds will be allocated to a registered community housing provider and used in conjunction with land contributions, provided through a planning agreement between the State Government and a private firm, to construct affordable rental housing on the site.

At 30 June 2009, Housing had spent $17.3 million of the grants received from RBB to deliver 130 new affordable dwellings in 2008-09. The remaining funds, which now total $27.5 million including interest earned, have been allocated and will be paid progressively to community housing providers. These additional funds will deliver around 326 new affordable dwellings.

The unspent grants are shown as restricted assets in the financial statements. In accordance with the RBB agreements, the $27.5 million in unspent funds were invested in two New South Wales Treasury Corporation (TCorp) Hour-Glass cash facilities.

The St Mary's Development affordable housing project has been delayed due to a slower than expected rate of subdivision on the site. The requirement to transfer lots for affordable housing commenced following the subdivision of the 501st lot on 16 October 2008. Since then the first seven affordable housing lots have been identified and agreed and will be progressively transferred over the period November 2009 to June 2010. In addition, the purchase of five extra lots by the community housing growth provider is close to finalisation. Construction of dwellings on the first two transferred lots and the five purchased lots is scheduled for completion progressively from March 2010 to September 2010.

FINANCIAL INFORMATION

Key Revenues and Expenses Recognised for the Year

Year ended 30 June	2009 $'000	2008 $'000
Rent and other tenant charges	***688,312***	661,358
Government grants	***889,952***	493,650
Interest income	***24,839***	22,055
Other income	***32,404***	21,755
OPERATING REVENUE	***1,635,507***	1,198,818
Repairs and maintenance	***234,829***	220,809
Council and water rates	***180,106***	165,943
Employee related expenses	***205,796***	182,867
Other operating expenses	***125,294***	120,942
Depreciation and amortisation	***282,241***	270,667
Grants expenses	***191,969***	136,022
Other expenses	***176,139***	142,109
OPERATING EXPENSES	***1,396,374***	1,239,359
SURPLUS/(DEFICIT)	***239,133***	(40,541)
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY		
Revaluation (Decrement)/Increment	***(47,714)***	247,736
Superannuation actuarial (losses)	***(23,422)***	(17,136)
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***167,997***	190,059

Rental income remained fairly steady compared with 2007-08.

The major reason for the increase in government grants is due to funds received under the national Affordable Housing Agreement of $545 million, offset by a decline in funding under the Commonwealth State Housing Agreement of $243 million. Housing also received $84.7 million from the Commonwealth under its Social Housing Implementation Plan.

The increase in grant expenses is mainly due to $17.1 million in grants paid to registered community housing providers for the development or acquisition of affordable rental dwellings. Housing also provided a grant to the Social Housing Growth Fund of $11.9 million. The purpose of the fund is to increase the supply social housing in the short term.

The revaluation decrement and superannuation actuarial losses reflect the difficult economic conditions businesses dealt with during 2008-09.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***659,819***	314,863
Non-current assets	***28,170,421***	28,225,745
TOTAL ASSETS	***28,830,240***	28,540,608
Current liabilities	***491,107***	327,613
Non-current liabilities	***884,147***	926,006
TOTAL LIABILITIES	***1,375,254***	1,253,619
NET ASSETS	***27,454,986***	27,286,989

At 30 June 2009 Housing's rental debtors amounted to $31.1 million ($31.8 million). This represents 4.5 per cent (five per cent) of total rentals charged for the year, excluding subsidies. Housing provided $25.1 million ($25.5 million) or 80.8 per cent (80 per cent) of this balance as doubtful debts, as the majority of moneys are owed by former tenants.

The decline in non-current assets was mainly from the $47.7 million ($247 million increase) revaluation decrement of Housing's residential, community purpose and commercial property portfolios.

The increase in current liabilities was predominately due to an increase in accrued capital expenditure of $113 million due to higher spending to meet the Social Housing Implementation Plan.

The decrease in non-current liabilities was mainly due to the repayment of borrowings.

HOUSING ACTIVITIES

Housing's statutory functions are set out in the *Housing Act 2001*. Its role is to provide quality rental housing solutions for those whose needs cannot be met by the private market.

The Minister for Housing has the power to direct and control the Director-General in respect of all Housing's operations. Management advised that no such Ministerial Directions occurred in 2008-09.

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

CONTROLLED ENTITY

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

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

Entity Name	Website
Rental Housing Assistance Fund	www.housing.nsw.gov.au

Minister for Juvenile Justice

Department of Juvenile Justice

Department of Juvenile Justice

AUDIT OPINION

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

PERFORMANCE INFORMATION

The following table shows the number of youth justice conferences facilitated, admissions of young people into remand in custody and community-based orders supervised by the Department. This performance information is provided by the Department.

Year ended 30 June	2009	2008	2007	2006	2005
Total number of youth justice conferences facilitated	***1,441***	1,199	1,185	1,112	1,232
Total number of community based supervision orders commenced	***4,554***	3,896	3,121	2,692	2,508
Total number of remand admissions in custody	***4,634***	5,081	4,263	3,623	3,444
Total number of control admissions in custody	***711***	623	514	468	412
Percentage of young people in contact with the Department throughout the year who are indigenous:					
Attending a youth justice conference (%)	***20.5***	26.0	27.2	27.0	28.6
Remanded in custody (%)	***35.8***	38.8	37.8	37.3	37.8
Under community based supervision (%)	***37.5***	39.6	39.5	34.0	33.2
On control orders (%)	***48.5***	56.3	54.7	47.5	47.4

The Department is responsible for the operation of youth justice conferences. Young offenders are required to complete an outcome plan, which contains a set of tasks that are closely monitored by the Department.

The table suggests that indigenous juveniles are over-represented in the juvenile justice system. The Department advised it has specific programs to assist young indigenous people.

The Department advised that an increase in control admissions has contributed to the increase in the average daily number of juveniles in custody, from 390 in 2007-08 to 427 in 2008-09. The increase is affecting the Department's capacity to accommodate juveniles in its centres.

Despite the increase in the average daily number of juveniles in custody, the Department has managed to control costs and deliver a consistent average daily cost per juvenile of $543 in 2008-09 compared to $541 in 2007-08.

The average daily cost per juvenile in community-based services in 2008-09 was $15.40 ($16 in 2007-08). During the year, the average daily number of community services provided increased. However, the slight reduction in the average daily cost was achieved by containing the cost of community service employees.

The average daily cost per young person in Youth Justice Conferencing (YJC) for 2008-09 was $6.70 ($10 in 2007-08). This reflects savings from the amalgamation of YJC with community operations.

OTHER INFORMATION

We identified some opportunities for improvement to accounting and internal control procedures. We will discuss these matters further with Departmental staff and where appropriate report them to management.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	2009 $'000	2008 $'000
Employee related	***133,456***	118,131
Grants and subsidies	***7,954***	6,099
Other	***47,450***	35,268
OPERATING EXPENSES	***188,860***	159,498
OPERATING REVENUES	***4,727***	4,062
Net loss on disposal of non-current assets	***353***	130
NET COST OF SERVICES	***184,486***	155,566
Government contributions	***184,806***	152,981
SURPLUS/(DEFICIT)	***320***	(2,585)
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY		
Net revaluation increment	***4,391***	5,730
Decrease in net assets from an administrative restructure	***(4,680)***	--
Other net decreases in equity	***(243)***	--
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***(212)***	3,145

The increase in employee related expenses reflects additional costs from higher staff numbers associated with the opening of the Emu Plains Juvenile Justice Centre together with pay rises. The closure of the Keelong Juvenile Justice Centre resulted in payments for voluntary redundancies.

The increase in other expenses mainly reflects the following:

- a $3.8 million impairment write-down of the Keelong Juvenile Justice Centre assets on closure of the centre and reclassification as assets held for sale
- a $1.5 million write down of the financial accounting system upgrade due to the planned transition to a shared services arrangement with BusinessLink
- higher maintenance and other general expenses.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***18,715***	14,636
Non-current assets	***234,852***	236,713
TOTAL ASSETS	***253,567***	251,349
Current liabilities	***19,445***	17,196
Non-current liabilities	***784***	603
TOTAL LIABILITIES	***20,229***	17,799
NET ASSETS	***233,338***	233,550

DEPARTMENT ACTIVITIES

The Department provides three core services covering Custody, Community and Youth Justice Conferencing and provides funding to Non-Government Organisations under the Community Funding Program to provide a range of support services for juvenile offenders. The objective is to work towards breaking the juvenile crime cycle and reducing the level of re-offending. It provides a range of services and activities to maximise the capacity of and opportunity for juvenile offenders to choose positive alternatives to offending behaviour.

Risk factors for juvenile involvement in crime include poor parental supervision, negative peer associations, truancy, poor school performance and substance abuse. Several government agencies, including the Department, work closely with young people whose lives have these risk factors.

The Department formally supervises juvenile offenders when required by the Courts. Juveniles are diverted from juvenile justice supervision via police warnings, cautions, youth justice conferences and unsupervised court orders.

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

Minister for Lands

*** Department of Lands**

Refer to Appendix 1 for:

Board of Surveying and Spatial Information

* The audit was incomplete at the time of compiling this Volume. The comment will be included in a later 2009 Volume.

Minister for Youth

Refer to Appendix 1 for:

NSW Commission For Children and Young People

Treasurer

Refer to Appendix 1 for:

Crown Lands Homesites Program

Internal Audit Bureau of New South Wales

Land Development Working Account

Appendix

Appendix 1
Agencies not reported elsewhere in this Volume

Appendix 1 – Agencies not reported elsewhere in this Volume

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

Entity Name	Website	Period/Year Ended
Board of Surveying and Spatial Information	www.bossi.nsw.gov.au	30 June 2009
Chipping Norton Lake Authority	*	30 June 2009
Crown Lands Homesites Program	*	30 June 2009
Fair Trading Administration Corporation	*	30 June 2009
Financial Counselling Trust Fund	*	30 June 2009
Internal Audit Bureau of New South Wales	www.iab.nsw.gov.au	30 June 2009
- Internal Audit Bureau Division	*	30 June 2009
Lake Illawarra Authority	www.lia.nsw.gov.au	31 March 2009
Land Development Working Account	*	30 June 2009
NSW Architects Registration Board	www.boarch.nsw.gov.au	30 June 2009
NSW Commission For Children and Young People	www.kids.nsw.gov.au	30 June 2009
Payments to other Government Bodies under the control of the Minister	*	30 June 2009

* These entities do not have websites

Index

A

Page

A.C.N. 093 230 374 Pty Limited .... Vol 4 2008
Aboriginal Affairs, Department of 5
Aboriginal Affairs, Minister for 3
Aboriginal Housing Office 91
Aboriginal Housing Office Group of Staff 94
Aboriginal Land Council, New South Wales 8
Access Macquarie Limited .... Vol 2 2009
accessUTS Pty Limited .... Vol 2 2009
ACN 125 694 546 Pty Limited .... Vol 2 2009
Acyte Biotech Pty Ltd .... Vol 2 2009
Adult Migrant English Service, NSW .... Vol 4 2008
Ageing, Minister for 15
Ageing, Disability and Home Care, Department of 17
Agencies not reported elsewhere in this Volume 127
Agricultural Business Research Institute .... Vol 2 2009
Agricultural Scientific Collections Trust .... Vol 5 2008
AGSM Limited .... Vol 2 2009
Ambulance Service of New South Wales .... Vol 1 2009
ANZAC Health and Medical Research Foundation . Vol 1 2009
ANZAC Health and Medical Research Foundation Trust Fund .... Vol 1 2009
Architects Registration Board, NSW 127
Art Gallery of New South Wales Foundation .... Vol 4 2008
Art Gallery of New South Wales Trust .... Vol 5 2008
Arts Education Foundation Trust .... Vol 4 2008
Arts, Minister for .... Vol 5 2008
Arts, Sport and Recreation, Department of the ... Vol 5 2008
Asbestos Diseases Research Foundation, The ...... Vol 5 2008
Attorney General .... Vol 2 2009
Attorney General's Department .... Vol 5 2008
Audio Nomad Pty Ltd .... Vol 2 2009
Aus Health International Pty Limited .... Vol 6 2007
Australian Centre for Advanced Computing and Communications Pty Ltd 37
Australian Education Consultancy Limited .... Vol 2 2009
Australian Institute of Asian Culture and Visual Arts Limited, The .... Vol 5 2008
Australian Museum Trust .... Vol 5 2008
Australian Plant DNA Bank Limited .... Vol 2 2009
Australian Proteome Analysis Facility Limited .... Vol 2 2009
Australian School of European Aviation (JAA) Pty Ltd .... Vol 2 2009
Australian Technology Park Precinct Management Ltd .... Vol 5 2008
Australian Water Technologies Pty Ltd .... Vol 5 2008
AWT International (Thailand) Limited .... Vol 5 2008

B

Banana Industry Committee .... Vol 5 2008
Belgenny Farm Agricultural Heritage Centre Trust .... Vol 1 2009
Biobank Pty Limited .... Vol 2 2009
Board of Studies, Office of the .... Vol 5 2008
Board of Studies, The .... Vol 4 2008
Board of Studies Casual Staff Division .... Vol 4 2008
Board of Surveying and Spatial Information 127
Board of Vocational Education and Training, NSW .... Vol 4 2008
Border Rivers-Gwydir Catchment Management Authority .... Vol 4 2008
Bosch Institute, The .... Vol 2 2009
Brett Whiteley Foundation, The .... Vol 4 2008
Building and Construction Industry Long Service Payments Corporation .... Vol 5 2009
Building Insurers' Guarantee Corporation 40
Building Professionals Board .... Vol 4 2008
Buroba Pty Ltd .... Vol 5 2009
Businesslink Pty Ltd, NSW 73

C

C.B. Alexander Foundation .... Vol 5 2008
CADRE Design Pty Limited .... Vol 2 2009
CADRE Design Unit Trust .... Vol 2 2009
Cancer Institute Division .... Vol 1 2009
Cancer Institute NSW .... Vol 1 2009
Casino Control Authority, New South Wales .... Vol 5 2008
Casino Control Authority Division .... Vol 5 2008
CCP Holdings Pty Limited .... Vol 3 2009
Centennial Park and Moore Park Trust .... Vol 6 2008
Centennial Parklands Foundation .... Vol 6 2008
Central West Catchment Management Authority .. Vol 4 2008
Centre for United States Studies Pty Limited ...... Vol 2 2009
Cessnock Uni-Clinic Trust .... Vol 2 2009
Charles Sturt Foundation Limited .... Vol 2 2009
Charles Sturt Foundation Trust .... Vol 2 2009
Charles Sturt Services Limited .... Vol 2 2009
Charles Sturt University .... Vol 2 2009
Chief Investigator of the Office of Transport Safety Investigations .... Vol 4 2008
Children, Office for .... Vol 5 2008
Chipping Norton Lake Authority 127
Citizenship, Minister for .... Vol 5 2008
Chiropractors Registration Board .... Vol 5 2008
City West Housing Pty Limited 95
Climate Change and the Environment, Minister for 33
Clinical Excellence Commission .... Vol 1 2009
Clinical Excellence Commission Special Purpose Service Entity .... Vol 1 2009
CMBF Limited .... Vol 2 2009
Coal Compensation Board, New South Wales ...... Vol 5 2008
Cobar Water Board .... Vol 5 2008
Cobar Water Board Division .... Vol 5 2008
Cobbora Coal Unit Trust .... Vol 3 2009
Cobbora Management Company Pty Limited .... Vol 3 2009
Cobbora Unincorporated Joint Venture .... Vol 3 2009
Coffs Harbour Technology Park Limited .... Vol 4 2008
Commerce, Department of 43
Commerce, Minister for 35
Commission for Children and Young People, NSW 127
Community Relations Commission, Office of the .. Vol 5 2008
Community Relations Commission for a Multicultural New South Wales .... Vol 5 2008
Community Services, Department of 61
Community Services, Minister for 59
Cooks Cove Development Corporation .... Vol 5 2008
Corporate Governance Arrangements in Large Government Agencies and Universities .... Vol 2 2009
Corporation Sole 'Minister Administering the Environmental Planning and Assessment Act, 1979' .... Vol 5 2008
Corporation Sole 'Minister Administering the Heritage Act, 1977' .... Vol 5 2008
Corrective Services, Department of .... Vol 5 2008
Country Energy .... Vol 3 2009
Country Energy Gas Pty Limited .... Vol 3 2009
Cowra Japanese Garden Maintenance Foundation Limited .... Vol 5 2008
Cowra Japanese Garden Trust .... Vol 5 2008
Crime Commission, New South Wales .... Vol 4 2008
Crime Commission, Office of the New South Wales .... Vol 4 2008
Crime Commission Division, New South Wales ..... Vol 4 2008
Crown Employees (NSW Fire Brigades Firefighting Staff, Death and Disability) Superannuation Fund .... Vol 5 2009
Crown Entity .... Vol 5 2009
Crown Lands Homesites Program .... Vol 5 2008
Crown Leaseholds Entity .... Vol 5 2008
Cystemix Pty Limited .... Vol 2 2009

D

Dams Safety Committee .... Vol 4 2008
Delta Electricity .... Vol 3 2009
Delta Electricity Australia Pty Ltd .... Vol 3 2009
Dental Board of New South Wales .... Vol 1 2009
Dental Technicians Registration Board .... Vol 5 2008

Director of Public Prosecutions, Office of the .... Vol 5 2008
Disability Services, Minister for...................... Vol 5 2008
Downtown Utilities Pty Limited .... Vol 3 2009
Dumaresq-Barwon Border Rivers Commission ..... Vol 4 2008
Duquesne Utilities Pty Ltd............................ Vol 5 2009

E

Education and Training, Department of............ Vol 4 2008
Education and Training, Minister for........................ 77
Education Training Community Television
(ETC TV) Limited................................. Vol 2 2009
Elastagen Pty Limited .... Vol 2 2009
Election Funding Authority of New South Wales .. Vol 5 2008
Electoral Commission, New South Wales........... Vol 5 2008
Electricity Industry Overview .... Vol 3 2009
Electricity Tariff Equalisation Ministerial
Corporation .... Vol 5 2009
Emergency Services, Minister for.................... Vol 5 2009
Emergency Services Overview .... Vol 6 2008
Emergency Services, Office for...................... Vol 6 2008
Energy, Minister for .... Vol 3 2009
Energy Industries Superannuation Scheme......... Vol 5 2009
Energy Investment Fund .... Vol 5 2009
EnergyAustralia... Vol 3 2009
EnergyAustralia Pty Limited.......................... Vol 3 2009
Environment and Climate Change,
Department of..................................... Vol 6 2008
Environment Protection Authority .... Vol 5 2008
Environmental Trust................................... Vol 6 2008
Eraring Energy.. Vol 3 2009
Events New South Wales Pty Limited .... Vol 5 2008

F

Fair Trading Administration Corporation 127
Festival Development Corporation.................. Vol 3 2009
Film and Television Office, New South Wales..... Vol 4 2008
Finance, Minister for.. 81
Financial Counselling Trust Fund.......................... 127
Financial Reports Not Received by Statutory
Date (as at 5 May 2009).......................... Vol 2 2009
Financial Reports Received but Audit Incomplete by
Statutory Date (as at 5 May 2009).............. Vol 2 2009
Fire Brigades, New South Wales..................... Vol 6 2008
Fire Brigades Superannuation Pty Limited,
NSW .... Vol 5 2009
Follow-up Review of CityRail Passenger
Security... Vol 4 2008
Food Authority, NSW .... Vol 5 2008
Food Authority, Office of the NSW .... Vol 5 2008
Forestry Commission of New South Wales
(Trading as Forests NSW) .... Vol 1 2009
Forestry Commission Division .... Vol 1 2009
Foundation for the Historic Houses Trust
of New South Wales............................... Vol 5 2008
Foundation for the Historic Houses Trust
of New South Wales Limited .... Vol 5 2008

G

Game Council of New South Wales.................. Vol 5 2008
Game Council Division .... Vol 5 2008
Gaming and Racing, Minister for .... Vol 5 2009
Gosford Water Supply Authority..................... Vol 5 2008
Government Telecommunications Authority
(Telco) , New South Wales 51
GraduateSchool.com Pty Limited .... Vol 2 2009
Greater Southern Area Health Service .... Vol 1 2009
Greater Southern Area Health Service
Special Purpose Service Entity.................. Vol 1 2009
Greater Western Area Health Service .... Vol 1 2009
Greater Western Area Health Service
Special Purpose Service Entity.................. Vol 1 2009
Greyhound and Harness Racing Regulatory
Authority .... Vol 5 2008
Greyhound and Harness Racing Regulatory
Authority Division .... Vol 5 2008
Growth Centres Commission .... Vol 4 2008

H

Hamilton Rouse Hill Trust.............................Vol 5 2008
Hawkesbury-Nepean Catchment Management
Authority...Vol 4 2008
Health Administration Corporation ....Vol 1 2009
Health Administration Corporation
Special Purpose Service Entity ....Vol 1 2009
Health Care Complaints Commission ....Vol 5 2008
Health Care Complaints Commission,
Office of the......................................Vol 5 2008
Health Foundation, New South Wales...............Vol 6 2008
Health, Department of ....Vol 1 2009
Health, Minister for ....Vol 1 2009
Health Overview.......................................Vol 1 2009
HealthQuest ....Vol 1 2009
HealthQuest Special Purpose Service Entity ....Vol 1 2009
HepatoCell Therapeutics Pty Ltd ....Vol 2 2009
Historic Houses Trust of New South Wales ....Vol 5 2008
Home Care Service of New South Wales 27
Home Care Service Division 31
Home Purchase Assistance Fund 98
Housing, Minister for 89
Housing NSW...100
Hunter Development Corporation....................Vol 4 2008
Hunter New England Area Health Service ....Vol 1 2009
Hunter New England Area Health Service
Special Purpose Service Entity ....Vol 1 2009
Hunter Uni-Clinics Pty Limited ....Vol 2 2009
Hunter Water Australia Pty Limited. ....Vol 5 2008
Hunter Water Corporation ....Vol 5 2008
Hunter-Central Rivers Catchment Management
Authority...Vol 4 2008

I

Illawarra Technology Corporation Limited ....Vol 2 2009
Independent Commission Against Corruption ......Vol 5 2008
Independent Pricing and Regulatory Tribunal .....Vol 5 2008
Independent Pricing and Regulatory Tribunal
Division...Vol 5 2008
Independent Transport Safety and Reliability
Regulator ....Vol 4 2008
Independent Transport Safety and Reliability
Regulator Division ....Vol 4 2008
Industrial Relations, Minister for.....................Vol 5 2009
Infrastructure Implementation Corporation........Vol 5 2008
Ingham Health Research Institute ....Vol 1 2009
Insearch Limited ....Vol 2 2009
Institute for Magnetic Resonance Research ....Vol 2 2009
Institute of Psychiatry, New South Wales ....Vol 5 2008
Institute of Sport, New South Wales.................Vol 5 2008
Institute of Sport Division ....Vol 5 2008
Institute of Teachers, NSW ....Vol 4 2008
Institute of Teachers, Office of the ....Vol 4 2008
Integral Energy Australia ....Vol 3 2009
Internal Audit Bureau of New South Wales...............127
Internal Audit Bureau Division..............................127
International Livestock Resources and Information
Centre Ltd ....Vol 2 2009
ITC (Europe) Ltd ....Vol 2 2009
ITC (Middle East) Ltd..................................Vol 2 2009
ITC (New Zealand) Limited ....Vol 2 2009
ITC Education Ltd ....Vol 2 2009
ITC Emirates Limited..................................Vol 2 2009

J

Jenolan Caves Reserve Trust ....Vol 2 2009
Jenolan Caves Reserve Trust Division ....Vol 2 2009
John Lewis and Pamela Lightfoot Trust.............Vol 2 2009
Judicial Commission of New South Wales...........Vol 5 2008
Justice Health..Vol 1 2009
Justice Health Special Purpose Service Entity .....Vol 1 2009
Justice, Minister for...................................Vol 5 2008
Juvenile Justice, Department of 115
Juvenile Justice, Minister for..............................113

L

Lachlan Catchment Management Authority........ Vol 4 2008
Lake Illawarra Authority..................................... 127
LAMS Foundation Limited............................. Vol 2 2009
LAMS International Pty Limited...................... Vol 2 2009
Land Development Working Account 127
Landcom.. Vol 5 2008
Lands, Department of .... Vol 6 2008
Lands, Minister for... 119
Law and Order Overview.............................. Vol 5 2008
Legal Aid Commission of New South Wales .... Vol 5 2008
Legal Aid Commission, Office of the................ Vol 5 2008
Legal Aid Temporary Staff Division.................. Vol 5 2008
Legal Opinions Provided by the Crown Solicitor .. Vol 1 2007
Legal Profession Admission Board .... Vol 5 2008
Legislature, The....................................... Vol 5 2008
Legislature (Audit of Members' Additional Entitlements), The............................... Vol 2 2009
Liability Management Ministerial Corporation..... Vol 5 2009
Library Council of New South Wales .... Vol 5 2008
Lifetime Care and Support Authority of New South Wales.................................. Vol 5 2009
Liquor Administration Board .... Vol 5 2008
Local Government, Department of.................. Vol 5 2008
Local Government, Minister for...................... Vol 5 2008
Lord Howe Island Board.............................. Vol 5 2008
Lotteries Corporation, New South Wales........... Vol 5 2009
Lower Murray-Darling Catchment Management Authority .... Vol 4 2008
Luna Park Reserve Trust .... Vol 5 2008

M

Macquarie Generation................................. Vol 3 2009
Macquarie Graduate School of Management Pty Limited... Vol 2 2009
Macquarie University Medical Research Foundation Limited .... Vol 2 2009
Macquarie University Medical Research Trust ..... Vol 2 2009
Macquarie University Private Hospital Trust....... Vol 2 2009
Macquarie University Professorial Superannuation Scheme .... Vol 2 2009
Macquarie University Property Investment Company No. 2 Pty Limited...................... Vol 2 2009
Macquarie University Property Investment Company Pty Limited............................ Vol 2 2009
Macquarie University Property Investment Trust .... Vol 2 2009
Macquarie University .... Vol 2 2009
Marine Parks Authority .... Vol 5 2008
Maritime Authority of NSW .... Vol 5 2008
Maritime Authority of NSW Division .... Vol 5 2008
Medical Board, New South Wales.................... Vol 5 2008
Mid West Primary Pty Ltd............................ Vol 3 2009
Midwest Development Corporation Pty Limited... Vol 3 2009
Milk Marketing (NSW) Pty Limited................... Vol 5 2008
Mine Subsidence Board............................... Vol 1 2009
Mineral Resources, Minister for...................... Vol 1 2009
Minerals Industry/University of New South Wales Education Trust, The New South Wales Vol 2 2009
Ministerial Corporation for Industry................. Vol 5 2008
Mitchell Services Limited .... Vol 2 2009
Motor Accidents Authority of New South Wales ... Vol 5 2009
Motor Accidents Authority of New South Wales, Office of the .... Vol 5 2009
Motor Vehicle Repair Industry Authority...................52
MU Private Hospital Pty Limited.................... Vol 2 2009
MUPH Clinic Pty Limited .... Vol 2 2009
MUPH Clinic Sub-Trust................................ Vol 2 2009
MUPH Hospital Pty Limited .... Vol 2 2009
MUPH Hospital Sub-Trust .... Vol 2 2009
MUPI Holding Trust No. 1 .... Vol 2 2009
MUPI Holding Trust No. 2 .... Vol 2 2009
MUPI Holding Trust No. 3 .... Vol 2 2009
MUPI Holding Trust No. 4 .... Vol 2 2009
MUPI Holding Trust No. 5 .... Vol 2 2009
MUPI Holding Trust No. 6..............................Vol 2 2009
MUPIT Sub-Trust No. 1 ....Vol 2 2009
MUPIT Sub-Trust No. 2 ....Vol 2 2009
MUPIT Sub-Trust No. 3 ....Vol 2 2009
MUPIT Sub-Trust No. 4 ....Vol 2 2009
Murray Catchment Management Authority ....Vol 4 2008
Murrumbidgee Catchment Management Authority ....Vol 4 2008

N

Namoi Catchment Management Authority ....Vol 4 2008
National Marine Science Centre Pty Ltd ....Vol 2 2009
Natural Resources Commission ....Vol 4 2008
Natural Resources Commission Division ....Vol 4 2008
Newcastle Innovation Limited ....Vol 2 2009
Newcastle International Sports Centre Trust.......Vol 3 2009
Newcastle Port Corporation...........................Vol 5 2008
Newcastle Showground and Exhibition Centre Trust ....Vol 1 2009
NewSouth Eight Pty Ltd...............................Vol 2 2009
NewSouth Five Pty Ltd................................Vol 2 2009
NewSouth Four Pty Ltd ....Vol 2 2009
NewSouth Global (Thailand) Limited ....Vol 2 2009
NewSouth Innovations Pty Ltd ....Vol 2 2009
NewSouth One Pty Ltd ....Vol 2 2009
NewSouth Seven Pty Ltd..............................Vol 2 2009
NewSouth Six Pty Ltd ....Vol 2 2009
Norsearch Limited ....Vol 2 2009
North Coast Area Health Service ....Vol 1 2009
North Coast Area Health Service Special Purpose Service Entity...................Vol 1 2009
Northern Rivers Catchment Management Authority ....Vol 4 2008
Northern Sydney and Central Coast Area Health Service.....................................Vol 1 2009
Northern Sydney and Central Coast Area Health Service Special Purpose Service Entity ....Vol 1 2009
NorthPower Energy Services Pty Limited ....Vol 3 2009
Nurses and Midwives Board ....Vol 5 2008

O

Ombudsman's Office ....Vol 5 2008
Optical Dispensers Licensing Board ....Vol 5 2008
Optometrists Registration Board ....Vol 5 2008
Osteopaths Registration Board ....Vol 5 2008
Ovine Johne's Disease Transaction Based Contribution Scheme, NSW.......................Vol 5 2008

P

Pacific Industry Services Corporation Pty Limited.Vol 5 2008
Pacific Power (Subsidiary No. 1) Pty Ltd...........Vol 3 2009
Pacific Solar Pty Limited ....Vol 3 2009
Pacific Western Pty Limited ....Vol 4 2008
Parklands Foundation Limited ....Vol 5 2008
Parliamentary Contributory Superannuation Fund ....Vol 5 2009
Parramatta Park Trust ....Vol 5 2008
Parramatta Stadium Trust............................Vol 2 2009
Parramatta Stadium Trust Division ....Vol 2 2009
Payments to other Government Bodies under the control of the Minister...127
Pharmacy Board of New South Wales................Vol 1 2009
Physiotherapists Registration Board ....Vol 5 2008
Planning, Department of ....Vol 5 2008
Planning, Minister for ....Vol 3 2009
Podiatrists Registration Board ....Vol 5 2008
Police Force, NSW ....Vol 5 2008
Police Integrity Commission ....Vol 5 2008
Police Integrity Commission, Office of the ....Vol 5 2008
Police Integrity Commission Division ....Vol 5 2008
Police, Minister for ....Vol 5 2008
Police, Ministry for ....Vol 4 2008
Port Kembla Port Corporation ....Vol 5 2008
Ports and Waterways, Minister for...................Vol 5 2008
Premier..Vol 2 2009

Premier and Cabinet, Department of .... Vol 5 2008
Primary Industries, Department of .... Vol 1 2009
Primary Industries, Minister for .... Vol 3 2009
Probiotic Health Pty Limited .... Vol 2 2009
Protective Commissioner – Common Fund,
Office of the .... Vol 2 2009
Protective Commissioner and Public Guardian,
Office of the .... Vol 5 2008
Psychologists Registration Board .... Vol 5 2008
Public Transport Ticketing Corporation .... Vol 5 2008
Public Transport Ticketing Corporation
Division .... Vol 5 2008
Public Trustee NSW .... Vol 5 2008

Q

Qualified Independent Audit Reports Issued .... Vol 5 2008
Qucor Pty Ltd .... Vol 2 2009

R

Rail Corporation New South Wales .... Vol 4 2008
Rail Infrastructure Corporation .... Vol 4 2008
Rail Services Overview .... Vol 4 2008
Redfern and Waterloo, Minister for .... Vol 5 2008
Redfern-Waterloo Authority .... Vol 5 2008
Redfern Waterloo Authority, Office of the .... Vol 5 2008
Regional Land Management Corporation Pty Ltd . Vol 5 2008
Remarkspdf Pty Ltd .... Vol 2 2009
Rental Bond Board 54
Rental Housing Assistance Fund 111
Residual Business Management Corporation .... Vol 3 2009
Responsible Gambling Fund .... Vol 5 2008
Rice Marketing Board for the State of
New South Wales .... Vol 5 2008
Risk Frontiers Flood (Australia) Pty Limited .... Vol 2 2009
Risk Frontiers Group Pty Limited .... Vol 2 2009
Riverina Citrus .... Vol 5 2008
Rivservices Limited .... Vol 2 2009
Roads, Minister for .... Vol 6 2008
Roads and Traffic Authority of New South Wales . Vol 6 2008
Roads and Traffic Authority Division .... Vol 6 2008
Rocky Point Holdings Pty Ltd .... Vol 3 2009
Rouse Hill Hamilton Collection Pty Limited .... Vol 5 2008
Royal Alexandra Hospital for Children .... Vol 1 2009
Royal Alexandra Hospital for Children
Special Purpose Service Entity .... Vol 1 2009
Royal Botanic Gardens and Domain Trust .... Vol 5 2008
Rural Assistance Authority, New South Wales ..... Vol 6 2008
Rural Assistance Authority, Office of the .... Vol 6 2008
Rural Australia Foundation Limited .... Vol 2 2008
Rural Fire Service, NSW .... Vol 6 2008

S

SAS Trustee Corporation .... Vol 5 2009
SAS Trustee Corporation - Pooled Fund .... Vol 5 2009
SAS Trustee Corporation Division of
the Government Service of NSW .... Vol 5 2009
Self Insurance Corporation, NSW .... Vol 5 2009
Services UNE Ltd .... Vol 2 2009
Sesquicentenary of Responsible Government
Trust Fund .... Vol 5 2008
SGSM Limited .... Vol 2 2009
Small Business, Minister for .... Vol 5 2008
Small Business Development Corporation
of New South Wales .... Vol 5 2008
South Eastern Sydney and Illawarra Area Health
Service .... Vol 1 2009
South Eastern Sydney and Illawarra Area Health
Service Special Purpose Service Entity .... Vol 1 2009
Southern Cross University .... Vol 2 2009
Southern Rivers Catchment Management
Authority .... Vol 4 2008
Sport and Recreation, Minister for .... Vol 3 2009
Sporting Injuries Committee .... Vol 5 2009
Sports Knowledge Australia Pty Limited .... Vol 2 2009
State and Regional Development, Department of Vol 5 2008
State Council of Rural Lands Protection Boards ... Vol 3 2009
State Council of Rural Lands Protection Boards
Division .... Vol 3 2009
State Development, Minister for .... Vol 5 2008
State Emergency Service .... Vol 6 2008
State Library of New South Wales Foundation ..... Vol 5 2008
State Plan .... Vol 2 2009
State Property Authority 83
State Property Authority, Office of the 87
State Rail Authority Residual Holding
Corporation .... Vol 5 2009
State Records Authority of New South Wales 56
State Rescue Board .... Vol 6 2008
State Sports Centre Trust .... Vol 4 2008
State Sports Centre Trust Division .... Vol 4 2008
State Super Financial Services Australia Limited .. Vol 5 2009
State Transit Authority of New South Wales .... Vol 5 2008
State Transit Authority Division .... Vol 5 2008
State Water Corporation .... Vol 5 2008
Statement of the Budget Result .... Vol 4 2009
Superannuation Administration Corporation
(trading as Pillar Administration) .... Vol 5 2009
Sydney 2009 World Masters Games Organising
Committee .... Vol 5 2008
Sydney 2009 World Masters Games Organising
Committee Division .... Vol 5 2008
Sydney 2009 World Masters Games Organising
Committee Division, Office of the .... Vol 5 2008
Sydney Business School Pty Ltd .... Vol 2 2009
Sydney Catchment Authority .... Vol 5 2008
Sydney Catchment Authority Division .... Vol 5 2008
Sydney Cricket and Sports Ground Trust .... Vol 4 2008
Sydney Cricket and Sports Ground Trust
Division .... Vol 4 2008
Sydney Desalination Plant Pty Limited .... Vol 5 2008
Sydney Educational Broadcasting Limited .... Vol 2 2009
Sydney Ferries Corporation .... Vol 5 2008
Sydney Harbour Foreshore Authority .... Vol 5 2008
Sydney Harbour Foreshore Authority,
Office of the .... Vol 5 2008
Sydney Harbour Foreshore Authority
Casual Staff Division, ... Vol 5 2008
Sydney Institutes of Health and Medical
Research, The .... Vol 2 2009
Sydney International Film School Pty Limited ..... Vol 2 2009
Sydney Metropolitan Catchment Management
Authority .... Vol 4 2008
Sydney Olympic Park Authority .... Vol 5 2008
Sydney Olympic Park Authority, Office of the ..... Vol 5 2008
Sydney Olympic Park Authority Sydney
Olympic Park Aquatic and Athletic Centres
Division .... Vol 5 2008
Sydney Opera House Trust .... Vol 5 2008
Sydney Pilot Service Pty Ltd .... Vol 5 2008
Sydney Ports Corporation .... Vol 5 2008
Sydney South West Area Health Service .... Vol 1 2009
Sydney South West Area Health Service
Special Purpose Service Entity .... Vol 1 2009
Sydney Talent Pty Limited .... Vol 2 2009
Sydney Water Corporation .... Vol 5 2008
Sydney West Area Health Service .... Vol 1 2009
Sydney West Area Health Service Special
Purpose Service Entity .... Vol 1 2009
Sydney West International College Pty Limited ... Vol 2 2009
SydneyLearning Pty Limited .... Vol 2 2009

T

TCorp Nominees Pty Limited .... Vol 5 2009
Teacher Housing Authority of New South Wales 79
Technical and Further Education Commission,
New South Wales .... Vol 4 2008
Technical and Further Education Commission
Division, New South Wales .... Vol 4 2008
Technical Education Trust Funds .... Vol 2 2009
Television Sydney (TVS) Limited .... Vol 2 2009
Total State Sector Accounts .... Vol 4 2009
Tourism, Minister for .... Vol 5 2008

TransGrid .... Vol 3 2009
Transport, Minister for .... Vol 5 2008
Transport, Ministry of .... Vol 5 2008
Transport Infrastructure Development
Corporation .... Vol 4 2008
Transport Services Overview .... Vol 5 2008
Treasurer 123
Treasury, The.. Vol 5 2009
Treasury Corporation, New South Wales .... Vol 5 2009
Treasury Corporation Division of the
Government Service .... Vol 5 2009
Trustees of the ANZAC Memorial Building.......... Vol 2 2009
Trustees of the Farrer Memorial Research
Scholarship Fund .... Vol 3 2009
Trustees of the Museum of Applied Arts
and Sciences .... Vol 5 2008
TVS Limited .... Vol 2 2009

U

U@MQ Limited .... Vol 2 2009
Ucom Fifteen Pty Limited .... Vol 2 2009
Ucom Sixteen Pty Limited .... Vol 2 2009
UNE Partnerships Pty Limited........................ Vol 2 2009
UNE Vision Pty Ltd .... Vol 2 2009
UniCentre Conferences and Functions Pty LimitedVol 2 2009
UNILINC Limited.. Vol 2 2009
Uniprojects Pty Limited.............................. Vol 5 2008
United States Studies Centre Limited .... Vol 2 2009
Universities Admissions Centre (NSW & ACT)
Pty Limited... Vol 5 2008
Universities Overview .... Vol 2 2009
University of New England............................ Vol 2 2009
University of New England Professorial
Superannuation Fund .... Vol 2 2009
University of New England Sports Association..... Vol 2 2009
University of New South Wales .... Vol 2 2009
University of New South Wales Foundation .... Vol 2 2008
University of New South Wales Foundation
Limited .... Vol 2 2009
University of New South Wales International
House Limited .... Vol 2 2009
University of New South Wales Press Limited ..... Vol 2 2009
University of Newcastle.............................. Vol 2 2009
University of Sydney, The .... Vol 2 2009
University of Sydney Professorial Superannuation
System .... Vol 2 2009
University of Technology, Sydney .... Vol 2 2009
University of Western Sydney........................ Vol 2 2009
University of Western Sydney Foundation
Limited .... Vol 2 2009
University of Western Sydney Foundation Trust .. Vol 2 2009
University of Wollongong .... Vol 2 2009
University of Wollongong Recreation
Aquatic Centre Limited .... Vol 2 2009
UNSW & Study Abroad – Friends and U.S.
Alumni, Inc... Vol 2 2009
UNSW (Thailand) Limited .... Vol 2 2009
UNSW Asia School Limited........................... Vol 2 2009
UNSW Global (Singapore) Pte Limited .... Vol 2 2009
UNSW Global India Private Limited .... Vol 2 2009
UNSW Global Pty Limited .... Vol 2 2009
UNSW Hong Kong Foundation Limited .... Vol 2 2009
UNSW Hong Kong Limited............................ Vol 2 2009
UTSM Services (Malaysia) Sdn Bhd................... Vol 2 2009
UON Foundation Ltd .... Vol 2 2009
UON Foundation Trust................................ Vol 2 2009
UON Services Limited .... Vol 2 2009
UON, Singapore Pte Ltd .... Vol 2 2009
Upper Parramatta River Catchment Trust .... Vol 4 2008
Upper Parramatta River Catchment Trust
Division .... Vol 4 2008
UWS College Pty Limited .... Vol 2 2009
UWS Conference and Residential Colleges LimitedVol 2 2009
uwsconnect Limited .... Vol 2 2009

V

Valley Commerce Pty Limited ....Vol 5 2009
Veterinary Practitioners Board ....Vol 5 2008
Vocational Education and Training
Accreditation Board, NSW ....Vol 4 2008

W

Warren Centre for Advanced Engineering
Limited, The.......................................Vol 2 2009
Waste Recycling and Processing Corporation ......Vol 2 2009
Water and Energy, Department of ....Vol 5 2008
Water Industry Overview ....Vol 5 2008
Water, Minister for ....Vol 5 2008
Wayahead Pty Limited.................................Vol 2 2009
Wentworth Annexe Limited...........................Vol 2 2009
Wentworth Park Sporting Complex Trust ....Vol 4 2008
Western Catchment Management Authority........Vol 4 2008
Western Research Institute Limited ....Vol 2 2009
Western Sydney Buses Division ....Vol 5 2008
Western Sydney Parklands Trust ....Vol 5 2008
Whitlam Institute Within the University of
Western Sydney Limited ....Vol 2 2009
Whitlam Institute Within the University of
Western Sydney Trust ....Vol 2 2009
Wild Dog Destruction Board...........................Vol 2 2009
Wild Dog Destruction Board Division.................Vol 2 2009
Wine Grapes Marketing Board ....Vol 2 2009
Wollongong Sportsground Trust ....Vol 5 2008
Wollongong Sportsground Trust Division ....Vol 5 2008
Wollongong UniCentre Limited ....Vol 2 2009
WorkCover Authority, Office of the ....Vol 6 2008
WorkCover Authority of New South Wales..........Vol 6 2008
Workers Compensation Commission of
New South Wales ....Vol 6 2008
Workers Compensation Nominal Insurer
(trading as The NSW WorkCover Scheme)......Vol 1 2009
Workers' Compensation (Dust Diseases) Board ....Vol 5 2008
World Youth Day Co-ordination Authority ....Vol 2 2009
World Youth Day Co-ordination Authority,
Office of..Vol 2 2009
Wyong Water Supply Authority ....Vol 5 2008

Y

Youth, Minister for 121

Z

Zoological Parks Board of New South Wales........Vol 5 2008
Zoological Parks Board Division ....Vol 5 2008

AUDITOR-GENERAL'S REPORT
FINANCIAL AUDITS

Volume Seven 2009

focusing on Environment, Climate Change & Water

AUDITOR-GENERAL
NEW SOUTH WALES

The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

Pursuant to the *Public Finance and Audit Act 1983*, I present Volume Seven of my 2009 Report.

Peter Achterstraat
Auditor-General

Sydney
November 2009

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 contains an overview of the findings for this Volume's focus agencies. Section Two provides comments on financial audits of government agencies. It is divided into ministerial portfolios, each containing one or more government agencies.

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

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

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

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

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

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

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

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

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

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

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

Appendix 1 contains the names of agencies not reported elsewhere in this Volume. These agencies received unqualified audit opinions and have no significant issues to report.

Contents

Significant Items iii

SECTION ONE – Overview

Water Industry Overview 3

SECTION TWO – Commentary on Government Agencies

Minister for Climate Change and the Environment 9

Department of Environment and Climate Change 11

Environment Protection Authority 19

Environmental Trust 20

Royal Botanic Gardens and Domain Trust 23

Taronga Conservation Society Australia 25

Minister for Housing 29

Home Purchase Assistance Fund 31

Minister for Water 33

Cobar Water Board 35

Department of Water and Energy 36

Gosford Water Supply Authority 40

Hunter Water Corporation 42

State Water Corporation 46

Sydney Catchment Authority 50

Sydney Water Corporation 54

Wyong Water Supply Authority 70

APPENDIX

Appendix 1 – Agencies not reported elsewhere in this Volume 75

INDEX 77

Significant Items

	Page
Water Industry Overview	
The Central Coast Water Corporation has not been established despite enabling legislation being passed by the Parliament in 2006.	4
Department of Environment and Climate Change	
At 4 November 2009, 14 agencies had not met their reporting obligations to the Department under the Government's Waste Reduction and Purchasing Policy.	11
Over 94,000 residential rebates for hot water systems, rainwater tanks, insulation and washing machines have been paid from the $700 million Climate Change Fund.	12
The Department spent approximately $260 million on acquiring water licences for 145 gigalitres to support wetlands in the Gwyder, Macquarie, Lachlan, Murrumbidgee and Murray valleys.	12
The Department completed 97 prosecutions for environmental protection offences resulting in fines and penalties of $1.6 million. In 2007-08 125 prosecutions were completed resulting in fines and penalties of $454,698.	13
There were 47 poor air quality days in New South Wales, compared to 23 in 2007-08.	14
Assets associated with Hunter Valley levee banks valued at $500 million are not recognised as New South Wales public sector assets.	15
Home Purchase Assistance Fund	
The Fund continues to hold investments which it is not authorised to hold under the *Public Authorities (Financial Arrangements) Act, 1987*.	31
Department of Water and Energy	
The Department has not invoiced surveyed, unregulated water charges for water years ended 30 June 2007, 2008 and 2009. It estimates the value these charges is approximately $920,000.	36
Gosford Water Supply Authority	
Evidence was not available to support investment values of $42.9 million.	40

Hunter Water Corporation

The Minister for Planning has not yet decided whether to allow the construction of the Tillegra dam. 42

Water restrictions have not applied to the Hunter region since 2005 due to favourable water storage levels (91.8 per cent of total capacity at 1 November 2009). 43

State Water Corporation

There is no inter-jurisdictional agreement for managing, monitoring and correctly assigning recoverable costs associated with the interstate trade of water allocations. 46

The on-going drought again dominated State Water’s operations, curtailing water sales and income, and placing stress on the Corporation’s clients and communities. If the drought continues the Corporation may become increasingly reliant on Government funding. 46

The Corporation’s performance against its Operating Licence standards is improving with 94 per cent of its activities achieving high or full compliance. 47

The first phase of the Corporation’s dam safety compliance project will cost over $250 million. 47

Sydney Catchment Authority

Work on improving environmental flows and fish passage works at the Tallowa dam were completed at cost of $26.0 million. The works included a mechanical fishlift, the first in New South Wales and the largest to be fitted to a dam in Australia. 51

Leakage from the water supply system amounted to 0.2 per cent (2.7 per cent in 2007-08) of water sold. This compares favourably with other Australian water utilities, which incur losses of seven to 35 per cent. 51

The available water supply was 61 per cent of total capacity at 30 June 2009, a decrease of 5.3 per cent since 30 June 2008. 52

Sydney Water Corporation

The Corporation is withholding payment of a contractor’s claims valued at $2.0 million because it cannot verify the appropriateness of those claims. 54

The desalination plant is scheduled for completion during 2009-10. It will operate at full capacity for the first two years. 55

The budget for the project to consolidate the Corporation’s asset management software has been increased from $18.4 million to $31.3 million and the completion date extended from August 2009 to October 2010. 56

The budget for Stage 1 of the development of a Customer Management System has been increased from $21.0 million to $55.3 million and the completion date extended from August 2009 to February 2011. 57

Mandatory water restrictions since 1 October 2003 have led to significant water savings of around 100,000 megalitres a year. Water Wise Rules have replaced water restrictions and consumption is expected to increase.	59
Water consumption per capita per day was 310 litres for 2008-09, which compares favourably with the target of 329 litres.	58
Recycled water in 2008-09 was 25.4 billion litres, 5.3 per cent of total effluent discharged.	60
Water loss from breaks and leaks has nearly halved from 68,620 megalitres in 2002-03 to 38,445 megalitres in 2008-09. Water loss represented 7.3 per cent of water supplied.	61
The Corporation completed most of its planned maintenance for 2008-09 at a cost of $221 million, including $9.3 million on backlog maintenance.	64
The current estimated cost of the Blue Mountains Sewerage Scheme Stage 2 is $145 million, nearly three times its original estimated cost.	66

Section One

Water Industry Overview

Water Industry Overview

The following Government entities provide water services:

State Owned Corporations

- Hunter Water Corporation (Hunter Water)
- Sydney Water Corporation (Sydney Water)
- State Water Corporation.

Statutory Body

- Sydney Catchment Authority.

Water Supply Authorities

- Cobar Water Board
- Gosford Water Supply Authority, part of Gosford City Council
- Wyong Water Supply Authority, part of Wyong Shire Council.

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

KEY ISSUES

Demand/Supply Initiatives

The State Infrastructure Strategy 2008-2018 and Metropolitan Water Plan 2006 (the Plan) identified a number of demand management initiatives including:

- large users of water (in excess of 50 million litres per year) were to develop water saving action plans by the end of 2006. At 30 June 2009, 221 businesses, 34 government sites and 44 councils had developed water saving action plans
- leak reduction program. Sydney Water has completed significant work on a program to reduce water loss due to leakage. Sydney Water believes the full benefits of this program have been realised. Hunter Water has also reduced water loss via leaks
- water savings. Sydney Water is required to reduce water consumption to 329 litres per capita per day by 2011. Water consumption, including the affects of water restrictions, during 2008-09 was 310 litres per capita per day (308 in 2007-08). This means Sydney Water is currently achieving its target.

The Plan also identified a number of supply initiatives, which have been completed or are underway to meet the requirements of a growing population and business sector. These initiatives include:

- construction of a desalination plant. The plant will have the capacity to supply approximately 15 per cent of Sydney's daily water needs. Sydney Water is currently constructing a desalination plant at Kurnell. Sydney Water anticipates the plant will be operational during 2009-10
- accessing groundwater supplies. Sydney Catchment Authority is progressing a groundwater project at Kangaloon to a state of preparedness
- deep water access. Sydney Catchment Authority has completed work at the Warragamba, Avon and Nepean dams to provide deep water access from within the respective dams
- preparing for the construction of Hunter Water's Tillegra Dam. Hunter Water is purchasing land for this Dam and progressing with the approval process.

- Increase the use of recycled water to replace potable water use where appropriate. In Sydney, the total amount of recycled water supplied in 2008-09 was about 27.2 billion litres and additional projects are planned to increase the use of recycled water to over 60 billion litres per year by 2015.

Proposed Changes in Water Industry Entities and Businesses

There is no established deadline for Gosford City Council and Wyong Shire Council to enter into a shareholder's agreement relating to the Central Coast Water Corporation. This action is a precondition for the commencement of the *Central Coast Water Corporation Act 2006* and the establishment 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. The New South Wales Parliament passed the *Central Coast Water Corporation Act 2006* in November 2006. The Act has not yet commenced.

When the Central Coast Water Corporation is established, it will assume the activities of the Gosford Water and Wyong Water Boards. The Corporation will have Gosford City Council and Wyong City Council as the shareholders.

PERFORMANCE ISSUES

Financial Performance

For the four largest New South Wales water suppliers and distributors, the key financial ratios are shown below.

Year ended 30 June	Sydney Water 2009	Hunter Water 2009	Sydney Catchment Authority 2009	State Water Corporation 2009
Current ratio (a)	*0.27*	*0.26*	*0.62*	*0.83*
Return on average equity (%) (b)	*2.9*	*2.9*	*6.1*	*(10.1)*
Return on average assets (%) (c)	*5.6*	*4.6*	*5.8*	*(10.8)*
Interest cover (times) (d)	*2.0*	*3.5*	*2.5*	*(13.1)*
Debt to equity ratio (e)	*103.3*	*32.2*	*71.5*	*16.7*
Dividend paid ($m)	*190.0*	*35.3*	*6.2*	*4.4*
Tax paid ($m)	*70.8*	*12.8*	*4.2*	--
Contributions to government ($m)	*260.8*	*48.1*	*10.4*	*4.4*

Calculated as:
(a) Current assets divided by current liabilities (current liabilities include taxation liabilities and exclude employee provisions payable after 12 months).
(b) Profit after income tax expense divided by average equity.
(c) Profit before tax and interest expense divided by average assets.
(d) Operating profit plus interest and tax expense divided by interest expense.
(e) External debt divided by equity (net assets).

All entities have a current ratio of less than one. A ratio under one suggests that an entity may be unable to pay ts obligations However, an entity can manage its cash flows with a lower liquidity ratio if its revenues and expenditures are highly predictable and it can quickly source funds. This is true for these entities, which have access to funds from a 'come and go' facility with NSW Treasury Corporation, as well as approved borrowing facilities, which enable them to pay obligations as they fall due.

State Water's negative return on average equity and average assets is due to an asset impairment loss recognised in its income statement. This impairment loss is non-cash. The financial ratios for State Water suggest its finances are finely balanced and it is at greater financial risk than other NSW water trading entities. Refer separate comment on State Water for further details.

With the exception of State Water, the interest cover for the other entities is above two. This indicates they can meet interest charges and service debt.

Sydney Water's debt to equity ratio is high because it is funding assets via debt. Sydney Water is constructing its desalination plant using debt. The debt to equity ratio of the other water entities is low.

Sydney Water's credit rating was recently reviewed by Moody's Ratings. They have proposed a 'stand alone' rating of Baa2 for Sydney Water. This is equivalent to a Standard and Poor's 'BBB' credit rating and represents a downgrade from the credit rating of 'BBB+' issued in 2008. The outlook for the rating was stable, reflecting the stability of Sydney Water's operating profile and cash flow.

Dividends for Sydney Water are determined by agreement with the Shareholder Ministers. For Hunter Water Corporation, Sydney Catchment Authority and State Water, dividends are a percentage of profit before income tax. Because State Water incurred a loss in the current year, no dividend will be paid.

Targets for these key ratios are not set for the New South Wales water industry, however, targets for individual agencies are agreed with the Shareholder Ministers.

Non-financial Performance

Relevant non-financial key performance indicators are included in the comments for each entity. These indicators are used by the entities in measuring their performance.

The Government does not develop performance information for the sector as a whole.

OTHER ISSUES

Competition

The NSW Parliament passed the *Water Industry Competition Act 2006* (Act) in November 2006. The Act commenced in August 2008.

The aim of the Act is to encourage competition in relation to the supply of water and the provision of sewerage services and to facilitate the development of infrastructure for the production and reticulation of recycled water.

In May 2009, the NSW Government announced that the first licences have been issued under the Act. It issued the first licence to construct, maintain and operate a new recycled water plant at Fairfield as part of the Rosehill Recycling Scheme. This scheme will initially provide 4.3 billion litres of recycled water a year to industrial and irrigation customers in Western Sydney. A second licence was issued to allow high-quality recycled water to be transported to users through a network of retrofitted gas pipes.

Operating Licences

Sydney Water Corporation, Hunter Water Corporation, State Water Corporation and Sydney Catchment Authority hold operating licences, which allow them to fulfil their functions.

Independent Pricing and Regulatory Tribunal of New South Wales administers the operating licences. Their administration of operating licences is designed to:

- maintain and improve service quality and the reliability of supply
- protect consumers
- assess the impact of the industry on the environment
- encourage compliance through ongoing auditing of performance.

It achieves these objectives through regular review of the operating licences and annual audits of performance.

All of the above entities achieved high levels of compliance with their licence conditions. Refer separate comments for more detailed comments.

The Governor has the legislative power to grant operating licences.

Section Two

Commentary on Government Agencies

Minister for Climate Change and the Environment

Department of Environment and Climate Change

Environment Protection Authority

Environmental Trust

Royal Botanical Gardens and Domain Trust

Taronga Conservation Society Australia

*** Waste Recycling and Processing Corporation**

Refer to Appendix 1 for:

Border Rivers-Gywdir Catchment Management Authority

Central West Catchment Management Authority

Dams Safety Committee

Hawkesbury-Nepean Catchment Management Authority

Hunter-Central Rivers Catchment Management Authority

Jenolan Caves Reserve Trust

Lachlan Catchment Management Authority

Lord Howe Island Board

Lower Murray - Darling Catchment Management Authority

Marine Parks Authority

Murray Catchment Management Authority

Murrumbidgee Catchment Management Authority

Namoi Catchment Management Authority

Northern Rivers Catchment Management Authority

Southern Rivers Catchment Management Authority

Sydney Metropolitan Catchment Management Authority

Upper Parramatta River Catchment Trust

Western Catchment Management Authority

* The audit was incomplete at the time of compiling this Volume.
The comment will be included in a later 2009 Volume.

Department of Environment and Climate Change

AUDIT OPINION

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

Administrative Restructure

On 27 July 2009, an Administrative Changes Order creating the 13 new super Departments within the New South Wales Public Sector, established the Department of Environment, Climate Change and Water effective from 1 July 2009. The Government has changed the name of the Department of Environment and Climate Change (the Department) and combined its responsibilities with the water management responsibilities of the former Department of Water and Energy. As part of this reform, the Administrative Orders set up the new NSW Office of Water within the Department.

KEY ISSUES

Waste Reduction and Purchasing Policy

Recycling and reuse of waste is important for maximising the use of our resources and minimising our carbon footprint. The Department is responsible for coordinating the New South Wales Government's Waste Reduction and Purchasing Policy (WRAPP) across other agencies and State-owned corporations. In June 2008, I tabled a performance audit report on Reuse and Recycling of Waste by the New South Wales Public Sector. We concluded that WRAPP was a good example of success in implementing, supporting, monitoring and public reporting on a sector-wide policy. We also found that most agencies had done well in implementing WRAPP.

The full report is at:

http://www.audit.nsw.gov.au/publications/reports/performance/2008/recycle/recycle-contents.htm

> Agencies must meet their WRAPP reporting obligations to the Department of Environment and Climate Change.

WRAPP data is currently being collected by the Department for inclusion in the 2007-09 'Whole of Government WRAPP Progress Report'. This data was due by 31 August 2009, but as at 4 November 2009, 14 agencies had not reported the required data to the Department. Some of these are large agencies that produce significant amounts of waste. This undermines the Department's efforts to report on sector-wide progress, identify emerging issues and take remedial action in a timely manner. On this occasion, I have chosen not to name the fourteen agencies. In future, however, I may name agencies that fail to meet these important reporting obligations.

PERFORMANCE INFORMATION

New South Wales Climate Change Fund

The Climate Change Fund (the Fund) was established on 1 July 2007 under the *Energy and Utilities Administration Act 1987* and raises contributions from electricity distributors and water utilities.

The Department administers the Fund of $700 million to help households, businesses and government save energy and water and reduce greenhouse gas emissions.

The Department is continuing to develop initiatives under the Fund and advises that, since commencement, the Fund has paid more than 94,000 rebates to New South Wales residents, saving more than 76,000 tonnes of greenhouse gas emissions and 1.9 billion litres of water per annum.

The table below details the number of rebates paid since the introduction of the Fund.

Residential rebates paid under the Climate Change Fund (cumulative)	2009	2008
Hot water systems	***28,586***	4,772
Insulation	***10,800***	3,060
Rainwater tanks	***26,875***	14,439
Washing machines	***27,765***	na

na: not applicable (unaudited).

In addition to the above payments, as at 30 June 2009, the Department had received a further 4,256 claims, comprising 2,443 that had been confirmed as eligible but not yet paid and 1,813 that had not been processed. The Department advised that there has been a backlog in processing rebate claims due to the large number of applications and limited resources.

The Fund also covers the costs of administering the Savings Action Plans program established under the same Act. The Department advised that by 30 June 2009, the target number of energy and water-saving action plans had been approved resulting in:

- 267 energy savings action plans that identified 2,359 actions to reduce greenhouse gas emissions by more than 825,000 tonnes per year and save $36.6 million on energy bills
- 298 water savings action plans that identified 2,329 cost effective actions to save 8.2 billion litres of water a year and $19.0 million on water bills.

Under the legislation, the Minister is required to produce an annual report detailing fund allocation, programs and anticipated benefits. This is required to be tabled in both Houses of Parliament by the end of December each year.

Integrated Landscape Management

A major program of the Department during 2007-08 and 2008-09 was the environmental water recovery program encompassing water purchase and water saving infrastructure projects.

The NSW RiverBank program is funded by the New South Wales Government and the Living Murray, NSW Rivers Environmental Restoration and Wetland Recovery programs are jointly funded by the New South Wales and Commonwealth Governments.

In 2008-09 these programs purchased 145 gigalitres of water in New South Wales to support wetlands in the Gwyder, Macquarie, Lachlan, Murrumbidgee and Murray valleys. Water licences acquired by the Department during the year totalled $260 million. Some of these water licences were purchased on behalf of other jurisdictions.

The Biodiversity Banking and Offset Scheme, known as BioBanking, officially started on 11 July 2008. This Scheme provides a new approach to addressing the cumulative loss of biodiversity and encourages private landholders as well as developers to protect and manage land for conservation. At 30 June 2009 no transactions had occurred under the Scheme.

Plans of Management

Of the 793 areas gazetted under the *National Parks and Wildlife Act 1974* (the Act) and requiring management plans, plans had been adopted for 392 areas by 30 June 2009 (322 of 788 at 30 June 2008) and plans for a further 48 had been placed on public exhibition. Two of the plans exhibited will replace adopted plans. Departmental management have advised that a management plan usually takes around two years to prepare.

Section 72 of the Act requires that a plan of management be released, as soon as practicable, for each national park, nature reserve, historic site, karst conservation reserve, State conservation area and regional park. A plan of management is a legal document that outlines how an area will be managed, the value of the area, and management objectives and strategies. The Act allows more than one of these areas to be incorporated under the same management plan. The 392 reserves with adopted plans at 30 June 2009 represent in excess of 70 per cent of the gazetted area.

The Department has in place approved fire management strategies with 100 per cent coverage for all reserves that require them.

State of the Parks Framework

To improve the management of parks, a State of the Parks (SOP) survey was undertaken in late 2007 covering the entire formal reserve system. Existing approaches to collecting data using the SOP survey have been reviewed and refined. New tools have been developed to return data to park managers as soon as possible to aid management. A public report is planned for release in late 2009.

Fines and Penalties

The Department can commence prosecutions for environmental protection offences under the authority of the Environment Protection Authority. Actions regarding native vegetation, threatened species, parks wildlife and Aboriginal heritage provisions can be made under Departmental legislation.

The table below details Department prosecutions completed during 2007-08 and 2008-09.

	2009		**2008**	
	Prosecutions	**Fines/ Penalties $**	**Prosecutions**	**Fines/ Penalties $**
Total prosecutions under Environment Protection Authority Legislation (fines and other financial penalties)	***37***	***1,050,300***	68	362,850
Total prosecutions under parks, wildlife, threatened species and Aboriginal heritage legislation (fines)	***53***	***148,846***	55	65,848
Total prosecutions under native vegetation legislation (fines)	***7***	***449,000***	2	26,000
Total prosecutions completed	***97***	***1,648,146***	125	454,698

(unaudited).

The total number of prosecutions commenced during the year fell by 12 per cent to 137 per cent (156 per cent in 2007-08) while those completed fell by 22.4 per cent to 97 per cent (125 per cent). The increase in fines and penalties was mainly due to prosecutions involving ten major cases that resulted in fines and penalties of $916,000.

In 2008, the Department began developing a new native vegetation compliance strategy. In 2008-09 the Department completed seven prosecutions and issued fines totalling $449,000 compared to two prosecutions and fines of $26,000 in the previous year.

The Department was also engaged in regulatory reforms in areas such as the modernising of the waste regulatory framework.

Air Quality and Pollution

The Department provides hourly updates of air quality on its website from 24 monitoring sites throughout New South Wales. The Department and NSW Health operate a Health Alert system for the Sydney Region for the benefit of asthmatics and other sensitive members of the community.

During 2008-09, the Department's regional air quality index (RAQI) disclosed 47 poor air quality days compared to 23 in 2007-08 and 54 in 2006-07. The increase in 2008-09 was attributed to a combination of photochemical smog during the summer, dust storms and bushfires. The RAQI is reported for three regions in Sydney, the Illawarra and the lower Hunter. A day is counted as poor if one or more of the regions exceed the index.

OTHER INFORMATION

Operational Performance

Environmental Grants Administration

My Environmental Grants Administration performance audit, released in August 2009, assessed whether environmental grants are aligned with government objectives, are allocated appropriately and achieve the required results for New South Wales. The audit focussed on three grant programs administered by the Department and seven programs administered by the Environmental Trust. We found many aspects of good grants management, particularly in the Trust.

My report recommended that:

- agencies reduce red tape and delay when administering grants
- Ministers act transparently
- agencies monitor grants and evaluate funding programs.

The full report is at:

http://www.audit.nsw.gov.au/publications/reports/performance/2009/grants/grants-contents.htm

Agreements with Snowy Hydro Limited

During the year the Department worked with Snowy Hydro Limited (SHL) on remediation works, in particular the rehabilitation of former Snowy Mountain scheme sites. SHL provided the Department with $33.4 million over five years, with the final instalment of $5.6 million received in 2006-07. Interest earned on funds provided by SHL from the inception of the agreements totalled $11.2 million at 30 June 2009 ($9.3 million).

Since the start of the rehabilitation works, the Department has spent $10.0 million ($7.2 million) on various elements including weed eradication, engineering works, revegetation and planning and coordination. Remediation work is expected to continue over a period of up to 15 years.

Hunter Valley Levee

I recommend that The Treasury consider whether the Water Administration Ministerial Corporation is a reporting entity that needs to prepare a general purpose financial report.

The Department incurred maintenance expenses in 2008-09 of $2.1 million for maintaining Hunter Valley Levee (HVL) Banks. These assets are controlled by the Water Administration Ministerial Corporation (WAMC) and are managed by the Department under an instrument of sub-delegation from the former Department of Water and Energy (DWE). The Department engages the Department of Lands as an expert contractor to undertake the HVL scheme maintenance. In 2009, the Department obtained a valuation of these assets at approximately $500 million. The assets are not controlled by the Department and are not recognised in its balance sheet. As WAMC does not prepare financial statements, these assets are not recorded in the Total State Sector Accounts.

FINANCIAL INFORMATION

Abridged Operating Statement

Year ended 30 June	2009 $'000	2008 $'000
Employee related expenses	***413,497***	407,992
Other expenses	***639,413***	538,135
TOTAL EXPENSES	***1,052,910***	946,127
TOTAL REVENUE	***432,733***	351,369
Loss on disposal of non-current assets	***3,636***	1,401
NET COST OF SERVICES	***623,813***	596,159
Government contributions	***686,300***	723,911
SURPLUS	***62,487***	127,752

Increases in expenses and revenue primarily reflect the impact of the additional funding provided for the water recovery program referred to previously.

Employee related expenses include personnel services provided to the Royal Botanic Gardens and Domain Trust and the Lord Howe Island Board of $20.3 million, and to Catchment Management Authorities of $42.9 million.

Other expenses include operating expenses of $302 million ($230 million), grants and subsidies of $271 million ($241 million) and depreciation of $63.9 million ($65.1 million). The large increase in operating expenses was due to the purchase of water licences which are under the control of other States or the Commonwealth.

Grants and subsidies included $167 million ($175 million) paid to other New South Wales government agencies, comprising mainly $121 million to Catchment Management Authorities and $24.8 million to Sydney Water for demand management and rebate programs.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***235,245***	250,398
Non-current assets	***3,373,479***	3,027,437
TOTAL ASSETS	***3,608,724***	3,277,835
Current liabilities	***79,405***	67,789
Non-current liabilities	***43,758***	40,027
TOTAL LIABILITIES	***123,163***	107,816
NET ASSETS	***3,485,561***	3,170,019

Current assets include cash holdings of $185 million ($208 million). The cash balance includes funds which are restricted in use, including $122 million for the Climate Change Fund and $38.9 million for the remediation of the former Snowy Mountain scheme sites referred to earlier in this Report.

Non-current assets mainly comprise land and buildings of $2.1 billion ($2.2 billion) and infrastructure systems of $1.1 billion ($713 million). The increase in infrastructure systems in 2008-09 was due to a $364 million revaluation increment.

Abridged Service Group Information

The Department's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget $'000	2009 Actual $'000	2008 Actual $'000	2009 Actual $'000	2008 Actual $'000
Service Group 1 - Climate Change and Policy Programs	***119,021***	***210,661***	192,362	***280,777***	232,236
Service Group 2 - Environment Protection and Regulation	***80,166***	***82,633***	77,851	***2,827***	9,311
Service Group 3 - Parks and Wildlife	***306,991***	***266,604***	271,598	***3,170,182***	2,893,805
Service Group 4 - Culture and Heritage	***12,087***	***15,079***	13,031	***330***	1,058
Service Group 5 - Scientific Services	***47,661***	***43,611***	41,317	***31,445***	33,609
Personnel Services	***5,195***	***5,225***	--	**--**	--
Total all service groups	***571,121***	***623,813***	596,159	***3,485,561***	3,170,019

Details of each Service Group's objectives and deliverables are shown under Departmental Activities below.

The $91.6 million difference between the budgeted and actual net cost of services for Service Group 1 mainly relates to a change in the accounting arrangements for the purchase of Living Murray water licences. Commonwealth funding of $70.0 million was not recorded as revenue of the Department and $28.0 million, relating to the purchase of water licences funded by the State, was recognised as recurrent rather than capital expenditure. This followed a decision that these assets were controlled by the Murray Darling Basin Commission rather than the State of New South Wales.

The $40.4 million decrease in Service Group 3 net cost of services mainly related to additional funding provided by the Commonwealth for the acquisition of properties and related water licences, including Toorale, Cranebrook and the River Environmental Restoration program.

DEPARTMENTAL ACTIVITIES

The Department's primary activities comprise the following five service groups:

Climate Change and Policy Programs (Service Group 1)

This covers the State's climate change policy response. It delivers water and energy conservation and waste sustainability programs. It develops, implements and reviews strategic policies, programs and procedures pertaining to native vegetation, biodiversity, landscape conservation, environment protection and coastal protection. It also develops and manages private land conservation programs including the Biobanking Scheme, Riverbank and other environmental water recovery programs, as well as supporting Catchment Management Authorities.

Environment Protection and Regulation (Service Group 2)

This covers delivering credible, targeted and cost effective regulation and enforcement across a range of environment protection, conservation, native vegetation and Aboriginal heritage areas. It implements market-based and regulatory programs for industry and local government to reduce environmental impacts.

Parks and Wildlife (Service Group 3)

This covers managing and acquiring parks and protected areas within which it conserves and manages nature and cultural heritage; provides a range of opportunities and experiences for visitors to enjoy parks and other protected areas; controls pests and weeds; suppresses and manages fires; and partners Aboriginal communities and private landholders for conservation outcomes. It manages on-park Aboriginal and historic heritage sites, and buildings of significance, as well as protecting, managing and licensing native wildlife.

Culture and Heritage (Service Group 4)

This covers working with Aboriginal communities and private and public landholders to conserve Aboriginal cultural heritage. It develops policies, strategies, programs and systems that support Aboriginal participation in the management of their traditional lands, waters and natural resources. It also provides technical services for the conservation of cultural heritage within parks, reserves and botanic gardens, and leads the development of the 'Strengthening Community Wellbeing' strategy.

Scientific Services (Service Group 5)

This covers scientific research, investigation, monitoring, analysis, evaluation and reporting on a range of climate change, natural resource, and environmental and cultural heritage matters. It also interprets and communicates environmental data to inform internal and external decision making, as well as providing laboratory and analytical services to support environment protection, conservation and natural resource programs, and emergency services.

Other Activities of the Department

The Environment Protection Authority (EPA), as a statutory body, is required to prepare a separate general purpose financial report. The EPA has no staff of its own, no material assets or liabilities and its operations are fully integrated within the Department's operations. The EPA has been retained as an independent body to take legal actions including the possible prosecution of State Government authorities.

The Marine Parks Authority (MPA) is a reporting entity established under the *Marine Parks Act 1997*, whose activities have been administered by the Department since 27 April 2007. The MPA has no staff of its own and no material assets or liabilities. Marine Park assets included within the Department include those at Jervis Bay, Solitary Islands, Cape Byron, Lord Howe Island, Port Stephens and Batemans Bay.

The Department's employees also provide personnel and related services to the Catchment Management Authorities, Royal Botanic Gardens and Domain Trust and the Lord Howe Island Board.

Administered activities

The Department administers, but does not control, certain activities on behalf of the Crown Entity. It is accountable for the transactions relating to those administered activities, but does not have the discretion, for example, to deploy the resources for the achievement of the Department's own objectives.

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

Environment Protection Authority

AUDIT OPINION

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

FINANCIAL INFORMATION

Year ended 30 June	2009 $'000	2008 $'000
Revenue*	***84,804***	66,523
Expenses	***84,804***	66,523
Surplus	**--**	--
Net assets (at 30 June)	**--**	--

* Revenue is a notional grant received from the Department of Environment and Climate Change to offset expenditure on program activities.

The Authority has no staff of its own, no liabilities or assets under its control and does not receive an allocation from the Consolidated Fund for its operations.

Expenses relating to the Authority have been spent on its behalf by the Department of Environment and Climate Change in the following service group areas:

Year ended 30 June	2009 $'000	2008 $'000
Climate Change and Policy Programs	***17,096***	12,364
Environment Protection and Regulation	***55,918***	47,117
Scientific Services	***11,424***	6,712
Total	***84,438***	66,193

Increases in revenue and expenses are due to: increases in compliance activities; Local Council waste management improvement payments; illegal dumping programs; as well as an overall increase in activity.

AUTHORITY ACTIVITIES

The activities of the Environment Protection Authority are fully integrated within the operations of the Department of Environment and Climate Change. The Authority operates within the confines of the *Protection of the Environment Administration Act 1991,* and the *Protection of the Environment Operations Act 1997,* in order to facilitate activities of the Department's staff under these Acts. It is subject to the control and direction of the Minister for Climate Change and the Environment.

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

Environmental Trust

AUDIT OPINION

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

PERFORMANCE INFORMATION

During 2008-09, the Trust noted the following achievements:

- eleven new properties were purchased under the Trust's Land Acquisition Program
- the Trust approved $36.0 million for a diverse range of new environmental projects for community groups, schools and universities, councils and New South Wales Government agencies
- the Trust approved 184 projects including: 52 environmental restoration projects; 78 education and school projects; 13 research projects; 17 projects under the Aboriginal program; and 24 council projects to improve urban sustainability
- 2008-09 was the first year of the Growth Centres Program, which supports the establishment of biobanking agreements and new reserves to offset urban development. It is expected that the program will provide $397 million over the next 30-40 years in biodiversity offsets.

OTHER INFORMATION

Environmental Grants Administration

My performance audit on Environmental Grants Administration was released in August 2009 and is referred to in the comment for the Department of Environment and Climate Change.

FINANCIAL INFORMATION

Abridged Operating Statement

Year ended 30 June	2009 $'000	2008 $'000
Grants and subsidies	***89,647***	89,290
Other expenses	***1,919***	1,705
TOTAL EXPENSES	***91,566***	90,995
TOTAL REVENUE	***2,256***	2,748
NET COST OF SERVICES	***89,310***	88,247
Government contributions	***86,792***	86,945
DEFICIT	***2,518***	1,302

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***15,469***	16,949
TOTAL ASSETS	***15,469***	16,949
Current liabilities	***4,025***	2,987
TOTAL LIABILITIES	***4,025***	2,987
NET ASSETS	***11,444***	13,962

The Trust receives an annual appropriation and other funding from the New South Wales Government to fund projects under the Government's City and Country Environment Restoration Program, as well as a range of other grant programs managed by the Trust.

In 2008-09, the Trust paid $89.6 million ($89.3 million in 2007-08) in grants and subsidies to:

- State and local government authorities totalling $76.8 million ($72.5 million)
- community and school groups totalling $8.7 million ($11.6 million)
- the Consolidated Fund totalling $3.7 million ($4.8 million), for initiatives under the *Forestry Restructuring and Nature Conservation Act 1995*. This included forestry restructure and assistance programs in the Brigalow and Nandewar areas, including business exit assistance, timber worker assistance and industry development assistance
- the Commonwealth Government totalling $418,000 ($358,000).

The payments to State and local governments included:

- $26 million to the Department of Environment and Climate Change (DECC) for the acquisition of water licences under the Riverbank program, and $5.4 million for land acquisitions
- $10.7 million to DECC towards waste programs including clean up, waste reduction and regional waste programs; and $16.8 million to local government authorities for urban sustainability initiatives
- $3.7 million to local government authorities for rehabilitation and restoration projects
- $5.5 million to DECC for rehabilitation and restoration and education projects
- $3.0 million to Forests NSW for the Brigalow and Nandewar industry restructuring
- $1.5 million to DECC's Climate Change Fund to improve efficiency in schools and fund water and energy saving in public facilities
- $2.0 million to the private Native Forestry Initiative.

TRUST ACTIVITIES

The Trust was established under the *Environmental Trust Act 1998* to support the public and private sectors to:

- encourage and support restoration and rehabilitation projects that are likely to reduce pollution, the waste-stream or environmental degradation within New South Wales
- promote research into environmental problems
- promote and develop environmental education programs which will increase public awareness of environmental issues
- fund the acquisitions of land for national parks
- fund the declaration of areas for marine parks
- promote waste avoidance, resource recovery and waste management
- fund environmental community groups, and
- fund the purchase of water entitlements for the purposes of increasing environmental flows for the State's rivers and rehabilitating major wetlands.

The Trust is a statutory body administered by the Department of Environment and Climate Change and is chaired by the Minister for Climate Change and the Environment.

For further information on the Trust, refer to www.environment.nsw.gov.au/grants/envtrust.htm.

Royal Botanic Gardens and Domain Trust

AUDIT OPINION

The audit of the Trust's financial report for the year ended 30 June 2009 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	2009 $'000	2008 $'000
Personnel related expenses	***22,623***	21,025
Other expenses	***17,763***	17,552
TOTAL EXPENSES	***40,386***	38,577
TOTAL REVENUE	***18,849***	16,286
NET COST OF SERVICES	***21,537***	22,291
Government contributions	***20,740***	21,476
DEFICIT	***797***	815

Abridged Program Information

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

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget $'000	2009 Actual $'000	2008 Actual $'000	2009 Actual $'000	2008 Actual $'000
Research service group	***5,768***	***6,811***	7,823	***88,117***	90,265
Botanic Gardens and Parks service group	***16,012***	***14,726***	14,468	***190,526***	182,048
Total all service groups	***21,780***	***21,537***	22,291	***278,643***	272,313

The Research service group budget variation is a result of grant revenue not being received due to the economic slowdown. The Botanic Gardens and Parks service group budget variation is a result of capital contributions received for the Mount Tomah World Heritage Exhibition Centre and Jungle Property.

TRUST ACTIVITIES

The Trust has nearly 200,000 plants in its three botanic gardens and the Domain, representing 20,000 different kinds of plants from all other the world. The Herbarium has over 1.2 million preserved collections, there are over five million seeds in the Seedbank at Mount Annan Botanic Garden and the library preserves a rich assortment of books, archives and artworks. These collections are the basis for much of the scientific effort of the Trust, which this year included innovative research into DNA sequencing and barcoding.

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 provides scientific and horticultural research, together with advice and education on botanical, horticultural and biodiversity issues. It also maintains the grounds of Government House.

The Trust is a statutory body administered by the Department of Environment and Climate Change. Staff working at the Trust are employed by the Department, under the Minister for Climate Change and the Environment. 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.

Taronga Conservation Society Australia

AUDIT OPINION

The audits of Taronga Conservation Society Australia (TCSA) and its controlled entity's financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

KEY ISSUES

Master Plan

TCSA completed the eighth year of its 12 year Master Plan for Taronga Zoo and Taronga Western Plains Zoo, including completion of the 'Outer Plaza and Car Park Facilities' at Taronga Zoo in March 2009.

The Master Plan's budgeted costs are indexed each year for inflation. At 30 June 2009, the budgeted costs had decreased to $220 million from the initial budget of $225 million in 2001-02 due to a cut in Government funding.

The table below shows the Master Plan's revised predicted expenditure over the term of the plan and the planned and actual expenditure from inception to 30 June 2009.

Year ended 30 June	Revised	2009	
	Master Plan $'000	Planned $'000	Actual $'000
Internal funding	43,770	***28,605***	***34,579***
New South Wales Treasury Corporation loan	36,272	***32,190***	***23,894***
Government grants	140,293	***110,660***	***110,660***
Total	220,336	***171,445***	***169,134***

Source: Taronga Conservation Society Australia (unaudited).

The Government requires TCSA to raise approximately 25 per cent of the total cost of the Master Plan through internal funding sources such as sponsorships and donations.

TCSA spent $25.7 million ($18.3 million in 2007-08) on additions to capital works during the year.

PERFORMANCE INFORMATION

Visitors

The following table shows the number of visitors and revenue for the past five years:

Year ended 30 June	Actual				
	2009	**2008**	**2007**	**2006**	**2005**
Taronga Zoo					
Paid attendance	***1,085,207***	1,078,865	1,148,403	1,039,122	1,035,140
Free of charge attendance	***276,134***	260,491	218,926	241,336	226,080
Taronga Western Plains Zoo					
Paid attendance	***190,519***	193,554	199,044	199,683	216,357
Free of charge attendance	***38,589***	37,062	42,333	37,569	37,860
Total attendance	***1,590,449***	1,569,972	1,608,706	1,517,710	1,515,437
Admissions Revenue ($'000)	***28,219***	26,353	24,761	22,905	21,390

Source: Taronga Conservation Society Australia (unaudited).

Paid attendance at Taronga Zoo increased in 2008-09 due to a significant improvement in the domestic market share. However, attendance by overseas visitors fell due to the impact of the global financial crisis which affected overseas tourism.

Paid attendance at Taronga Western Plains Zoo continued to decrease. TCSA attributes the decline to the cost of petrol and a decline in tourism to the region as a result of strong competition from Queensland parks and seaboard holiday destinations.

Free of charge attendance primarily relates to sponsors, function guests and children under the age of four.

OTHER INFORMATION

Outer Plaza and Car Park Facility

The construction of the 'Outer Plaza and Car Park Facility' was completed at Taronga Zoo in March 2009 with a project cost of $12.6 million.

The construction of the 'Inner Plaza and Top Entry Development' project at Taronga Zoo commenced in July 2009 and is anticipated to take 18 to 24 months to complete. The budgeted project cost is $27.0 million.

Zoo Friends

The Association of Zoo Friends is a not-for-profit organisation that raises money through membership subscriptions and educational activities. It provides funding for Taronga Zoo and Taronga Western Plains Zoo conservation, research and education programs.

Zoo Friends comprises 42,000 elected and appointed members, including 460 volunteers.

An extensive review of administrative arrangements proposed the amalgamation of TCSA and the Association of Zoo Friends to achieve greater operational efficiencies.

A special General Meeting of members agreed to dissolve the Association of Zoo Friends in April 2009. Since 1 July 2009, Zoo Friends membership and volunteer programs are directly managed by TCSA and all existing Zoo Friends staff became TCSA employees.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Revenue	***53,260***	49,829	***53,260***	49,829
Government grants	***25,779***	36,154	***25,779***	36,154
OPERATING REVENUE	***79,039***	85,983	***79,039***	85,983
Employee related expenses	***37,358***	35,154	***40,681***	36,572
Depreciation and amortisation	***12,513***	9,437	***12,513***	9,437
Other expenses	***24,715***	23,672	***24,715***	23,671
OPERATING EXPENSES	***74,586***	68,263	***77,909***	69,680
SURPLUS	***4,453***	17,720	***1,130***	16,303
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Gain on revaluation of assets	***60,269***	6,384	***60,269***	6,384
Superannuation actuarial losses	***(3,323)***	(1,417)	**--**	--
TOTAL INCOME AND EXPENSES RECOGNISED FOR THE YEAR	***61,399***	22,687	***61,399***	22,687

Revenue decreased by $6.9 million, largely due to decreased New South Wales Government capital grants compared to 2008. However, admission revenue increased by approximately 6.8 per cent due to higher admission prices and more visitors.

Expenses rose mainly due to increased depreciation on capital projects and the write off of planning costs incurred on projects that were abandoned due to funding cuts. Employee related expenses increased as a result of an average pay increase of four per cent from 1 July 2008 and hiring of additional casual Zoo staff during peak visitation periods.

Abridged Consolidated Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***15,440***	21,100	***15,440***	21,100
Non-current assets	***345,171***	273,616	***345,171***	273,377
TOTAL ASSETS	***360,611***	294,716	***360,611***	294,477
Current liabilities	***14,663***	13,459	***18,228***	13,526
Non-current liabilities	***43,720***	40,428	***40,155***	40,122
TOTAL LIABILITIES	***58,383***	53,887	***58,383***	53,648
NET ASSETS	***302,228***	240,829	***302,228***	240,829

Net assets rose by $61.4 million mainly due to a $60.3 million revaluation of property, plant and equipment in 2008-09.

BOARD ACTIVITIES

The TCSA was established under The *Zoological Parks Board Act 1973*. Its principal objectives are to establish, maintain and control zoological parks at Sydney's Taronga Zoo and Taronga Western Plains Zoo in Dubbo.

The TCSA is subject to the control and direction of the Minister for Climate Change and the Environment.

For further information on the Board, refer to www.taronga.org.au

CONTROLLED ENTITY

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

Entity Name
Taronga Conservation Society Australia Division

Minister for Housing

Home Purchase Assistance Fund

Refer to Appendix 1 for:

Home Purchase Assistance Fund

AUDIT OPINION

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

KEY ISSUE

Housing NSW (Housing) is liaising with The Treasury to amend the Fund's investment powers to help ensure its investments are consistent with its powers under the *Public Authorities (Financial Arrangements) Act, 1987* (PAFA Act). The Fund's investments are in bank bills and bonds. The Fund has the power under the PAFA Act to invest in bank deposits and Treasury Corporation's Hour-Glass investments. It does not have the power to invest in bank bills and bonds.

We identified this matter during the 2007-08 audit.

FINANCIAL INFORMATION

Year ended 30 June	2009 $'000	2008 $'000
Revenue	***21,130***	28,394
Expenses	***494***	594
Surplus	***21,130***	27,800
Distributions	***22,232***	97,249
Net assets attributable to beneficiaries (at 30 June)	***365,286***	366,388

Revenue comprises interest earned on investments. Expenditure is predominantly the operational support payment paid to Housing and the Trustee's fee.

Distributions made by the Fund were:

- $21.5 million ($21.5 million in 2007-08) to the Crown Entity for reimbursement of loan and interest repayments made to the Commonwealth Government. The nominal value of the Crown Entity's loans was $248 million at year end ($258 million)
- $708,000 ($725,000) to special beneficiaries for revenue shortfalls of individual FANMAC Trusts and Shared Equity Schemes.

The Fund made no distribution to Housing as a return of capital ($75.0 million).

The majority of assets are market traded bonds.

FUND ACTIVITIES

A Trust Deed established the Fund on 14 February 1989 to support the State's home purchase assistance program. The Fund is required to make distributions including:

- meeting any income shortfalls in the FANMAC Trusts and some Shared Equity Schemes. These distributions are paid to the Special Beneficiary, Permanent Trustee Company Limited, as Trustee of these Trusts and Schemes. The FANMAC Trusts were established to raise funds on behalf of the State and to lend funds to a certain class of homebuyers under conditions specified by the Government. As at 30 June 2007 the only mortgage trust still operating was the FANMAC Master Trust
- those as directed by the beneficiary. The beneficiary is the Minister of the Crown of the State of New South Wales for the time being charged with the administration of the *Housing Act 2001*.

Minister for Water

Cobar Water Board

Department of Water and Energy

Gosford Water Supply Authority

Hunter Water Corporation

State Water Corporation

Sydney Catchment Authority

Sydney Water Corporation

Wyong Water Supply Authority

Refer to Appendix 1 for:

Dumaresq-Barwon Border Rivers Commission

Cobar Water Board

AUDIT OPINION

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

FINANCIAL INFORMATION

Year ended 30 June	2009 $'000	2008 $'000
Revenue	***1,556***	1,431
Expenses	***3,008***	2,700
Loss	***1,452***	1,269
Net assets (at 30 June)	***62,894***	62,196

Expenses rose mainly due to increased depreciation of re-valued infrastructure assets and running costs of water pumps which operated at full capacity in 2009.

Net assets increased due to the purchase of two additional pumps and revaluation of infrastructure assets.

BOARD'S ACTIVITIES

The Board is a statutory body under the *Water Management Act 2000*. It consists of five part-time members who are appointed by the Governor on the recommendation of the responsible Minister. Nominees include representatives of the local mining companies and the Cobar Shire Council.

The Board maintains and operates water works, and makes agreed quantities of water available to the Cobar Shire Council and two mining companies. This is based on an agreement between the Board, Cobar Shire Council and the mining companies.

The Board does not employ any staff. The Cobar Shire Council performs administration and works for the Board.

CONTROLLED ENTITY

Cobar Water Board Division

The objective of the Division is to provide personnel services to Cobar Water Board. Cobar Water Board and the Division had no staff during the year. The Division did not prepare a financial report for 2008-09.

Department of Water and Energy

AUDIT OPINION

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

KEY ISSUES

Transfer of functions to the Department of Industry and Investment and the Department of Environment, Climate Change and Water

On 27 July 2009, the 'Public Sector Employment and Management (Departmental Amalgamations) Order 2009' (Order) transferred the functions of the former Department of Water and Energy to the Department of Industry and Investment. The Department of Water and Energy was abolished.

On the same day, the Order created the Office of Water as a separate Office with the Department of Environment, Climate Change and Water. Department of Water and Energy staff, principally involved in the administration of legislation relating to water, transferred to the Department of Environment, Climate Change and Water.

Water Management Charges

I recommend the Department issue invoices for surveyed unregulated water as soon as possible. The State's revenues are at risk when invoicing is late.

During the year ended 30 June 2008, the Department developed a timetable to issue water management invoices for 2005-06 and 2006-07. The following table details the invoice dates or current invoicing status for the last four years.

Year ended 30 June	2009	2008	2007	2006
Unregulated	Not yet issued	December 2008 and February 2009	June 2008	February 2008
Groundwater	Not yet issued	March 2009	June 2008	February 2008
Regulated	Issued within three months of quarter end	August 2008	December 2007	February 2008
Surveyed Unregulated	Not yet issued	Not yet issued	Not yet issued	April 2009

The Department's planned invoice issue dates for unregulated water and groundwater charges are between December 2009 and January 2010.

The Department estimates the value of surveyed unregulated water charges not yet invoiced is approximately $920,000.

Murray-Darling Basin Reform

On 3 July 2008, the Basin States and the Commonwealth of Australia agreed on the Murray-Darling Basin Reform (the Reform), which commenced on 1 November 2008. The Reform established the Murray-Darling Basin Authority (MDBA) and transferred the functions and powers of the Murray-Darling Basin Commission (MDBC) to the MDBA on 14 December 2008. As a result of the altered arrangements, New South Wales' joint venture interest in the MDBC has been replaced by a direct interest in jointly controlled assets of the Living Murray Initiative and the River Murray Operations joint ventures.

At 30 June 2009, the Department had an investment of $609 million in River Murray Operations joint ventures ($647 million at 30 June 2008 in the MDBC).

Achieving Sustainable Groundwater Entitlements Program (ASGE)

During 2008-09, the Department provided grants of $6.9 million ($95.2 million in 2007-08) to licensees under the ASGE Program. The grants are to assist licensees adjust to a reduction in water entitlements.

The inland groundwater systems included in the ASGE Program are the Upper and Lower Namoi, Lower Murrumbidgee, Lower Gwydir, Lower Lachlan, Lower Macquarie and Lower Murray.

In addition to payments to licensees, the ASGE program includes $9.0 million in grants for community development projects to help local communities adjust to the reduced economic activity resulting from reduced water entitlements.

OTHER INFORMATION

I identified opportunities to improve accounting and internal control procedures and reported them to management.

FINANCIAL INFORMATION

Abridged Operating Statement

Year ended 30 June	2009 $'000	2008 $'000
Employee related	***73,511***	66,534
Grants and subsidies	***295,983***	330,688
Other expenses	***84,736***	70,334
OPERATING EXPENSES	***454,230***	467,556
OPERATING REVENUE	***72,624***	70,969
Other losses	***75,509***	22,151
NET COST OF SERVICES	***457,115***	418,738
Government contributions	***382,170***	433,204
(DEFICIT)/SURPLUS	***(74,945)***	14,466

Grants paid in the current year included funding for water and sewerage assistance to Sydney Water Corporation and Hunter Water Corporation of $122 million ($107 million in 2007-08), Country Towns Water Supply and Sewerage Program of $46.7 million ($31.3 million), and pensioner energy rebates of $77.3 million ($74.1 million). The funding for the ASGE Program reduced to $6.9 million ($95.2 million) as the program is nearing completion.

Other expenses included contributions to irrigation areas and the Great Artesian Basin sustainability initiative of $28.0 million ($25.9 million).

Other losses included the affect of transitioning from an investment in the MDBC to having jointly controlled assets in the MDBA of $114 million and $1.5 million ($2.4 million loss) from the Department's investment in the Dumaresq-Barwon Border Rivers Commission. Offsetting these losses was a gain of $25.4 million relating to the Department's share of the MDBC's operating results and a $17.4 million increase in jointly controlled assets.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***107,177***	131,010
Non-current assets	***750,302***	733,292
TOTAL ASSETS	***857,479***	864,302
Current liabilities	***53,997***	59,129
Non-current liabilities	***1,462***	2,223
TOTAL LIABILITIES	***55,459***	61,352
NET ASSETS	***802,020***	802,950

Current assets include receivables of $4.5 million ($18.9 million) relating to Water Resource Management Debtors (WMD). The prior year balance included WMDs billed for the period 2004-05 to 2007-08. The Department collected these debts in the current year.

Included in non-current assets are the investments of $609 million in jointly controlled assets of the River Murray Operations (subsequent to the dissolution of the MDBC) and a joint venture in the Dumaresq-Barwon Border Rivers Commission of $36.4 million ($36.2 million). Also refer to earlier comments on the Murray Darling Basin Reform.

Current liabilities include $11.1 million ($10.6 million) unspent Government contributions repayable to the Consolidated Fund.

Abridged Service Group Information

The Department of Water and Energy's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget $'000	2009 Actual $'000	2008 Actual $'000	2009 Actual $'000	2008 Actual $'000
Urban Water Utilities	***177,222***	***181,993***	148,506	***1,496***	(827)
Rural Water Utilities	***92,945***	***177,216***	177,662	***786,719***	789,567
Energy Supply and Use	***104,080***	***97,906***	92,507	***13,805***	14,210
Total all service groups	***374,247***	***457,115***	418,738	***802,020***	802,950

The rise in the net cost of services for the Urban Water Utilities service group is due to an increase in grants under the Country Towns Water Supply program. This program delivers enhanced water and sewerage projects to rural New South Wales.

The budgeted net cost of services for the Rural Water Utilities does not include the Department's interest in the MDBA. The MDBA transactions increased actual net cost of services by $73.3 million.

DEPARTMENT ACTIVITIES

The Department provided policy and management advice in relation to water and energy matters to the Government and delivered the Government's policy and reform agenda for the water and energy sectors in New South Wales. The responsibilities for water and energy are now part of the NSW Office of Water, within the Department of Environment, Climate Change and Water and the Division of Minerals and Energy within the Department of Industry & Investment respectively.

Key legislation includes the *Water Act 1912, Water Management Act 2000, National Electricity (New South Wales) Act 1997* and *Electricity Supply Act 1995*.

For further information on water, refer to www.water.nsw.gov.au.

For further information on energy, refer to www.industry.nsw.gov.au/energy.

Gosford Water Supply Authority

AUDIT OPINION

The audit of the Authority for the year ended 30 June 2008 resulted in a qualified Independent Auditor's Report.

During the year 30 June 2008, global financial markets experienced a period of high volatility which has impacted the value, recoverability, liquidity, cash flows and rates of return of many financial assets.

The Authority's investment portfolio has been impacted by this market volatility. Many of the Authority's investments do not have market values that are independently quoted and are not widely traded.

As a result, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the fair value and recoverability of the Authority's investment portfolio of $42.9 million. These investments are recognised as a current asset in the Authority's Balance Sheet. The Income Statement may also be impacted by a change in the value of investments, but it is not possible to quantify the impact of a change in value.

KEY ISSUES

Dividend

Gosford Water paid a dividend of $1.8 million ($950,000 in 2006-07) to Gosford City Council. Local government water and sewerage supply businesses are permitted to pay annual dividends to Councils from operating surpluses.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2008 $'000	2007 $'000
Service charges	***32,280***	31,285
Usage charges	***16,765***	14,834
Other	***6,811***	12,983
TOTAL REVENUE	***55,856***	59,102
TOTAL EXPENSES	***52,216***	53,406
SURPLUS	***3,640***	5,696

The increase in service and usage charges was due to an increase in prices determined by the Independent Pricing and Regulatory Tribunal.

The decrease in other revenue was mainly due to the decrease in grants and contributions amounting to $3.2 million.

Abridged Balance Sheet

At 30 June	2008 $'000	2007 $'000
Current assets	***48,226***	8,459
Non-current assets	***835,439***	840,725
TOTAL ASSETS	***883,665***	849,184
Current liabilities	***10,392***	6,819
Non-current liabilities	***38,266***	29,227
TOTAL LIABILITIES	***48,658***	36,046
NET ASSETS	***835,007***	813,138

The increase in current assets was mainly due to the recognition of investments of $43.0 million as current assets rather than non-current assets.

During 2007-08 the Authority spent $36.0 million on property plant and equipment. These asset additions limited the decline in non-current assets because of the recognition of investments as current assets.

Non-current liabilities increased because of additional loans of $10.0 million.

AUTHORITY ACTIVITIES

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

For further information on Gosford City Council, refer to www.gosford.nsw.gov.au.

Hunter Water Corporation

AUDIT OPINION

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

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

KEY ISSUES

Tillegra Dam

> I recommend that a sound business case be prepared before any decision is made to proceed with the Tillegra Dam.

In November 2006, a former New South Wales Premier announced a $342 million plan to build a 450 billion litre dam at Tillegra on the Williams River north of Dungog. The estimated cost of the dam is now $406 million.

On 2 September 2009, I wrote to the Managing Director of Hunter Water Corporation advising that I intended to undertake a performance audit on the business case used to justify the decision to proceed with the Tillegra Dam. On 20 September 2009, Hunter Water Corporation advised that 'the decision to build the dam has not yet been formalised by the New South Wales Government' and that 'The Minister for Planning's decision on whether the project should ultimately proceed is not likely to be made until at least April 2010, if not later in the calendar year'.

Once a decision has been made on whether to proceed with the Dam, I will consider whether a performance audit is appropriate.

PERFORMANCE INFORMATION

Independent Pricing and Regulatory Tribunal (IPART) Operational Audit

IPART annually measures the Corporation's operational performance against Operating Licence standards. The latest report was for 2007-08.

IPART found that the Corporation 'managed its resources to achieve predominantly full or high compliance with its Operating Licence'.

IPART also identified that the Corporation:

- supplies treated drinking water of a very high to excellent quality
- achieved full compliance in meeting all system performance standards for water continuity, water pressure and sewer overflows
- achieved full to moderate compliance with requirements relating to customer service, environmental activities and the management of water supply and demand.

IPART will issue its report on the Corporation's operational performance against Operating Licence standards for 2008-09 in February 2010.

Operational Performance Indicators

Year ended 30 June	2009	2008	2007	2006	2005
Average volume of water consumed (kilolitres) per residential property	***179.7***	177.0	195.0	205.0	197.0
Water quality complaints per 1,000 properties	***3.2***	2.8	3.9	6.8	6.3
Average number of water supply interruptions per 1,000 properties Unplanned	***271.2***	225.2	372.3	386.9	395.9
Water losses (kilolitres/water main kilometre/day)	***3.67***	3.9	4.2	na	na
Total connection sewer main breaks and chokes per 100 kilometres of sewer main	***88.3***	na	na	na	na
Wastewater biosolids available for reuse (% reused/recycled)*	***88.0***	100.0	104.4**	88.0	89.0

Source: Hunter Water (unaudited).
na new indicator and is not available for prior years
* Does not include biosolids from Burwood Beach Waste Water Treatment Works – not stabilised and stockpiles at Shortland and Dora Creek.
** Use of historic stockpiles.

While the Corporation promotes a number of water saving schemes, water restrictions have not applied to the Hunter region from 2005 to 2009 due to favourable water storage levels (91.8 per cent of capacity at 1 November 2009).

An increase in water quality complaints occurred following the commissioning of two new water carrier trunk mains in April 2009. The Corporation conducted flushing of the water mains in the affected suburbs and resolved the issues quickly.

During 2008-09, the Corporation reused 88 per cent of biosolids produced. It stockpiled the remaining 12 per cent for later sale. Biosolids are solid or semisolid material obtained from treated wastewater, often used as fertilizer.

Maintenance Activities

The table below shows the Corporation completed its planned maintenance for 2008-09. The Corporation advised that it has an insignificant maintenance backlog at year-end. The results are consistent with the previous year.

Year ended 30 June	2009	2008
Total planned maintenance completed for network and treatment assets (%)	***99.3***	99.3
Total planned maintenance completed for critical assets (%)	***100.0***	100.0
Maintenance work completed on time (%)	***83.1***	74.3
Budgeted maintenance expenditure ($m)	***46.9***	45.8
Actual maintenance expenditure ($m)	***46.5***	45.5

Source: Hunter Water (unaudited).

OTHER INFORMATION

I identified opportunities to improve accounting and internal control procedures and reported them to management.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Tariff charges	***174,560***	162,528	***174,560***	162,528
Other revenue	***52,669***	80,940	***45,170***	50,041
OPERATING REVENUE	***227,229***	243,468	***219,730***	212,569
Employee related expenses	***27,123***	27,879	***15,779***	15,868
Maintenance and operational services	***64,267***	85,129	***71,505***	68,992
Depreciation	***34,715***	30,586	***34,091***	30,055
Finance costs	***32,347***	26,225	***32,578***	26,568
Other expenses	***6,810***	1,696	***5,844***	1,098
OPERATING EXPENDITURE	***165,262***	171,515	***159,797***	142,581
PROFIT BEFORE INCOME TAX	***61,967***	71,953	***59,933***	69,988
Income tax expense	***17,891***	25,864	***15,680***	23,944
PROFIT AFTER TAX	***44,076***	46,089	***44,253***	46,044
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Superannuation actuarial losses	***26,365***	11,145	***23,298***	10,009
TOTAL INCOME AND EXPENSES RECOGNISED FOR THE YEAR	***17,711***	34,944	***20,955***	36,035

The increase in tariff charges is consistent with the increase in prices determined by IPART.

Other revenue and maintenance and operational services expenses decreased primarily due to the deregistration of a subsidiary entity, Regional Land Management Corporation Pty Ltd (RLMC), in the prior year. The Hunter Development Corporation is now responsible for the activities undertaken by the former RLMC.

The Corporation recognised significant actuarial losses for superannuation defined benefit schemes due to the economic conditions experienced over the last two years.

Abridged Consolidated Balance Sheets

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***48,798***	57,568	***47,745***	53,753
Non-current asset	***2,602,294***	2,119,053	***2,603,242***	2,120,751
TOTAL ASSETS	***2,651,092***	2,176,621	***2,650,987***	2,174,504
Current liabilities	***198,545***	89,000	***198,284***	87,090
Non-current liabilities	***833,539***	695,311	***836,346***	700,999
TOTAL LIABILITIES	***1,032,084***	784,311	***1,034,630***	788,089
NET ASSETS	***1,619,008***	1,392,310	***1,616,357***	1,386,415

Current assets decreased due to a decline in investments held for sale. The Corporation used the cash in its operations and to purchase property, plant and equipment.

Non-current assets rose primarily due to a $318 million net revaluation increment and $112 million of water and sewer asset acquisitions during the year.

Liabilities increased mainly due an increase in deferred tax liabilities and additional borrowings to finance the Corporation's capital works program.

CORPORATION ACTIVITIES

The Corporation is a statutory State owned corporation that operates within the Lower Hunter Region. It collects, conserves, preserves and distributes water, provides sewerage facilities, and constructs, controls and maintains certain stormwater channels.

Its charter is to be commercially successful as a company while delivering water, wastewater and associated services.

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

CONTROLLED ENTITIES

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

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

Entity Name	Website
Hunter Water Australia Pty Limited	www.hwa.com.au

State Water Corporation

AUDIT OPINION

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

KEY ISSUES

Inter-jurisdictional Water Trades

> I recommend the Government negotiate an inter-jurisdictional agreement providing a framework for managing the interstate trade of water allocations.

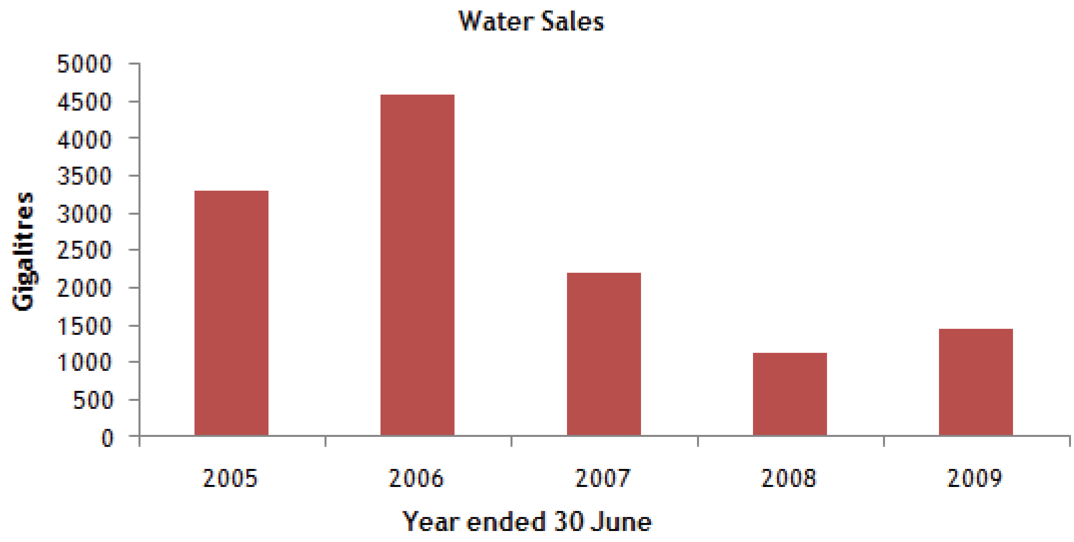
The Corporation may have difficulty recovering future water usage charges for water traded interstate from New South Wales, as there is no operational inter-jurisdictional agreement for managing, monitoring and correctly assigning recoverable costs associated with the delivery of water.

Legal advice obtained by the Corporation indicates the invoices it issued for water usage charges to interstate customers for 2008-09 water trades are lawful. The Corporation invoiced interstate customers for approximately 500,000 megalitres of water during the year ended 30 June 2009 and is attempting to recover $1.8 million from three interstate water authorities related to the usage-based component of the Independent Pricing and Regulatory Tribunal (IPART) determined charges.

Financial Viability

The on-going drought was again a dominant factor in State Water's operations during 2008-09, curtailing water sales and income, and placing stress on the Corporation's clients and their communities. There has been some relief in the northern part of the State, but water availability has remained at near record low levels for the Lachlan, Murray and Murrumbidgee Valleys. If the drought continues the Corporation may become increasingly reliant on Government funding to remain viable and to supplement shortfalls in its revenue. The Corporation, along with The Treasury, is closely monitoring and analysing the Corporation's capital structure and long term viability.

In 2008-09, State Water delivered 1,446 gigalitres of water sales (1,110 gigalitres in 2007-08). Although water sales were higher than the previous year, they were approximately 27 per cent of long-term average annual sales. The Corporation delivered approximately 500,000 megalitres of water allocations traded during 2008-09 into Victoria and South Australia from the NSW Murray, Murrumbidgee and Lower Murray rivers. The following graph shows sales over the last five years.



Source: State Water.

PERFORMANCE INFORMATION

Independent Pricing and Regulatory Tribunal (IPART) Operational Audit

The Corporation is improving its performance against its Operating Licence standards. The IPART report on the Corporation's compliance during 2007-08 indicated the number of activities with high or full compliance increased to 94 per cent, up from 88 per cent in 2005-06. IPART annually assesses the Corporation's operational performance against its Operating Licence standards. IPART released its report in February 2009.

OTHER INFORMATION

I identified opportunities to improve the accounting and internal control procedures and reported them to management. These mainly related to information technology, general ledger reconciliations and asset revaluation.

Dam Safety Compliance

The Corporation commenced work on the first phase of its dam safety compliance project. The Corporation estimates it will cost over $250 million to complete this phase by 2013. The table below shows the timing of the works and estimated cost for the major components of the project.

Year Ended 30 June	Planned Commencement date	Estimated Completion Date	Estimated Cost $m*
Blowering	**2009**	2011	33
Keepit	**2009**	2012	100*
Burrendong	**2010**	2011	20*
Copeton	**2010**	2012	50*
Spit Rock	**2011**	2012	5 to 10
Wyangala	**2009**	2013	25*
Chaffey	**2010**	2011	15 to 20

Source: State Water.
* State Water expects the cost estimate to be the minimum cost.

The Corporation will upgrade 18 of its 20 dams to comply with Dams Safety Committee requirements. All the Corporation's dams are safe for day to day operation, but need upgrading to meet current safety requirements for large to extreme floods and earthquakes.

Organisational Restructure

The Corporation embarked on a major restructure during the year to reduce expenditure and change its operations and culture to a more efficient and effective commercial platform for its future success.

It implemented the restructure ahead of schedule within 2008-09.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	2009 $'000	2008* $'000
Revenue from storage and delivery of water	***34,558***	31,404
Infrastructure operation, maintenance and construction	***13,231***	11,477
Government contributions	***21,603***	22,489
Other revenue	***3,237***	3,892
OPERATING REVENUE	***72,629***	69,262
Operational costs	***108,948***	59,484
Depreciation	***8,301***	7,349
Finance costs	***3,408***	2,448
OPERATING EXPENDITURE	***120,657***	69,281
LOSS BEFORE INCOME TAX	***48,028***	19
Income tax expense	***14,536***	4
LOSS AFTER TAX	***33,492***	15
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY		
Superannuation actuarial losses	***(19,000)***	(7,295)
Income tax benefit on actuarial losses	***5,700***	2,189
Revaluation of property, plant and equipment	***2,105,577***	--
Impairment loss recognised in equity	***(2,050,322)***	--
Deferred income tax liability on revaluation	***(16,576)***	--
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***(8,113)***	(5,121)

Revenue from the storage and delivery of water increased primarily due to more water being available for sale than in the previous year and an increase in water charges set by IPART.

Infrastructure operation, maintenance and construction revenue increased due to the Corporation completing more work on behalf of the Murray-Darling Basin Authority (and its predecessor, the Murray-Darling Basin Commission) during the year.

The decrease in Government contributions was primarily due to a $2.3 million decrease in the Corporation's operating subsidy. The main components of Government contributions for 2008-09 were an operating subsidy of $4.4 million ($6.7 million) and an IPART determined contribution to operations of $16.5 million ($15.4 million).

Operational costs increased mainly due an impairment of infrastructure assets amounting to $46.9 million. The Corporation is a for-profit entity and, each year, assesses the value of its assets with reference to the future cash flows generated by its existing assets. The Corporation recognised an impairment loss of $46.9 million directly in the Income Statement. The Corporation did this because the asset revaluation reserve relating to its plant and equipment was lower than the required impairment adjustment of $2.1 billion.

Abridged Balance Sheet

Year ended 30 June	2009 $'000	2008 $'000
Current assets	***21,930***	39,545
Non-current assets	***420,413***	403,985
TOTAL ASSETS	***442,343***	443,530
Current liabilities	***32,861***	53,254
Non-current liabilities	***85,025***	57,705
TOTAL LIABILITIES	***117,886***	110,959
NET ASSETS	***324,457***	332,571

Total assets and liabilities have remained stable. Non-current liabilities include borrowings of $53.8 million from the New South Wales Treasury Corporation.

CORPORATION ACTIVITIES

The Corporation is a statutory State owned corporation. It incorporates all of New South Wales' bulk water delivery services outside of the areas of operation of Sydney Catchment Authority, Sydney Water Corporation, Hunter Water Corporation and other water supply authorities.

The Corporation delivers water to irrigation corporations, country town water supply authorities, farms, mines and electricity generators, by releasing flows from its dams into rivers to be accessed by water users. It also provides water for stock and domestic users and is responsible for delivering environmental flows on regulated rivers.

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

Sydney Catchment Authority

AUDIT OPINION

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

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

KEY ISSUES

Groundwater Activities

Groundwater investigations are one of several initiatives under the New South Wales Government's Metropolitan Water Plan, aimed at securing Sydney's water supply. From its investigative work, the Authority identified three borefield sites that could supply 30-45 gigalitres of water for two to three years.

In mid 2008, the New South Wales Government announced that the Kangaloon borefield project would be shelved. Investigations of groundwater resources at Leonay and Wallacia were also halted due to increased dam levels and water saving initiatives.

However, the Authority needed to finalise development of the Kangaloon site to enable quick reactivation should the need arise in the future. The Authority completed essential land acquisitions and tender documentation and a project report was submitted to the Department of Planning in January 2009 for approval. Approval will allow for the construction of the Kangaloon borefield, if needed, in a future severe drought. At 30 June 2009, the Authority had incurred $25.3 million on groundwater projects.

The Authority is finalising its studies on the remaining sites, Wallacia and Leonay, to confirm their viability before all three are placed into care and maintenance. Maintenance of the sites is expected to cost at least $200,000 per year.

PERFORMANCE INFORMATION

The following table outlines the Authority's performance against a number of key non-financial performance targets. In all instances, the Authority has met or exceeded its targets.

Year ended 30 June	2009		2008	
	Target %	Actual %	Target %	Actual %
Health related compliance with the Australian Drinking Water Guidelines	***100***	***100***	100	100
Compliance with Bulk Water Supply Agreement with Sydney Water	***>95***	***99.4***	>95	99.1
Compliance Dams Safety Committee requirements and Australian National Committee on Large Dams guidelines	***100***	***100***	100	100
Environmental release compliance to Water Management Licence	***100***	***100***	100	100

Source: Sydney Catchment Authority (unaudited)

Independent Pricing and Regulatory Tribunal (IPART) Operational Audit

IPART reported the results of its 2006-07 operational audit of the Authority in December 2008. The audit assessed the Authority's performance as having achieved a very high level of compliance against the standards in its Operating Licence. The audit did, however, make a number of recommendations, which the Authority is actioning.

OTHER INFORMATION

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

Metropolitan Water Plan

The Authority made significant progress on all its projects under the New South Wales Government's Metropolitan Water Plan.

Key projects managed by the Authority under the plan include:

- accessing deep water in dams
- Shoalhaven transfers
- groundwater investigations (commentary provided above)
- managing environmental flows.

The Nepean and Avon dams' deep storage access project was completed in March 2007. During 2008-2009, the deep water pumping stations were completed and are now available for operation.

As part of the work in managing environmental flows, in mid 2009, the Authority completed its work on improved environmental flows and fish passage works at the Tallowa dam. These works cost approximately $26.0 million. The project sees more water released downstream for the health of the Shoalhaven River, and is allowing for the upstream and downstream migration of native fish. The dam has been a barrier to the migration of native fish, including the endangered grayling, since it was built in the 1970s. A mechanical fishlift, built as part of the project, is a first for New South Wales and is the largest fishlift to be fitted to an existing dam in Australia. This new fishlift moves fish up and over the dam restoring full access for fish species to 75 per cent of the Shoalhaven River.

The Metropolitan Water Plan outlines the government's response to the current drought, river health initiatives, and measures to secure a balance between water demand and supply for the future.

Leakage and Loss Management in the Water Supply System

The Authority estimates that leakage from the water supply system amounted to 0.2 per cent (2.7 per cent in 2007-08) of water sold in 2008-09. This compares to an average across Australian water utilities of seven per cent to 35 per cent. In addition to leakage, the Authority estimates 20.5 per cent of water inflows during the year were lost because of evaporation (8.8 per cent).

The Authority has measures in place to address water leakage and loss from the water supply system. These include dam surveillance and collection of data on evaporation to provide consistent measurements and explanations of future changes in local climate conditions.

Some losses can be an intentional and inherent part of an asset's design. For example, dams are designed to seep for structural safety and to prevent excessive build up of water pressure within or beneath the wall. Other water supply system losses cannot be prevented. The largest losses of this type include evaporation and groundwater surface interactions.

Water Storage

The table below shows how the current drought conditions have affected the Authority's water storages over time. The decrease of 5.3 per cent since 30 June 2008 reflects lower than average rainfall. At 30 June 2009, the available water supply was 61 per cent.

At 30 June	Full operating storage (Ml)	Available storage as % of full operating storage				
		2009	2008	2007	2006	2005
Total storage	2,608,730*	***61.4***	66.7	54.4	41.7	38.3

Source: Sydney Catchment Authority (unaudited)
* Prior to 2006, percentages are based on a total storage of 2,385,300.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Water sales	***175,139***	160,107	***175,139***	160,107
Other revenue	***8,795***	9,587	***8,795***	9,587
OPERATING REVENUE	***183,934***	169,694	***183,934***	169,694
Employee related	***37,149***	30,996	***256***	269
Contractors	***21,191***	18,977	***69,477***	49,704
Financing charges	***31,755***	28,095	***31,755***	28,095
Other expenses	***53,448***	72,886	***53,448***	72,886
OPERATING EXPENSES	***143,543***	150,954	***154,936***	150,954
PROFIT BEFORE TAX	***40,391***	18,740	***28,999***	13,686
Income tax expense	***1,219***	9,005	***1,219***	9,005
PROFIT AFTER TAX	***39,172***	9,735	***27,780***	4,681
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Superannuation actuarial losses	***(11,392)***	(5,054)	**--**	--
TOTAL INCOME AND EXPENSES RECOGNISED FOR THE YEAR	***29,780***	4,681	***27,780***	4,681

Increases in water sales were due mainly to real price increases in water volumetric charges as determined by IPART.

The decrease in other expenses was mainly due to lower debt and borrowing costs.

Abridged Consolidated Balance Sheets

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***45,529***	32,915	***45,250***	32,860
Non-current assets	***1,216,574***	1,156,989	***1,216,574***	1,156,989
TOTAL ASSETS	***1,262,103***	1,189,904	***1,261,824***	1,189,849
Current liabilities	***83,387***	58,700	***99,029***	63,287
Non-current liabilities	***538,131***	495,603	***522,210***	490,961
TOTAL LIABILITIES	***621,518***	554,303	***621,239***	554,248
NET ASSETS	***640,585***	635,601	***640,585***	635,601

Non-current assets increased due mainly to capital acquisitions during the year.

Current liabilities increased mainly due to increased dividend provisions of $26.8 million.

The increase in non-current liabilities is largely due to higher borrowings of $34.6 million used to fund additions in property, plant and equipment.

AUTHORITY ACTIVITIES

The Authority is a statutory body under the *Sydney Water Catchment Management Act 1998*.

Its principal role is to manage and protect catchment areas and infrastructure works; to be a supplier of raw water; and to regulate certain activities within catchment areas.

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

CONTROLLED ENTITY

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

Entity Name
Sydney Catchment Authority Division

Sydney Water Corporation

AUDIT OPINION

The audit of the Corporation's financial report for the year ended 30 June 2009 resulted in a qualified Independent Auditor's Report. The qualification related to assets and liabilities of the Build-Own-Operate (BOO) schemes not being recognised in the Corporation's balance sheet. The audit report for 2007-08 was similarly qualified.

The audits of the financial reports of Sydney Desalination Plant Pty Limited (Sydney Desalination), Australian Water Technologies Pty Ltd and its controlled entity for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

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

KEY ISSUES

I recommend the Corporation withhold the payment of certain invoices until it determines the validity of those invoices. The Corporation believes these claims are excessive and have little relationship to the work performed.

The Corporation needs to better manage large infrastructure projects by:

- monitoring all future contracts more closely for the entire term of the contract
- ensuring the monitoring provisions contained within contracts are more easily enforceable.

The Corporation is withholding payment of a contractor's claims for management and administration charges because it cannot verify the appropriateness of those claims. The value of claims is $2.1 million, which the Corporation believes are excessive and have little relationship to the work performed during the period the claims emerged. The dispute is currently being progressed under the dispute resolution provisions of the contract. The Corporation engaged the contractor in March 2004 to procure the finance and design, supply, construct and commission of water related infrastructure in the Rouse Hill Stage 3 Area. The total value of works delivered under this project was $100 million.

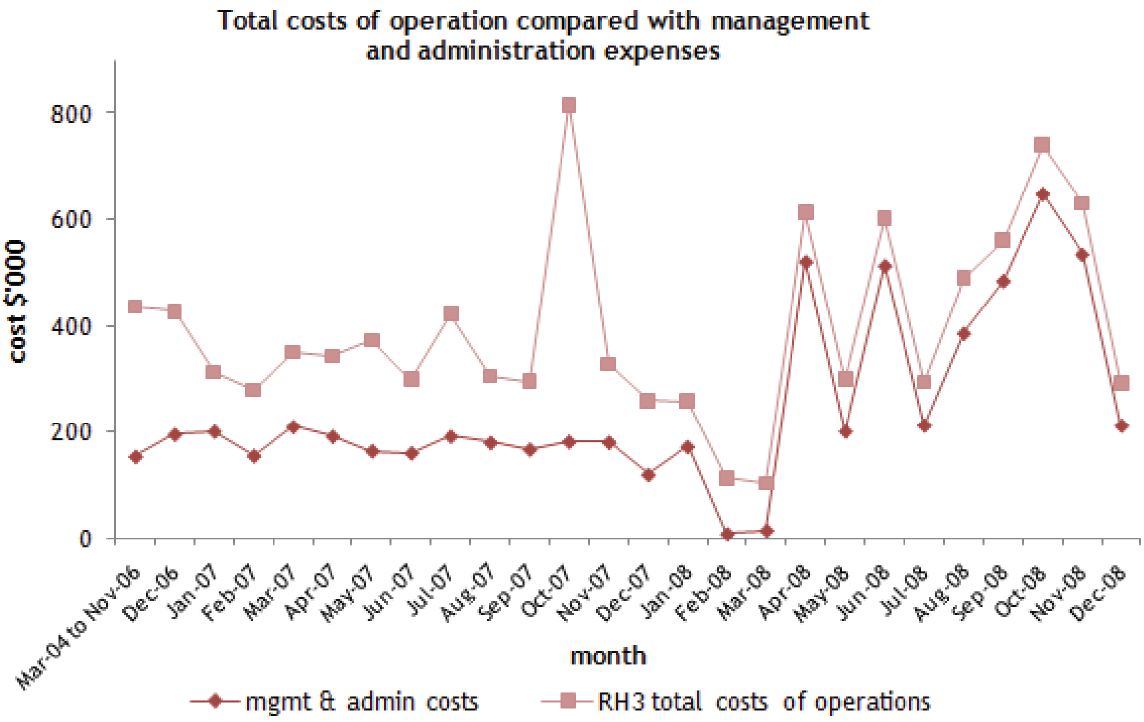
The contractor has not allowed the Corporation sufficient access to its records to determine the reasonableness of these expenses as provided for in the contract.

Instead, the contractor has provided invoices from its parent entity to support the costs removing the Corporation's ability to effectively audit and reach a view on the reasonableness of the claims. The Corporation is not satisfied the management and administration charges are reasonable.

The monthly management and administration charge fluctuated between less than $200,000 in April 2006 and $600,000 in October 2008. The Rouse Hill Stage 3 (RH3) construction contract reached practical completion in December 2006. By June 2009, most of the outstanding construction responsibilities of the contractor had been completed.

In December 2006, the contractor advised the Corporation its budget, $15.5 million for the total cost of operations, including the management and administration charge, was exhausted and it required additional funds. The Corporation approved additional funding of $8.3 million from January 2007 through to June 2009. At that time, the project's duration was approximately five years. At 30 June 2009, RH3 management and administration expenses over the life of the contract represented 11.9 per cent of the total value of work delivered.

Comparison of management and administration expenses to total RH3 costs are illustrated in the table below.



Source: Sydney Water (unaudited).

In addition to this dispute, we understand the same contractor believes it has the right to complete all water related infrastructure works in the North West Growth Sector under the Other Stages Deed signed in 1992. The Corporation is disputing this. The matter remains unresolved.

Desalination Plant

The desalination plant is on schedule for completion during 2009-10.

The Corporation advises that the New South Wales Government has not decided on the operating rules for the plant. Contractually, it will operate at full capacity for the first two years as part of the plant commissioning process. The Corporation advises the final decision on the operations of the desalination plant will be made as part of the Metropolitan Water Strategy and will consider dam storage levels and climate outlook.

Until the operating rules are determined, the impact on the Corporation's existing arrangements with the operators of the Prospect water filtration plant is unknown. At the current design capacity of the desalination plant, the Prospect water filtration plant is the only water filtration plant affected by the operation of the desalination plant. The arrangement with this operator does not expire until 2021. The Corporation has negotiated changes to the current Prospect contract to reflect the impact of reduced reliance on the Prospect plant.

The supply of water from the desalination plant may not have a significant financial impact on the Sydney Catchment Authority (SCA). The Corporation currently sources all of its water from SCA.

The plant is now over 84 per cent complete. The project deliverables are outlined in the table below.

Deliverable	**Actual costs at (June 2009) $b**	**Revised Forecast (June 2008) $b**	**Approved Budget# (July 2007) $b**
Desalination plant cost	***0.90***	***1.00***	1.00
Water delivery pipeline cost	***0.48***	***0.65***	0.57
Development and project management cost	***0.15***	***0.24***	0.26
Total project cost	***1.53***	***1.89***	1.83

Source: Sydney Water (unaudited).
\# Based on 250 megalitre per day desalination plant.

The water delivery pipeline's revised budget is $650 million. The Corporation revised this budget after completing geotechnical investigations. The $80.0 million increase is due mainly to worse than expected ground conditions, increased complexities and an increase in pipe costs.

The power need of the desalination plant will be offset by renewable energy at a wind farm. The wind farm will be operational towards the end of the year. The wind farm is located between Bungendore and Tarago and Renewable Power Ventures (a subsidiary of Infigen Energy) has built and will operate the wind farm. The windfarm, known as the Capital Wind Farm, has a capacity of 140 megawatts. It will also increase the supply of wind power in New South Wales by over 700 per cent.

Once operational, the desalination plant will have the capacity to provide over 15 per cent of Sydney's current water consumption by producing 250 megalitres of water per day, with a possibility of scaling up to 500 megalitres (up to 30 per cent of Sydney's drinking water) in the future, if needed.

Information Technology Projects

The Corporation's capital program includes a number of significant information technology projects. Some of these projects and their key deliverables are outlined in the table below.

Project	**Original Budget $m**	**Revised Budget $m**	**Original Service Delivery Date**	**Revised Service Delivery Date**
Field Resource Management – Stage 2	7.9	7.9	July 2009	November 2009
Customer Management System – Stage 1	21.0	55.3	August 2009	February 2011
Maximo consolidation	18.4	31.3	August 2009	October 2010
Sydney Water Information Management Program	24.0	24.0	June 2011	June 2011

Source: Sydney Water (unaudited).

The Corporation commenced the Field Resource Management (FRM) Stage 2 in August 2008. It involves developing a geospatial information system and mobile documents capability. FRM Stage 2 builds on the Stage 1 deployment by providing accurate and up-to-date location information to the field workforce, reducing search time and improving safety and operational efficiency. FRM Stage 2 is expected to save $1.2 million per annum. The Corporation commissioned the first stage of FRM in July 2008 at a cost of $19.7 million.

The Customer Management System (CMS) is a two stage project expected to cost $68.9 million. The significant increase in budget is due to the System Integrator costs. The budget for this stage of the project was found to be inadequate after receiving quotes from prospective service providers. The change in service delivery date from August 2009 to is due to extending the design phase to incorporate proof of concept and extensive review cycles. Extended procurement phases for both CMS Software and system integrator services also contributed to the variation in schedule. The project objectives are to improve customer service, reduce reliance on multiple unsupportable systems and reduce operating costs. Once implemented, the Corporation expects the system to reduce operating costs by $1.9 million a year.

The Corporation underestimated the complexity of the Maximo consolidation project and this is the main reason for the $12.9 million increase in the project budget. The project will replace the Corporation's current asset management systems which are approaching obsolescence and are unsupported by external vendors.

The Corporation advises that the Maximo project is on track to the schedule and budget revised in 2008.

The Corporation's Information Management Program will replace a number of disparate document management systems and deliver new systems to better access and share information.

PERFORMANCE INFORMATION

Independent Pricing and Regulatory Tribunal (IPART) Operational Audit

IPART reported the results of its 2007-08 operational audit of the Corporation in December 2008. The audit assessed the Corporation's performance against the standards in its Operating Licence.

The audit found the Corporation managed its resources to achieve full compliance. The results of the last four operational audits are summarised in the table below. The results of the 2008-09 operational audit are not available as the final report has not yet been released.

Year ended 30 June	2008 %	2007 %	2006 %	2005 %	2004 %
Full compliance	100	97	86	71	65
High compliance	--	3	12	19	21
Partial compliance	--	--	2	6	7
Low compliance	--	--	--	1	1
Non-compliance	--	--	--	--	--
Insufficient information	--	--	--	3	5

Source: Sydney Water (unaudited).

The table shows that the Corporation's performance has improved each year. Full compliance means the Corporation 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

Under its Operating Licence, the Corporation must reduce water consumption to 329 litres per capita per day by 30 June 2011. Water consumption over time is detailed in the table below.

Year ended 30 June	Target	Actual				
	2011	**2009**	**2008**	**2007**	**2006**	**2005**
Water consumption per capita per day (litres) including the effect of water restrictions	329	***310***	308	326	335	342

Source: Sydney Water (unaudited).

Water consumption increased from 2008 to 2009. The Corporation attributes this to Sydney experiencing normal weather conditions in 2009, compared to a relatively cool and wet year in 2008.

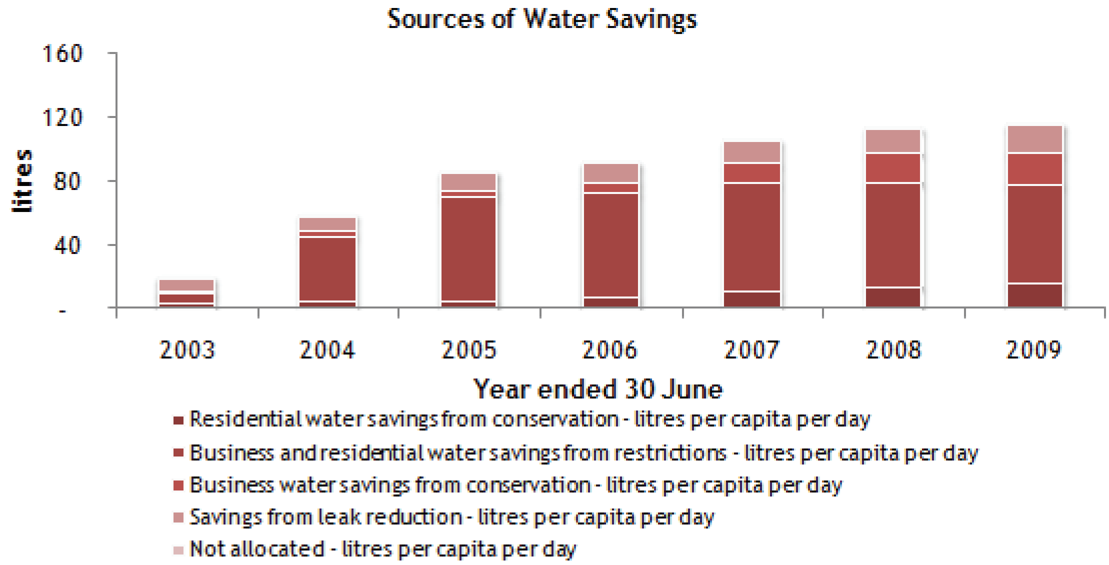
The decline in water consumption per capita since 2005 is due to the implementation of demand management programs, reduced leakage from the Corporation's pipelines, increased use of recycled water and water restrictions.

The Corporation implemented a new water conservation strategy, Water Wise Rules (Rules), in June 2009. The Corporation developed the Rules for the long-term and they allow for sensible use of water outside of drought conditions. The conditions that lead to the introduction of the Rules were:

- the steady increase in dam storage levels for a 12 month period that were above or close to the trigger points in the Drought Management Protocol for restrictions to be lifted
- additional sources of water, with up to 15 per cent coming from the desalination plant from the summer of 2009-10 and up to 12 per cent coming from expanded recycled water schemes by 2015
- a projected increase in savings from efficiency programs.

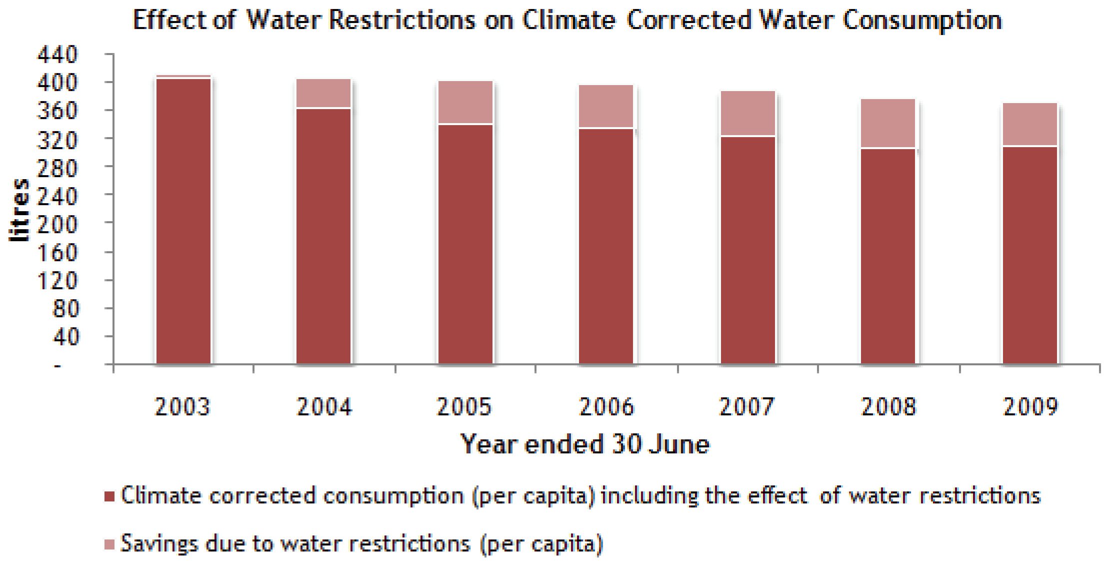
The Corporation estimates the Rules will reduce annual demand by around 19 billion litres per year or three per cent of Sydney's annual needs. While consumption is currently below the 2011 target of 329 litres per capita per day, the Corporation does expect consumption to increase now that water restrictions have been lifted. However, the Corporation believes it should still meet the 2011 target and that there will be residual savings of up to 30 per cent of the previous Level 3 water restrictions savings at December 2010.

Water consumption and savings achieved from water restrictions and water conservation initiatives over the last seven years are illustrated in the graph below.



Source: Sydney Water (unaudited).

The following graph demonstrates the significant impact of water restrictions. In the absence of water restrictions, water consumption would have been 372 litres per capita per day. The Corporation estimates that water restrictions resulted in saving about 100,000 megalitres in 2008-09.



Source: Sydney Water (unaudited).

Mandatory water restrictions since 1 October 2003 have led to significant water savings. Prior to mandatory restrictions, voluntary restrictions existed from 14 November 2002 to 30 September 2003. In 2003-04, mandatory water restrictions saved 63,000 megalitres per annum. This increased to 100,000 megalitres in 2004-05 following the introduction of tighter water restrictions in June 2004 (level 2 restrictions). Level 3 restrictions were introduced in June 2005 and this resulted in a further increase of water savings. In 2005-06, 104,000 megalitres were saved due to water restrictions. Since then savings from water restrictions have remained around 100,000 megalitres a year. Level 3 restrictions were lifted on 22 June 2009.

In 2008-09, excluding mandatory water restrictions, the biggest contributor to water savings under the Corporation's water conservation strategy was the non-residential sector. Refer below for further details on water loss and leak reduction activities.

Recycling

The table below shows the volume of water recycled by the Corporation over the last three years.

Year ended 30 June	2009	2008	2007
Volume of recycled water (billion litres)	***25.4***	24.2	22.0
Recycled water as a percentage of total effluent discharged (%)	***5.3***	4.4	4.4

Source: Sydney Water (unaudited).

As part of the New South Wales Government's '2006 Metropolitan Water Plan', about 70 billion litres of wastewater may be recycled for industry, irrigation and residential use. The Corporation estimates recycled water will provide 12 per cent of Sydney's water needs by 2015. The total amount of recycled water supplied in 2008-09 was about 27.2 billion litres all of which represented savings in potable supply. The Corporation advises that while other water retailers in Australia report higher percentages of recycling, these include water used for agricultural purposes as well as the replacement of potable supply.

During 2008-09, the Corporation entered into a public private partnership agreement for a recycled water project in the Rosehill Camellia area. This project will deliver a minimum of 10.5 megalitres per day.

The Corporation also commenced work in 2008-09 on a major recycled water plant at St Mary's in western Sydney designed to replace 18,000 megalitres per year of dam water currently used to provide environmental flows in the Hawkesbury river system. This project is expected to be completed during 2010.

The Corporation is required under its Operating Licence to reduce drinking water use by 80 per cent at the Malabar, North Head and Bondi Sewerage Treatment Plants (STPs). All other STPs and storm flow sewage treatment plants must use at least 85 per cent recycled water for treatment. The Corporation has met both targets.

Since 1995, the Corporation has increased the amount of recycled water used in its sewage treatment plants from 17 to 43 megalitres per day, significantly reducing the volume of drinking water used at the plants.

Water Loss

Water loss has reduced from megalitres in 2002-03 to 38,445 in 2008-09, a reduction of 44 per cent.

The table below summarises water loss within the water distribution system. Water is lost because of breaks and leaks in the water distribution system.

Year ended 30 June	2009	2008	2007
Volume of water loss (megalitres)	***38,445***	42,995	44,261
Water loss compared to water supplied (%)	***7.3***	8.2	8.5
Costs incurred to reduce water loss ($m)	***140.0***	121.2	91.6

Source: Sydney Water (unaudited).

Under its Operating Licence, the Corporation had to reduce water loss to no more than 105 megalitres per day (38,325 megalitres per year) by 30 June 2009.

The Corporation believes the economic level of reducing water loss is at the point where costs associated with water loss reduction equal the benefits derived from water savings. Reducing water loss beyond this point would cost more than producing the lost water from another source. The Corporation reassesses the economic level of leakage each year as understanding improves and circumstances change. In 2008-09, the economic level of leakage was assessed to be in the range of 34,000 to 46,000 megalitres per year. The Corporation is currently operating near the middle of this range.

In 2008-09, the Corporation's Active Leak Detection Program inspected 21,021 kilometres of pipeline (19,600 kilometres). It 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.

To extend its water efficiency efforts, the Corporation is trialling the use of "smart meters" in cooperation with EnergyAustralia and is evaluating the benefits of meter installation in individual apartments in high-rise buildings.

To reduce water loss further, the Corporation will rely primarily on savings from its water pressure management program. The program involves setting up multiple pressure control zones to reduce pressure which in turns reduces breaks, leaks and water usage. To 30 June 2009, the Corporation estimates the program reduced water loss by approximately 2,900 megalitres per year and is forecast to reduce water loss by a total of 6,300 megalitres per year by 2012.

Response Times

The table below shows the percentage of calls to the Corporation relating to water main breaks and leaks responded to within the target time. The response times and targets form part of the Corporation's Operating Licence.

Year ended 30 June	Target	Actual		
		2009	**2008**	**2007**
	%	*%*	*%*	*%*
Priority 6 (stop water loss within 2 hours)	***70***	***78.3***	77.9	86.9
Priority 6 (stop water loss within 3 hours)	***90***	***90.8***	91.6	94.2
Priority 5 (stop water loss within 3 hours)	***65***	***73.1***	72.1	71
Priority 5 (stop water loss within 6 hours)	***85***	***93.7***	92.9	92.6
Priority 4 (stop water loss by the end of next working day)	***50***	***80.5***	76.4	79.6
Priority 4 (stop water loss within 5 days)*	***100***	***98.3***	96.6	96

Source: Sydney Water (unaudited).

* the Operating Licence recognises that Sydney Water will not be able to respond to 100 per cent of jobs within five days and requests all instances of non-compliance be reported along with the reason for non-compliance.

In 2008-09, the Corporation met all response time targets with the exception of the requirement to stop the loss of water from all Priority 4 leakage related jobs within five days. Only 33 Priority 4 breaks and leaks did not meet the target out of 1,985 that occurred during 2008-09.

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. Priorities 6 and 5 have tiered response time measures and targets.

Performance Report

The table below shows the Corporation's performance over the past five years on some key indicators.

Year ended 30 June	2009	2008	2007	2006	2005
Volume of water consumed (kilolitres per residential property)	***197.7***	182.0	199.0	203.0	211.0
Water quality complaints per 1,000 properties	***0.6***	0.9	0.8	0.8	1.1*
Average frequency of unplanned water interruptions per 1,000 properties	***4.5***	5.2	5.7	6.1	na
Water main breaks and leaks per 100 km	***33.7***	30.0	35.1	42.5	37.8
Sewer main breaks and chokes per 100 km	***51.1***	64.2	90.1	87.1	82.0
Water recycled (% of total effluent)	***5.3***	4.4	4.4	3.2	2.5
Water leakage (Infrastructure Leakage Index) (%)	***1.4***	1.5	1.5	1.5	1.8

Source: Figures for 2005 to 2007 from National Performance Report 2006-07. The 2007-08 and 2008-09 figures provided by Sydney Water (unaudited)
* These numbers are not directly comparable because of a change in definition. Provided for information only.
na: not available.

The slight decrease in the volume of water consumed in 2007-08 is attributed to Sydney experiencing more normal weather conditions in that year and the impact of the Corporation's water conservation strategies.

There were 51 sewer main breaks and chokes per 100 kilometres in 2008-09 compared with approximately 65 in 2007-08. Proactive works programs and cooler and wetter conditions affected this rate. The Corporation's performance has averaged around 77 sewer main breaks per 100 kilometres of sewer mains over the past 14 years. It varies considerably from lows of around 51 to peaks of up to 112.

The Corporation's water leakage index improved slightly to 1.4. Further information on this is provided under the heading 'Water Loss'. The International Water Association believes an infrastructure leakage index between one and 2.9 indicates an entity is making a substantial effort to manage and maintain its infrastructure, and to ensure all detected leaks and bursts are promptly repaired.

Wastewater Services

The Corporation operates its sewerage treatment plants and sewer pumping stations in accordance with licence conditions set by the Department of Environment, Climate Change and Water (DECCW). The table below highlights the Corporation's compliance with those licence conditions.

Year ended 30 June	2009	2008	2007	2006
Total number of Penalty Infringement Notices issued by DECCW (usually relating to prior year non-compliances)	***2***	--	2	3
Total number of licence non-compliances	***131***	155	243	408

Source: Sydney Water (unaudited).

During 2008-09, DECCW issued the Corporation with a penalty infringement notice for a defective valve at the Malabar STP that caused an uncontrolled flow of sewage sludge into the stormwater system flowing to Malabar Beach. Botany Council also issued a penalty infringement notice to a contractor of the Corporation after trucks tracked spoil from construction work at the Daceyville depot. Remediation occurred immediately after both incidents.

Under its Operating Licence, Sydney Water must ensure no more than 25,000 properties are affected by an uncontrolled dry weather overflow each year. In 2008-09, 16,028 private properties were affected by sewage overflows, compared to 18,148 in 2007-08.

Maintenance Activities

The table below shows the Corporation completed most of its planned maintenance for 2008-09. The results are not significantly different from the previous year.

Year ended 30 June	2009	2008	2007
Total planned maintenance completed for network and treatment assets (%)	***103.2***	97.4	95.0
Total planned maintenance completed for critical assets (%)	***100.6***	96.8	100.0
Maintenance work completed on time (%)	***84.0***	92.0	95.0
Budgeted maintenance expenditure ($m)	***212.4***	187.7	178.3
Actual maintenance expenditure ($m)	***211.6***	196.6	175.4
Backlog maintenance (number of jobs)	***5,046***	6,924	6,347
Backlog maintenance ($m)	***9.3***	8.8	9.5

Source: Sydney Water (unaudited).

The Corporation's strategy is to optimise the maintenance of assets to ensure service delivery occurs at lowest life cycle cost within acceptable risk.

During 2008-09, the Corporation completed 208,020 maintenance jobs (192,710). Backlog maintenance declined to approximately 5,000 jobs in 2008-09. The decline is due an increase in maintenance expenditure that resulted in a reduction of backlog maintenance. The Corporation believes this is an acceptable amount of backlog as it allows efficient scheduling and continuation of workflow. Backlog maintenance is lower priority maintenance work. No formal plan is in place to reduce backlog maintenance by a certain date and/or by a certain percentage. The Corporation monitors backlog maintenance each month to help ensure critical work is not delayed.

For pipework, the Corporation uses a maintenance risk assessment to split assets into 'Avoid-Fail' and ‘Run-to-Fail’. 'Avoid-Fail' assets are subject to a preventative maintenance program to deliver lowest life cycle costs. 'Run-to-Fail' categorised assets have a low consequence of failure and to manage these effectively and cost efficiently, the Corporation has a full time response capability. The Corporation renews the assets when the cost of maintenance exceeds the renewal costs.

For facilities, the Corporation's planned maintenance Work Programmes are shifting from a 'time basis' to condition assessment approach, which factors in the risk of failure and the consequence the failure would have on customers. Condition assessments are based on inputs from the Corporation’s Operations, Maintenance Reliability Engineering and Maintenance Delivery teams, applying the relevant asset decision frameworks to develop forward maintenance or renewal Work Plans.

Capital Structure

The Corporation regularly reviews its capital structure. Executive Management recommends a long-term plan for the capital structure and monitors progress against the plan. The Executive reports to the Board’s Finance Committee on progress against the plan. The Corporation’s Board approves the planned capital structure.

The plan is being updated for submission to the Finance Committee of the Board. The Finance Committee reviewed the original plan in November 2008 and will review the updated plan in December 2009.

OTHER INFORMATION

I identified opportunities for improvement to internal control procedures and reported them to management.

Review of Major Capital Projects

The Corporation’s capital expenditure in 2008-09 was $1.7 billion (excluding capitalised interest). The Corporation’s Statement of Corporate Intent had a target of $1.7 billion for capital expenditure.

The original and current cost estimates and service delivery dates for all capital projects with an original cost above $50.0 million are listed in the table below.

Project	Original Cost Estimate (and year) $m	Current Cost Estimate $m	Original Service Delivery Date	Achieved/ estimated Service Delivery Date
Completed during 2008-09:				
Sewerage Scheme Stage Two	51 (1998)	145	Late 2006	January 2009 [1]
Rouse Hill Sewage Treatment Plant and Recycled Water Plant Amplification	78 (2006)	64	Late 2008	October 2008
In progress at 30 June 2009:				
Desalination Project	1,950 (2007)	1,896	Late 2009	Early 2010
Replacement Flows	265 (2006)	210	Late 2009	Early 2010
North Head Sewerage Treatment Plant	106 (2003)	143	Mid 2009	Late 2009
Freemans Reach, Glossodia, Wilberforce Sewerage Scheme	138 (2008)	136	Late 2011	March 2011 [1]
North West Growth Centre (Package 1)	133 (2007)	100	Late 2010	Late 2010
Hoxton Park Recycled Water	65 (2006)	99	Mid 2009	Mid 2013
Hawkesbury Heights, Yellow Rock Sewerage Scheme	56 (2008)	56	Late 2010	June 2010 [1]

Source: Sydney Water (unaudited).
1 - service delivery date to complete sewerage reticulation and available for connection to properties.

Most projects are generally tracking within original cost estimates or are forecast to spend less than the original cost estimate.

The increase in the cost of the:

- North Head Sewerage Treatment Plant project is due to a re-evaluation of the design development, cost escalation and tender prices
- Blue Mountains Sewerage Scheme Stage Two was caused by changing the servicing strategy to transfer sewage to Winmalee for processing to avoid treated effluent discharging into the Blue Mountains National Park
- Hoxton Park Recycled Water Scheme is largely due a revised scope of works.

The delays in service delivery are mainly due to scope changes and delays in obtaining regulatory approvals.

The Corporation achieved approximately $24.0 million of capital efficiencies in 2008-09 across a number of programs including, but not limited to, North Head Sewage Treatment Plant, Blue Mountains Sewerage Scheme and Rouse Hill Sewage Treatment Plant and Recycled Water Plant Amplification. Efficiencies largely resulted from the reduction of contingencies and delivery of cost effective solutions.

The Corporation considers the overall risk profile of its capital program to be low.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Service charges	***880,496***	732,790	***880,496***	732,790
Usage charges	***785,868***	653,625	***785,868***	653,625
Other	***291,369***	379,728	***305,408***	396,299
OPERATING REVENUE	***1,957,733***	1,766,143	***1,971,772***	1,782,714
Employee related expenses	***285,054***	269,959	***287,969***	272,847
Bulk water	***175,135***	159,229	***175,135***	159,229
Water treatment	***104,515***	105,156	***104,515***	105,156
Maintenance and operational services	***189,317***	177,265	***199,970***	187,111
Finance costs	***234,839***	210,471	***235,014***	210,858
Depreciation and amortisation	***158,073***	148,363	***158,073***	148,363
Other	***457,625***	307,551	***458,463***	311,649
OPERATING EXPENSES	***1,604,558***	1,377,994	***1,619,139***	1,395,213
PROFIT BEFORE INCOME TAX	***353,175***	388,149	***352,633***	387,501
Income tax expense	***175,674***	109,130	***175,468***	108,950
PROFIT AFTER TAX	***177,501***	279,019	***177,165***	278,551
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Losses on revaluation of assets	***(1,089,900)***	(491,927)	***(1,089,900)***	(491,927)
Superannuation actuarial losses	***(243,253)***	(98,499)	***(243,253)***	(98,499)
Other gains	***1,052***	2,334	***868***	2,520
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***(1,154,600)***	(309,073)	***(1,155,120)***	(309,355)

The increase in service and usage charges is consistent with the increase in prices determined by IPART. Other revenue declined because of a $55.6 million prior year gain on the sale of the Corporation's Bathurst Street property and a reduction of $45.2 million in contributions from property developers following the Government's decision to remove certain infrastructure charges on developers.

The increase in borrowing expenses is due to an increasing debt portfolio used to fund its capital works program.

The increase in depreciation and amortisation expense is primarily related to increased capital expenditure on more short-lived assets, particularly working plant and equipment and computer software.

The increase in other expenses is mainly due to an impairment loss of $152 million. The Corporation changed its approach to measuring the recoverable amount of its assets. This revised approach resulted in an impairment loss being recognised in the Income Statement.

Abridged Consolidated Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***263,918***	243,688	***259,414***	242,175
Non-current assets	***12,449,572***	12,429,428	***11,446,710***	11,954,319
TOTAL ASSETS	***12,713,490***	12,673,116	***11,706,124***	12,196,494
Current liabilities	***1,005,180***	827,355	***940,727***	801,911
Non-current liabilities	***6,326,983***	5,104,825	***5,391,560***	4,660,626
TOTAL LIABILITIES	***7,332,163***	5,932,180	***6,332,287***	5,462,537
NET ASSETS	***5,381,327***	6,740,936	***5,373,837***	6,733,957

Non-current assets were marginally higher than 2008 due to an increase in work-in-progress as construction of the desalination plant continued and an almost equal decline in the recoverable amount for property, plant and equipment. The recoverable amount declined because of a revised approach to measuring the impairment of system assets.

The increase in current liabilities was largely due to an increase in capital and operating accruals and the provision for dividend.

The increase in non-current liabilities is due to increased borrowings to fund major capital projects including the desalination project. There is also an increase in liabilities for defined benefit superannuation due to the impact of the global financial crisis, an increase in the restoration provision of leased and decommissioned assets (make good provision) and an increase in insurance provision.

Net assets declined due to increased borrowings of $1.3 billion and a reduction of $1.1 billion in reserves. The Corporation largely used the borrowings to finance the desalination plant's ongoing construction. Reserves fell because the Corporation revised its approach to measuring the impairment of system assets.

THE CORPORATION'S ACTIVITIES

The Corporation is a statutory State owned corporation established under the *Sydney Water Act 1994.* It provides sustainable water services to the communities it services, and has as its principal objectives the protection of public health, the protection of the environment, and to be a successful business.

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

CONTROLLED ENTITIES

Sydney Desalination Plant Pty Limited

Year ended 30 June	2009 $'000	2008* $'000
Loss	***12***	13
Assets	***1,084,627***	526,604
Liabilities	***1,015,286***	492,176
Net assets (at 30 June)	***69,341***	34,428

* 13 June 2007 to 30 June 2008

The company is a wholly owned subsidiary of the Corporation and will own the desalination plant. It is the contracting party for the plant construction and operation including the renewable energy contract.

The company's assets and liabilities increased as construction of the plant continues.

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
Australian Water Technologies Pty Ltd
AWT International (Thailand) Limited

Wyong Water Supply Authority

AUDIT OPINION

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

KEY ISSUES

Dividend

Wyong Water paid a dividend of $343,000 ($350,000 in 2006-07) to Wyong Shire Council. Local government water and sewerage supply businesses are permitted to pay annual dividends to Councils from operating surpluses.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2008 $'000	2007 $'000
Service charges	***29,445***	27,658
Usage charges	***15,589***	13,366
Other	***10,776***	26,436
TOTAL REVENUE	***55,810***	67,460
TOTAL EXPENSES	***79,767***	70,004
DEFICIT	***23,957***	2,544

The decrease in other revenue was mainly due to capital grants and contributions decreasing by $15.0 million. The Authority received approximately $15.0 million in developer contributed assets which did not recur in 2007-08. The nature of this income is not necessarily consistent from year to year.

The increase in expenses was mainly due to the increase in depreciation and amortisation costs amounting to $11.2 million.

Abridged Balance Sheet

At 30 June	2008 $'000	2007 $'000
Current assets	***62,135***	52,192
Non-current assets	***997,209***	962,273
TOTAL ASSETS	***1,059,344***	1,014,465
Current liabilities	***20,809***	21,385
Non-current liabilities	***112,046***	83,920
TOTAL LIABILITIES	***132,855***	105,305
NET ASSETS	***926,489***	909,160

The increase in non-current assets was due to a revaluation of water and sewerage assets. These assets increased in value by $41.6 million.

The increase in liabilities was mainly due to an increase in interest bearing loans of $28.9 million to fund infrastructure additions.

AUTHORITY ACTIVITIES

Wyong Water Supply Authority is part of Wyong Shire Council and provides water, sewerage and related services.

For further information on Wyong Shire Council, refer to www.wyong.nsw.gov.au.

Appendix

Appendix 1
Agencies not reported elsewhere in this Volume

Appendix 1 – Agencies not reported elsewhere in this Volume

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

Entity Name	Website	Period/Year Ended
Border Rivers-Gywdir Catchment Management Authority	www.brg.cma.nsw.gov.au	30 June 2009
Central West Catchment Management Authority	www.cw.cma.nsw.gov.au	30 June 2009
Dams Safety Committee	www.damsafety.nsw.gov.au	30 June 2009
Dumaresq-Barwon Border Rivers Commission	www.brc.gov.au	30 June 2009
Hawkesbury-Nepean Catchment Management Authority	www.hn.cma.nsw.gov.au	30 June 2009
Hunter-Central Rivers Catchment Management Authority	www.hcr.cma.nsw.gov.au	30 June 2009
Jenolan Caves Reserve Trust	www.jenolancaves.org.au	30 June 2009
- Jenolan Caves Reserve Trust Division	*	30 June 2009
Lachlan Catchment Management Authority	www.lachlan.cma.nsw.gov.au	30 June 2009
Lord Howe Island Board	www.lordhoweisland.info/	30 June 2009
Lower Murray - Darling Catchment Management Authority	www.lmd.cma.nsw.gov.au	30 June 2009
Marine Parks Authority	www.mpa.nsw.gov.au	30 June 2009
Murray Catchment Management Authority	www.murray.cma.nsw.gov.au	30 June 2009
Murrumbidgee Catchment Management Authority	www.murrumbidgee.cma.nsw.gov.au	30 June 2009
Namoi Catchment Management Authority	www.namoi.cma.nsw.gov.au	30 June 2009
Northern Rivers Catchment Management Authority	www.northern.cma.nsw.gov.au	30 June 2009
Southern Rivers Catchment Management Authority	www.southern.cma.nsw.gov.au	30 June 2009
Sydney Metropolitan Catchment Management Authority	www.sydney.cma.nsw.gov.au	30 June 2009
Upper Parramatta River Catchment Trust	www.uprct.nsw.gov.au	30 June 2009
- Upper Parramatta River Catchment Trust Division	*	30 June 2009
Western Catchment Management Authority	www.western.cma.nsw.gov.au	30 June 2009

* This entity does not have a website.

Index

A

Page

A.C.N. 093 230 374 Pty Limited .... Vol 4 2008
Aboriginal Affairs, Department of .... Vol 6 2009
Aboriginal Affairs, Minister for....................... Vol 6 2009
Aboriginal Housing Office............................ Vol 6 2009
Aboriginal Housing Office Group of Staff........... Vol 6 2009
Aboriginal Land Council, New South Wales .... Vol 6 2009
Access Macquarie Limited .... Vol 2 2009
accessUTS Pty Limited .... Vol 2 2009
ACN 125 694 546 Pty Limited .... Vol 2 2009
Acyte Biotech Pty Ltd .... Vol 2 2009
Adult Migrant English Service, NSW .... Vol 4 2008
Ageing, Minister for................................... Vol 6 2009
Ageing, Disability and Home Care, Department of .... Vol 6 2009
Agencies not reported elsewhere in this Volume . Vol 6 2009
Agricultural Business Research Institute .... Vol 2 2009
Agricultural Scientific Collections Trust............ Vol 5 2008
AGSM Limited.. Vol 2 2009
Ambulance Service of New South Wales .... Vol 1 2009
ANZAC Health and Medical Research Foundation . Vol 1 2009
ANZAC Health and Medical Research Foundation Trust Fund.. Vol 1 2009
Architects Registration Board, NSW................. Vol 6 2009
Art Gallery of New South Wales Foundation .... Vol 4 2008
Art Gallery of New South Wales Trust .... Vol 5 2008
Arts Education Foundation Trust .... Vol 4 2008
Arts, Minister for...................................... Vol 5 2008
Arts, Sport and Recreation, Department of the... Vol 5 2008
Asbestos Diseases Research Foundation, The...... Vol 5 2008
Attorney General...................................... Vol 2 2009
Attorney General's Department .... Vol 5 2008
Audio Nomad Pty Ltd .... Vol 2 2009
Aus Health International Pty Limited .... Vol 6 2007
Australian Centre for Advanced Computing and Communications Pty Ltd .... Vol 6 2009
Australian Education Consultancy Limited......... Vol 2 2009
Australian Institute of Asian Culture and Visual Arts Limited, The .... Vol 5 2008
Australian Museum Trust............................. Vol 5 2008
Australian Plant DNA Bank Limited.................. Vol 2 2009
Australian Proteome Analysis Facility Limited .... Vol 2 2009
Australian School of European Aviation (JAA) Pty Ltd....................................... Vol 2 2009
Australian Technology Park Precinct Management Ltd .... Vol 5 2008
Australian Water Technologies Pty Ltd 69
AWT International (Thailand) Limited 69

B

Banana Industry Committee.......................... Vol 5 2008
Belgenny Farm Agricultural Heritage Centre Trust .... Vol 1 2009
Biobank Pty Limited .... Vol 2 2009
Board of Studies, Office of the .... Vol 5 2008
Board of Studies, The .... Vol 4 2008
Board of Studies Casual Staff Division .... Vol 4 2008
Board of Surveying and Spatial Information 127
Board of Vocational Education and Training, NSW .... Vol 4 2008
Border Rivers-Gwydir Catchment Management Authority..75
Bosch Institute, The .... Vol 2 2009
Brett Whiteley Foundation, The .... Vol 4 2008
Building and Construction Industry Long Service Payments Corporation........................... Vol 5 2009
Building Insurers' Guarantee Corporation.......... Vol 6 2009
Building Professionals Board .... Vol 4 2008
Buroba Pty Ltd... Vol 5 2009
Businesslink Pty Ltd, NSW .... Vol 6 2009

C

C.B. Alexander Foundation........................... Vol 5 2008
CADRE Design Pty Limited .... Vol 2 2009
CADRE Design Unit Trust............................. Vol 2 2009
Cancer Institute Division ....Vol 1 2009
Cancer Institute NSW ....Vol 1 2009
Casino Control Authority, New South Wales........Vol 5 2008
Casino Control Authority Division ....Vol 5 2008
CCP Holdings Pty Limited ....Vol 3 2009
Centennial Park and Moore Park Trust ....Vol 6 2008
Centennial Parklands Foundation ....Vol 6 2008
Central West Catchment Management Authority 75
Centre for United States Studies Pty Limited ......Vol 2 2009
Cessnock Uni-Clinic Trust ....Vol 2 2009
Charles Sturt Foundation Limited....................Vol 2 2009
Charles Sturt Foundation Trust.......................Vol 2 2009
Charles Sturt Services Limited........................Vol 2 2009
Charles Sturt University ....Vol 2 2009
Chief Investigator of the Office of Transport Safety Investigations ....Vol 4 2008
Children, Office for ....Vol 5 2008
Chipping Norton Lake Authority......................Vol 6 2009
Citizenship, Minister for...............................Vol 5 2008
Chiropractors Registration Board ....Vol 5 2008
City West Housing Pty Limited ....Vol 6 2009
Climate Change and the Environment, Minister for..9
Clinical Excellence Commission ....Vol 1 2009
Clinical Excellence Commission Special Purpose Service Entity ....Vol 1 2009
CMBF Limited...Vol 2 2009
Coal Compensation Board, New South Wales ......Vol 5 2008
Cobar Water Board 35
Cobar Water Board Division 35
Cobbora Coal Unit Trust...............................Vol 3 2009
Cobbora Management Company Pty Limited ....Vol 3 2009
Cobbora Unincorporated Joint Venture.............Vol 3 2009
Coffs Harbour Technology Park Limited ....Vol 4 2008
Commerce, Department of............................Vol 6 2009
Commerce, Minister for ....Vol 6 2009
Commission for Children and Young People, NSW..Vol 6 2009
Community Relations Commission, Office of the..Vol 5 2008
Community Relations Commission for a Multicultural New South Wales ....Vol 5 2008
Community Services, Department of ....Vol 6 2009
Community Services, Minister for....................Vol 6 2009
Cooks Cove Development Corporation ....Vol 5 2008
Corporate Governance Arrangements in Large Government Agencies and Universities ....Vol 2 2009
Corporation Sole 'Minister Administering the Environmental Planning and Assessment Act, 1979' ....Vol 5 2008
Corporation Sole 'Minister Administering the Heritage Act, 1977' ....Vol 5 2008
Corrective Services, Department of ....Vol 5 2008
Country Energy..Vol 3 2009
Country Energy Gas Pty Limited......................Vol 3 2009
Cowra Japanese Garden Maintenance Foundation Limited................................Vol 5 2008
Cowra Japanese Garden Trust........................Vol 5 2008
Crime Commission, New South Wales ....Vol 4 2008
Crime Commission, Office of the New South Wales ....Vol 4 2008
Crime Commission Division, New South Wales .....Vol 4 2008
Crown Employees (NSW Fire Brigades Firefighting Staff, Death and Disability) Superannuation Fund.............................Vol 5 2009
Crown Entity ....Vol 5 2009
Crown Lands Homesites Program ....Vol 5 2008
Crown Leaseholds Entity ....Vol 5 2008
Cystemix Pty Limited ....Vol 2 2009

D

Dams Safety Committee 75
Delta Electricity ....Vol 3 2009
Delta Electricity Australia Pty Ltd ....Vol 3 2009
Dental Board of New South Wales ....Vol 1 2009
Dental Technicians Registration Board.............Vol 5 2008

Director of Public Prosecutions, Office of the .... Vol 5 2008
Disability Services, Minister for .... Vol 5 2008
Downtown Utilities Pty Limited .... Vol 3 2009
Dumaresq-Barwon Border Rivers Commission 75
Duquesne Utilities Pty Ltd .... Vol 5 2009

E

Education and Training, Department of .... Vol 4 2008
Education and Training, Minister for .... Vol 6 2009
Education Training Community Television
(ETC TV) Limited .... Vol 2 2009
Elastagen Pty Limited .... Vol 2 2009
Election Funding Authority of New South Wales .. Vol 5 2008
Electoral Commission, New South Wales .... Vol 5 2008
Electricity Industry Overview .... Vol 3 2009
Electricity Tariff Equalisation Ministerial
Corporation .... Vol 5 2009
Emergency Services, Minister for .... Vol 5 2009
Emergency Services Overview .... Vol 6 2008
Emergency Services, Office for .... Vol 6 2008
Energy, Minister for .... Vol 3 2009
Energy Industries Superannuation Scheme .... Vol 5 2009
Energy Investment Fund .... Vol 5 2009
EnergyAustralia .... Vol 3 2009
EnergyAustralia Pty Limited .... Vol 3 2009
Environment and Climate Change,
Department of 11
Environment Protection Authority 19
Environmental Trust 20
Eraring Energy .... Vol 3 2009
Events New South Wales Pty Limited .... Vol 5 2008

F

Fair Trading Administration Corporation .... Vol 6 2009
Festival Development Corporation .... Vol 3 2009
Film and Television Office, New South Wales ..... Vol 4 2008
Finance, Minister for .... Vol 6 2009
Financial Counselling Trust Fund .... Vol 6 2009
Financial Reports Not Received by Statutory
Date (as at 5 May 2009) .... Vol 2 2009
Financial Reports Received but Audit Incomplete by
Statutory Date (as at 5 May 2009) .... Vol 2 2009
Fire Brigades, New South Wales .... Vol 6 2008
Fire Brigades Superannuation Pty Limited,
NSW .... Vol 5 2009
Follow-up Review of CityRail Passenger
Security .... Vol 4 2008
Food Authority, NSW .... Vol 5 2008
Food Authority, Office of the NSW .... Vol 5 2008
Forestry Commission of New South Wales
(Trading as Forests NSW) .... Vol 1 2009
Forestry Commission Division .... Vol 1 2009
Foundation for the Historic Houses Trust
of New South Wales .... Vol 5 2008
Foundation for the Historic Houses Trust
of New South Wales Limited .... Vol 5 2008

G

Game Council of New South Wales .... Vol 5 2008
Game Council Division .... Vol 5 2008
Gaming and Racing, Minister for .... Vol 5 2009
Gosford Water Supply Authority 40
Government Telecommunications Authority
(Telco) , New South Wales .... Vol 6 2009
GraduateSchool.com Pty Limited .... Vol 2 2009
Greater Southern Area Health Service .... Vol 1 2009
Greater Southern Area Health Service
Special Purpose Service Entity .... Vol 1 2009
Greater Western Area Health Service .... Vol 1 2009
Greater Western Area Health Service
Special Purpose Service Entity .... Vol 1 2009
Greyhound and Harness Racing Regulatory
Authority .... Vol 5 2008
Greyhound and Harness Racing Regulatory
Authority Division .... Vol 5 2008
Growth Centres Commission .... Vol 4 2008

H

Hamilton Rouse Hill Trust .... Vol 5 2008
Hawkesbury-Nepean Catchment Management
Authority 75
Health Administration Corporation .... Vol 1 2009
Health Administration Corporation
Special Purpose Service Entity .... Vol 1 2009
Health Care Complaints Commission .... Vol 5 2008
Health Care Complaints Commission,
Office of the .... Vol 5 2008
Health Foundation, New South Wales .... Vol 6 2008
Health, Department of .... Vol 1 2009
Health, Minister for .... Vol 1 2009
Health Overview .... Vol 1 2009
HealthQuest .... Vol 1 2009
HealthQuest Special Purpose Service Entity .... Vol 1 2009
HepatoCell Therapeutics Pty Ltd .... Vol 2 2009
Historic Houses Trust of New South Wales .... Vol 5 2008
Home Care Service of New South Wales .... Vol 6 2009
Home Care Service Division .... Vol 6 2009
Home Purchase Assistance Fund 31
Housing, Minister for 29
Housing NSW .... Vol 6 2009
Hunter Development Corporation .... Vol 4 2008
Hunter New England Area Health Service .... Vol 1 2009
Hunter New England Area Health Service
Special Purpose Service Entity .... Vol 1 2009
Hunter Uni-Clinics Pty Limited .... Vol 2 2009
Hunter Water Australia Pty Limited. 45
Hunter Water Corporation 42
Hunter-Central Rivers Catchment Management
Authority 75

I

Illawarra Technology Corporation Limited .... Vol 2 2009
Independent Commission Against Corruption ...... Vol 5 2008
Independent Pricing and Regulatory Tribunal ..... Vol 5 2008
Independent Pricing and Regulatory Tribunal
Division .... Vol 5 2008
Independent Transport Safety and Reliability
Regulator .... Vol 4 2008
Independent Transport Safety and Reliability
Regulator Division .... Vol 4 2008
Industrial Relations, Minister for .... Vol 5 2009
Infrastructure Implementation Corporation .... Vol 5 2008
Ingham Health Research Institute .... Vol 1 2009
Insearch Limited .... Vol 2 2009
Institute for Magnetic Resonance Research .... Vol 2 2009
Institute of Psychiatry, New South Wales .... Vol 5 2008
Institute of Sport, New South Wales .... Vol 5 2008
Institute of Sport Division .... Vol 5 2008
Institute of Teachers, NSW .... Vol 4 2008
Institute of Teachers, Office of the .... Vol 4 2008
Integral Energy Australia .... Vol 3 2009
Internal Audit Bureau of New South Wales .... Vol 6 2009
Internal Audit Bureau Division .... Vol 6 2009
International Livestock Resources and Information
Centre Ltd .... Vol 2 2009
ITC (Europe) Ltd .... Vol 2 2009
ITC (Middle East) Ltd .... Vol 2 2009
ITC (New Zealand) Limited .... Vol 2 2009
ITC Education Ltd .... Vol 2 2009
ITC Emirates Limited .... Vol 2 2009

J

Jenolan Caves Reserve Trust 75
Jenolan Caves Reserve Trust Division 75
John Lewis and Pamela Lightfoot Trust .... Vol 2 2009
Judicial Commission of New South Wales .... Vol 5 2008
Justice Health .... Vol 1 2009
Justice Health Special Purpose Service Entity ..... Vol 1 2009
Justice, Minister for .... Vol 5 2008
Juvenile Justice, Department of .... Vol 6 2009
Juvenile Justice, Minister for .... Vol 6 2009

L

Lachlan Catchment Management Authority 75
Lake Illawarra Authority .... Vol 6 2009
LAMS Foundation Limited .... Vol 2 2009
LAMS International Pty Limited .... Vol 2 2009
Land Development Working Account .... Vol 6 2009
Landcom .... Vol 5 2008
Lands, Department of .... Vol 6 2008
Lands, Minister for .... Vol 6 2009
Law and Order Overview .... Vol 5 2008
Legal Aid Commission of New South Wales .... Vol 5 2008
Legal Aid Commission, Office of the .... Vol 5 2008
Legal Aid Temporary Staff Division .... Vol 5 2008
Legal Opinions Provided by the Crown Solicitor .. Vol 1 2007
Legal Profession Admission Board .... Vol 5 2008
Legislature, The .... Vol 5 2008
Legislature (Audit of Members' Additional Entitlements), The .... Vol 2 2009
Liability Management Ministerial Corporation ..... Vol 5 2009
Library Council of New South Wales .... Vol 5 2008
Lifetime Care and Support Authority of New South Wales .... Vol 5 2009
Liquor Administration Board .... Vol 5 2008
Local Government, Department of .... Vol 5 2008
Local Government, Minister for .... Vol 5 2008
Lord Howe Island Board 75
Lotteries Corporation, New South Wales .... Vol 5 2009
Lower Murray-Darling Catchment Management Authority 75
Luna Park Reserve Trust .... Vol 5 2008

M

Macquarie Generation .... Vol 3 2009
Macquarie Graduate School of Management Pty Limited .... Vol 2 2009
Macquarie University Medical Research Foundation Limited .... Vol 2 2009
Macquarie University Medical Research Trust ..... Vol 2 2009
Macquarie University Private Hospital Trust .... Vol 2 2009
Macquarie University Professorial Superannuation Scheme .... Vol 2 2009
Macquarie University Property Investment Company No. 2 Pty Limited .... Vol 2 2009
Macquarie University Property Investment Company Pty Limited .... Vol 2 2009
Macquarie University Property Investment Trust .... Vol 2 2009
Macquarie University .... Vol 2 2009
Marine Parks Authority 75
Maritime Authority of NSW .... Vol 5 2008
Maritime Authority of NSW Division .... Vol 5 2008
Medical Board, New South Wales .... Vol 5 2008
Mid West Primary Pty Ltd .... Vol 3 2009
Midwest Development Corporation Pty Limited ... Vol 3 2009
Milk Marketing (NSW) Pty Limited .... Vol 5 2008
Mine Subsidence Board .... Vol 1 2009
Mineral Resources, Minister for .... Vol 1 2009
Minerals Industry/University of New South Wales Education Trust, The New South Wales Vol 2 2009
Ministerial Corporation for Industry .... Vol 5 2008
Mitchell Services Limited .... Vol 2 2009
Motor Accidents Authority of New South Wales ... Vol 5 2009
Motor Accidents Authority of New South Wales, Office of the .... Vol 5 2009
Motor Vehicle Repair Industry Authority .... Vol 6 2009
MU Private Hospital Pty Limited .... Vol 2 2009
MUPH Clinic Pty Limited .... Vol 2 2009
MUPH Clinic Sub-Trust .... Vol 2 2009
MUPH Hospital Pty Limited .... Vol 2 2009
MUPH Hospital Sub-Trust .... Vol 2 2009
MUPI Holding Trust No. 1 .... Vol 2 2009
MUPI Holding Trust No. 2 .... Vol 2 2009
MUPI Holding Trust No. 3 .... Vol 2 2009
MUPI Holding Trust No. 4 .... Vol 2 2009
MUPI Holding Trust No. 5 .... Vol 2 2009
MUPI Holding Trust No. 6 ....Vol 2 2009
MUPIT Sub-Trust No. 1 ....Vol 2 2009
MUPIT Sub-Trust No. 2 ....Vol 2 2009
MUPIT Sub-Trust No. 3 ....Vol 2 2009
MUPIT Sub-Trust No. 4 ....Vol 2 2009
Murray Catchment Management Authority 75
Murrumbidgee Catchment Management Authority 75

N

Namoi Catchment Management Authority 75
National Marine Science Centre Pty Ltd ....Vol 2 2009
Natural Resources Commission ....Vol 4 2008
Natural Resources Commission Division ....Vol 4 2008
Newcastle Innovation Limited ....Vol 2 2009
Newcastle International Sports Centre Trust ....Vol 3 2009
Newcastle Port Corporation ....Vol 5 2008
Newcastle Showground and Exhibition Centre Trust ....Vol 1 2009
NewSouth Eight Pty Ltd ....Vol 2 2009
NewSouth Five Pty Ltd ....Vol 2 2009
NewSouth Four Pty Ltd ....Vol 2 2009
NewSouth Global (Thailand) Limited ....Vol 2 2009
NewSouth Innovations Pty Ltd ....Vol 2 2009
NewSouth One Pty Ltd ....Vol 2 2009
NewSouth Seven Pty Ltd ....Vol 2 2009
NewSouth Six Pty Ltd ....Vol 2 2009
Norsearch Limited ....Vol 2 2009
North Coast Area Health Service ....Vol 1 2009
North Coast Area Health Service Special Purpose Service Entity ....Vol 1 2009
Northern Rivers Catchment Management Authority 75
Northern Sydney and Central Coast Area Health Service ....Vol 1 2009
Northern Sydney and Central Coast Area Health Service Special Purpose Service Entity ....Vol 1 2009
NorthPower Energy Services Pty Limited ....Vol 3 2009
Nurses and Midwives Board ....Vol 5 2008

O

Ombudsman's Office ....Vol 5 2008
Optical Dispensers Licensing Board ....Vol 5 2008
Optometrists Registration Board ....Vol 5 2008
Osteopaths Registration Board ....Vol 5 2008
Ovine Johne's Disease Transaction Based Contribution Scheme, NSW ....Vol 5 2008

P

Pacific Industry Services Corporation Pty Limited. Vol 5 2008
Pacific Power (Subsidiary No. 1) Pty Ltd ....Vol 3 2009
Pacific Solar Pty Limited ....Vol 3 2009
Pacific Western Pty Limited ....Vol 4 2008
Parklands Foundation Limited ....Vol 5 2008
Parliamentary Contributory Superannuation Fund ....Vol 5 2009
Parramatta Park Trust ....Vol 5 2008
Parramatta Stadium Trust ....Vol 2 2009
Parramatta Stadium Trust Division ....Vol 2 2009
Payments to other Government Bodies under the control of the Minister ....Vol 6 2009
Pharmacy Board of New South Wales ....Vol 1 2009
Physiotherapists Registration Board ....Vol 5 2008
Planning, Department of ....Vol 5 2008
Planning, Minister for ....Vol 3 2009
Podiatrists Registration Board ....Vol 5 2008
Police Force, NSW ....Vol 5 2008
Police Integrity Commission ....Vol 5 2008
Police Integrity Commission, Office of the ....Vol 5 2008
Police Integrity Commission Division ....Vol 5 2008
Police, Minister for ....Vol 5 2008
Police, Ministry for ....Vol 4 2008
Port Kembla Port Corporation ....Vol 5 2008
Ports and Waterways, Minister for ....Vol 5 2008
Premier ....Vol 2 2009

Premier and Cabinet, Department of............... Vol 5 2008
Primary Industries, Department of.................. Vol 1 2009
Primary Industries, Minister for...................... Vol 3 2009
Probiotic Health Pty Limited......................... Vol 2 2009
Protective Commissioner – Common Fund,
Office of the .... Vol 2 2009
Protective Commissioner and Public Guardian,
Office of the .... Vol 5 2008
Psychologists Registration Board .... Vol 5 2008
Public Transport Ticketing Corporation .... Vol 5 2008
Public Transport Ticketing Corporation
Division .... Vol 5 2008
Public Trustee NSW.................................... Vol 5 2008

Q

Qualified Independent Audit Reports Issued....... Vol 5 2008
Qucor Pty Ltd... Vol 2 2009

R

Rail Corporation New South Wales .... Vol 4 2008
Rail Infrastructure Corporation .... Vol 4 2008
Rail Services Overview .... Vol 4 2008
Redfern and Waterloo, Minister for .... Vol 5 2008
Redfern-Waterloo Authority.......................... Vol 5 2008
Redfern Waterloo Authority, Office of the .... Vol 5 2008
Regional Land Management Corporation Pty Ltd . Vol 5 2008
Remarkspdf Pty Ltd.................................... Vol 2 2009
Rental Bond Board .... Vol 6 2009
Rental Housing Assistance Fund .... Vol 6 2009
Residual Business Management Corporation .... Vol 3 2009
Responsible Gambling Fund .... Vol 5 2008
Rice Marketing Board for the State of
New South Wales.................................. Vol 5 2008
Risk Frontiers Flood (Australia) Pty Limited .... Vol 2 2009
Risk Frontiers Group Pty Limited.................... Vol 2 2009
Riverina Citrus.. Vol 5 2008
Rivservices Limited .... Vol 2 2009
Roads, Minister for..................................... Vol 6 2008
Roads and Traffic Authority of New South Wales . Vol 6 2008
Roads and Traffic Authority Division................ Vol 6 2008
Rocky Point Holdings Pty Ltd......................... Vol 3 2009
Rouse Hill Hamilton Collection Pty Limited .... Vol 5 2008
Royal Alexandra Hospital for Children.............. Vol 1 2009
Royal Alexandra Hospital for Children
Special Purpose Service Entity.................. Vol 1 2009
Royal Botanic Gardens and Domain Trust.................. 23
Rural Assistance Authority, New South Wales ..... Vol 6 2008
Rural Assistance Authority, Office of the .... Vol 6 2008
Rural Australia Foundation Limited .... Vol 2 2008
Rural Fire Service, NSW............................... Vol 6 2008

S

SAS Trustee Corporation .... Vol 5 2009
SAS Trustee Corporation - Pooled Fund .... Vol 5 2009
SAS Trustee Corporation Division of
the Government Service of NSW................ Vol 5 2009
Self Insurance Corporation, NSW.................... Vol 5 2009
Services UNE Ltd .... Vol 2 2009
Sesquicentenary of Responsible Government
Trust Fund.. Vol 5 2008
SGSM Limited .... Vol 2 2009
Small Business, Minister for .... Vol 5 2008
Small Business Development Corporation
of New South Wales............................... Vol 5 2008
South Eastern Sydney and Illawarra Area Health
Service .... Vol 1 2009
South Eastern Sydney and Illawarra Area Health
Service Special Purpose Service Entity .... Vol 1 2009
Southern Cross University .... Vol 2 2009
**Southern Rivers Catchment Management
Authority... 75**
Sport and Recreation, Minister for .... Vol 3 2009
Sporting Injuries Committee .... Vol 5 2009
Sports Knowledge Australia Pty Limited............ Vol 2 2009
State and Regional Development, Department of Vol 5 2008
State Council of Rural Lands Protection Boards... Vol 3 2009
State Council of Rural Lands Protection Boards
Division .... Vol 3 2009
State Development, Minister for .... Vol 5 2008
State Emergency Service .... Vol 6 2008
State Library of New South Wales Foundation ..... Vol 5 2008
State Plan... Vol 2 2009
State Property Authority .... Vol 6 2009
State Property Authority, Office of the............ Vol 6 2009
State Rail Authority Residual Holding
Corporation.. Vol 5 2009
State Records Authority of New South Wales ...... Vol 6 2009
State Rescue Board..................................... Vol 6 2008
State Sports Centre Trust .... Vol 4 2008
State Sports Centre Trust Division .... Vol 4 2008
State Super Financial Services Australia Limited.. Vol 5 2009
State Transit Authority of New South Wales .... Vol 5 2008
State Transit Authority Division .... Vol 5 2008
State Water Corporation 46
Statement of the Budget Result...................... Vol 4 2009
Superannuation Administration Corporation
(trading as Pillar Administration) .... Vol 5 2009
Sydney 2009 World Masters Games Organising
Committee.. Vol 5 2008
Sydney 2009 World Masters Games Organising
Committee Division............................... Vol 5 2008
Sydney 2009 World Masters Games Organising
Committee Division, Office of the .... Vol 5 2008
Sydney Business School Pty Ltd .... Vol 2 2009
Sydney Catchment Authority 50
Sydney Catchment Authority Division...................... 53
Sydney Cricket and Sports Ground Trust........... Vol 4 2008
Sydney Cricket and Sports Ground Trust
Division .... Vol 4 2008
Sydney Desalination Plant Pty Limited..................... 69
Sydney Educational Broadcasting Limited .... Vol 2 2009
Sydney Ferries Corporation .... Vol 5 2008
Sydney Harbour Foreshore Authority................ Vol 5 2008
Sydney Harbour Foreshore Authority,
Office of the....................................... Vol 5 2008
Sydney Harbour Foreshore Authority
Casual Staff Division, ... Vol 5 2008
Sydney Institutes of Health and Medical
Research, The..................................... Vol 2 2009
Sydney International Film School Pty Limited ..... Vol 2 2009
**Sydney Metropolitan Catchment Management
Authority 75**
Sydney Olympic Park Authority .... Vol 5 2008
Sydney Olympic Park Authority, Office of the ..... Vol 5 2008
Sydney Olympic Park Authority Sydney
Olympic Park Aquatic and Athletic Centres
Division .... Vol 5 2008
Sydney Opera House Trust .... Vol 5 2008
Sydney Pilot Service Pty Ltd .... Vol 5 2008
Sydney Ports Corporation .... Vol 5 2008
Sydney South West Area Health Service .... Vol 1 2009
Sydney South West Area Health Service
Special Purpose Service Entity .... Vol 1 2009
Sydney Talent Pty Limited .... Vol 2 2009
Sydney Water Corporation................................... 54
Sydney West Area Health Service.................... Vol 1 2009
Sydney West Area Health Service Special
Purpose Service Entity .... Vol 1 2009
Sydney West International College Pty Limited ... Vol 2 2009
SydneyLearning Pty Limited .... Vol 2 2009

T

Taronga Conservation Society Australia 25
Taronga Conservation Society Australia Division 28
TCorp Nominees Pty Limited .... Vol 5 2009
Teacher Housing Authority of New South Wales... Vol 6 2009
Technical and Further Education Commission,
New South Wales .... Vol 4 2008
Technical and Further Education Commission
Division, New South Wales .... Vol 4 2008
Technical Education Trust Funds .... Vol 2 2009
Television Sydney (TVS) Limited .... Vol 2 2009

Total State Sector Accounts .... Vol 4 2009
Tourism, Minister for .... Vol 5 2008
TransGrid .... Vol 3 2009
Transport, Minister for .... Vol 5 2008
Transport, Ministry of .... Vol 5 2008
Transport Infrastructure Development
Corporation .... Vol 4 2008
Transport Services Overview .... Vol 5 2008
Treasurer .... Vol 6 2009
Treasury, The .... Vol 5 2009
Treasury Corporation, New South Wales .... Vol 5 2009
Treasury Corporation Division of the
Government Service .... Vol 5 2009
Trustees of the ANZAC Memorial Building .... Vol 2 2009
Trustees of the Farrer Memorial Research
Scholarship Fund .... Vol 3 2009
Trustees of the Museum of Applied Arts
and Sciences .... Vol 5 2008
TVS Limited .... Vol 2 2009

U

U@MQ Limited .... Vol 2 2009
Ucom Fifteen Pty Limited .... Vol 2 2009
Ucom Sixteen Pty Limited .... Vol 2 2009
UNE Partnerships Pty Limited .... Vol 2 2009
UNE Vision Pty Ltd .... Vol 2 2009
UniCentre Conferences and Functions Pty Limited Vol 2 2009
UNILINC Limited .... Vol 2 2009
Uniprojects Pty Limited .... Vol 5 2008
United States Studies Centre Limited .... Vol 2 2009
Universities Admissions Centre (NSW & ACT)
Pty Limited .... Vol 5 2008
Universities Overview .... Vol 2 2009
University of New England .... Vol 2 2009
University of New England Professorial
Superannuation Fund .... Vol 2 2009
University of New England Sports Association ..... Vol 2 2009
University of New South Wales .... Vol 2 2009
University of New South Wales Foundation .... Vol 2 2008
University of New South Wales Foundation
Limited .... Vol 2 2009
University of New South Wales International
House Limited .... Vol 2 2009
University of New South Wales Press Limited ..... Vol 2 2009
University of Newcastle .... Vol 2 2009
University of Sydney, The .... Vol 2 2009
University of Sydney Professorial Superannuation
System .... Vol 2 2009
University of Technology, Sydney .... Vol 2 2009
University of Western Sydney .... Vol 2 2009
University of Western Sydney Foundation
Limited .... Vol 2 2009
University of Western Sydney Foundation Trust .. Vol 2 2009
University of Wollongong .... Vol 2 2009
University of Wollongong Recreation
Aquatic Centre Limited .... Vol 2 2009
UNSW & Study Abroad – Friends and U.S.
Alumni, Inc. .... Vol 2 2009
UNSW (Thailand) Limited .... Vol 2 2009
UNSW Asia School Limited .... Vol 2 2009
UNSW Global (Singapore) Pte Limited .... Vol 2 2009
UNSW Global India Private Limited .... Vol 2 2009
UNSW Global Pty Limited .... Vol 2 2009
UNSW Hong Kong Foundation Limited .... Vol 2 2009
UNSW Hong Kong Limited .... Vol 2 2009
UTSM Services (Malaysia) Sdn Bhd .... Vol 2 2009
UON Foundation Ltd .... Vol 2 2009
UON Foundation Trust .... Vol 2 2009
UON Services Limited .... Vol 2 2009
UON, Singapore Pte Ltd .... Vol 2 2009
Upper Parramatta River Catchment Trust 75
**Upper Parramatta River Catchment Trust
Division 75**
UWS College Pty Limited .... Vol 2 2009
UWS Conference and Residential Colleges Limited Vol 2 2009
uwsconnect Limited .... Vol 2 2009

V

Valley Commerce Pty Limited .... Vol 5 2009
Veterinary Practitioners Board .... Vol 5 2008
Vocational Education and Training
Accreditation Board, NSW .... Vol 4 2008

W

Warren Centre for Advanced Engineering
Limited, The .... Vol 2 2009
Waste Recycling and Processing Corporation ...... Vol 2 2009
Water and Energy, Department of 36
Water Industry Overview 3
Water, Minister for 33
Wayahead Pty Limited .... Vol 2 2009
Wentworth Annexe Limited .... Vol 2 2009
Wentworth Park Sporting Complex Trust .... Vol 4 2008
Western Catchment Management Authority 75
Western Research Institute Limited .... Vol 2 2009
Western Sydney Buses Division .... Vol 5 2008
Western Sydney Parklands Trust .... Vol 5 2008
Whitlam Institute Within the University of
Western Sydney Limited .... Vol 2 2009
Whitlam Institute Within the University of
Western Sydney Trust .... Vol 2 2009
Wild Dog Destruction Board .... Vol 2 2009
Wild Dog Destruction Board Division .... Vol 2 2009
Wine Grapes Marketing Board .... Vol 2 2009
Wollongong Sportsground Trust .... Vol 5 2008
Wollongong Sportsground Trust Division .... Vol 5 2008
Wollongong UniCentre Limited .... Vol 2 2009
WorkCover Authority, Office of the .... Vol 6 2008
WorkCover Authority of New South Wales .... Vol 6 2008
Workers Compensation Commission of
New South Wales .... Vol 6 2008
Workers Compensation Nominal Insurer
(trading as The NSW WorkCover Scheme) ...... Vol 1 2009
Workers' Compensation (Dust Diseases) Board .... Vol 5 2008
World Youth Day Co-ordination Authority .... Vol 2 2009
World Youth Day Co-ordination Authority,
Office of .... Vol 2 2009
Wyong Water Supply Authority 70

Y

Youth, Minister for .... Vol 6 2009

AUDITOR-GENERAL'S REPORT
FINANCIAL AUDITS

Volume Eight 2009

focusing on Emergency Services & Law and Order

The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

Pursuant to the *Public Finance and Audit Act 1983*, I present Volume Eight of my 2009 Report.

Peter Achterstraat
Auditor-General

Sydney
December 2009

GUIDE TO USING THIS VOLUME

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

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

This Volume has three sections. Section One contains an overview of the findings for this Volume’s focus agencies. Section Two incorporates The Legislature. Section Three provides comments on financial audits of government agencies. It is divided into ministerial portfolios, each containing one or more government agencies.

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

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

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

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

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

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

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

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

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

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

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

Appendix 1 contains the names of agencies not reported elsewhere in this Volume. These agencies received unqualified audit opinions and have no significant issues to report.

Contents

Significant Items iii

SECTION ONE - Overview

Emergency Service Overview 3

Law and Order Overview 7

SECTION TWO – The Legislature

The Legislature 13

SECTION THREE - Commentary on Government Agencies

Attorney General 19

Attorney General's Department 21

Legal Aid Commission of New South Wales 29

Office of Director of Public Prosecutions 33

Office of the Protective Commissioner and Public Guardian 36

Public Trustee NSW 39

Public Trutee NSW- Common Fund 43

Minister for Corrective Services 47

Department of Corrective Services 49

Minister for Emergency Services 57

New South Wales Fire Brigades 59

NSW Rural Fire Service 65

State Emergency Service 69

Minister for Local Government 73

Department of Local Government 75

Minister for Police 81

NSW Police Force 83

Premier 89

Department of Premier and Cabinet 91

Election Funding Authority of New South Wales 95

Events New South Wales Pty Limited 96

Independent Commission Against Corruption 98

New South Wales Electoral Commission 100

Ombudsman's Office 102

APPENDIX

Appendix 1 – Agencies not reported elsewhere in this Volume 107

INDEX 109

Significant Items

	Page
Emergency Services Overview	
Recommendations made by the Public Accounts Committee in 2004 relating to fire services funding arrangements have not been implemented.	3
Funding for the three emergency service agencies was put on a consistent basis from 1 July 2009.	4
Attorney General's Department	
At 30 June 2009, $290 million was recorded as restitution debt, but only $18.4 million was considered likely to be received.	21
The Department has 13,384 pending claims for victims' compensation payments for an estimated $155 million. Additional funding from the Consolidated Fund is required to ensure timely payment of claims.	21
The backlog of civil non-appeal matters in the New South Wales Supreme Court was equal second lowest when compared with other states and territories.	23
Criminal non-appeal matters in the New South Wales Supreme Court were the second highest when compared with other states and territories and have more than doubled since 2007.	23
JusticeLink has been a long term information technology project that has suffered significant delays and increased costs. The project is ongoing and the estimated total capital cost is $48.2 million.	25
Legal Aid Commission of New South Wales	
The number of client services in the criminal law program has increased from 190,706 in 2005 to 375,399 in 2009.	29
Department of Corrective Services	
The proportion of the adult population imprisoned per 100,000 adults climbed from 2.1 per cent above the national rate in 1997-98 to 10.4 per cent in 2007-08.	49
The State's rate of an individual's return to prison, 43 per cent, continues to be significantly higher than the national average of 38.2 per cent.	51
Latest available information (2008) shows that the cost of maintaining a prisoner in a secure prison in New South Wales was $225 per day compared to the national average of $214 per day.	51
The Long Bay Prison Hospital was completed during 2008-09 at a cost of $60.9 million.	52

The Department's overtime costs for the year were $40.7 million and the most overtime paid to an individual employee was $77,380. The number of staff earning more than 50 per cent of their base salary in overtime has increased from 179 ($5.1 million in total) to 232 ($8.1 million in total) employees. 52

1,176 employees had recreation leave balances exceeding 60 days, with 66 employees' entitlements exceeding 125 days. 53

The Department has not finalised its overarching business continuity plan. 53

New South Wales Fire Brigades

34 per cent of all employees held recreational leave balances in excess of 40 days at 30 June 2009. 59

50 per cent of structural fires were responded to within 6 minutes 52 seconds, while 90 per cent of structural fires were responded to within 10 minutes 44 seconds. 60

State Emergency Service

Service volunteers contributed almost 400,000 hours of operational and non-operational support during 2008-09. 69

Department of Local Government

In May 2009, the Department released a draft investment policy guideline for local councils. 75

Commonwealth payments to New South Wales local councils for general purpose and local road grants will continue to decline if population growth is less than other States and Territories. 75

NSW Police Force

Death and Disability Scheme liabilities have grown from $29.2 million in 2005-06 to $147 million in 2008-09. The Force will need to ensure it has sufficient funds to meet the increasing costs. 83

Effective control mechanisms are not in place to ensure all work performed by an outsourced property manager is of an acceptable quality or that costs billed are appropriate. 83

Of the 17 major crime categories measured by the Force, the only category to show a significant increase was theft from retail stores, which increased 6.2 per cent. 84

New South Wales remains below the national average for finalising investigations within 30 days for all crime categories. 85

Total expenditure incurred by the Force for policing services for the World Youth Day event was $17.1 million. 85

Department of Premier and Cabinet

Potential claimants registered with the Aboriginal Trust Fund Repayment Scheme increased from 3,221 in 2007-08 to 8,595 in 2008-09. 91

Election Funding Authority of New South Wales

During 2008-09 $1.8 million ($1.6 million in 2007-08) was paid to political parties for political education. 95

Independent Commission Against Corruption

The Commission completed 87 per cent of investigations within 12 months, which is close to its target of 90 per cent. 98

New South Wales Electoral Commission

672,794 eligible voters did not vote in the 2008 Local Government Election. Penalty notices were issued to 59.1 per cent of the non-voters of which 25.4 per cent or 171,044 were fined. 100

Ombudsman's Office

The Office received 32,994 (34,021 in 2007-08) complaints, inquiries and notifications, of which, 8,742 (9,320) were formal complaints and notifications. 102

Section One

Emergency Services Overview

and

Law and Order Overview

Emergency Services Overview

EMERGENCY SERVICES AGENCIES AND AUDIT OPINIONS

An emergency is an actual or imminent event that poses a threat to the safety or health of persons or animals, or to property. Emergencies include naturally occurring and man-made events that require significant and co-ordinated responses.

The State Disaster Plan clearly identifies the New South Wales Government agencies with responsibilities for responding to emergencies. The following table outlines some key emergency service agencies and their responsibilities.

Agency	Type of Emergency
New South Wales Fire Brigades	Fire (urban), hazardous materials (land based and inland waters)
NSW Rural Fire Service	Fire (rural)
State Emergency Service	Flood, storm, tempest, tsunami

The audits of these agencies' financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

KEY ISSUES

Funding Arrangements

I recommend the Government follow up on the Public Accounts Committee's recommendations about funding arrangements for emergency service agencies.

In 2004, the Public Accounts Committee (PAC) reported on fires services funding arrangements in New South Wales. It recommended existing arrangements be retained, but also recommended a number of improvements.

The Government accepted the PAC's recommendations and committed to implementing them. The PAC found that the scheme could benefit from improved transparency, for example, the insurance industry report annually on the amount of the fire service levy collected from policy holders. There is no evidence to suggest that transparency has improved.

Since the PAC's review, the *Taxation Administration Act 1996* was amended to allow the Office of State Revenue to provide information on insurance activities to emergency services agencies. This information would help the agencies confirm who is required to contribute under the legislation. However, the emergency service agencies have not used this increased capability.

Whilst the PAC recommended retention of the existing scheme, it acknowledged flaws relating to potential inequity and inefficiency. The PAC recommended the government continue to investigate ways to eliminate flaws acknowledged in the existing system.

Further to the PAC's recommendation, the Independent Pricing and Regulatory Tribunal (IPART) recommended changes to existing funding arrangements in its October 2008 Review of State Taxation.

Since the PAC's review, the funding arrangements for fire services have also been applied to the State Emergency Service. Central collection processes have also recently been implemented. These changes, together with IPART's recommendation and the elapsed time since the PAC's report, indicate that it is timely for a formal review of funding arrangements.

Existing Funding Sources

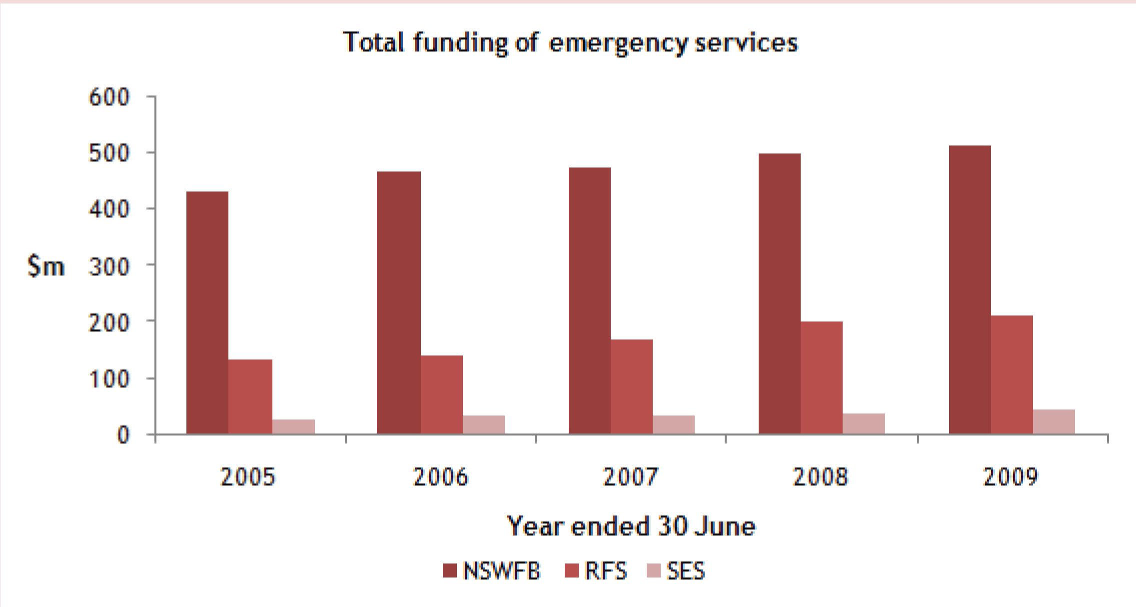
Emergency service agencies are funded via contributions from the insurance industry and local and State governments. From 1 July 2009, the Government implemented changes to the funding sources that result in consistency across the agencies.

The table below shows the proportion of funding by contributors under the old and new arrangements.

	Insurance Companies		Local Government		State Government	
	Up to 30 June 2009 %	From 1 July 2009 %	Up to 30 June 2009 %	From 1 July 2009 %	Up to 30 June 2009 %	From 1 July 2009 %
New South Wales Fire Brigades (NSWFB)	73.7	73.7	12.3	11.7	14.0	14.6
NSW Rural Fire Service (RFS)	73.7	73.7	13.3	11.7	13.0	14.6
State Emergency Service (SES)	--	73.7	--	11.7	100.0	14.6

The total contribution amount is determined by the Minister for Emergency Services and subject to the Treasurer's agreement. Total contributions are based on the agencies' estimated expenditure.

A summary of contributions appears in the table below:



Source: Financial Reports of New South Wales Fire Brigades, NSW Rural Fire Service, State Emergency Service

Contributions do not meet the costs incurred by the agencies in relation to natural disasters. These costs are reimbursed through relief arrangements between the State and Commonwealth Governments.

OTHER INFORMATION

Staffing and Volunteering Arrangements

The agencies use a range of human capital to achieve their objectives.

	Full-time		Retained (Part-Time)		Volunteers	
	2009	2008	2009	2008	2009	2008
NSWFB	***3,893***	3,856	***3,387***	3,212	***5,800***	6,550
RFS	***715***	710	**--**	--	***70,701***	70,159
SES	***205***	189	**--**	--	***10,500***	10,000

Source: New South Wales Fire Brigades, NSW Rural Fire Service, State Emergency Service (unaudited).

Administrative Restructures

On 27 July 2009, the Public Sector Employment and Management (Departmental Amalgamations) Order 2009 created 13 super Departments. Agencies have been clustered under these Departments. The emergency services agencies are in the Police and Emergency Services Department cluster.

The emergency services agencies have retained their status as separate entities and continue with existing objectives and functions.

Other Emergency Services Entities

A range of other entities are involved in ensuring co-ordinated and effective emergency services in New South Wales. High level information on these entities appears below. For further information, please refer to www.emergency.nsw.gov.au.

Emergency Management NSW

Emergency Management NSW (EMNSW) was established in May 2009 and incorporates the functions of the former Office for Emergency Services. RFS is the host agency for EMNSW.

EMNSW provides policy and executive support to the Minister for Emergency Services as well as support to the:

- State Emergency Management Committee
- State Rescue Board
- State Emergency Operations Controller
- State Emergency Recovery Controller.

Since 1 July 2009, EMNSW is also responsible for the centralised billing and collection of funding contributions on behalf of the NSWFB, RFS and SES. Our audit procedures extended to a review of these new centralised operations. We identified opportunities for improvement in the new arrangements and will shortly report these to management.

State Emergency Management Committee

The State Emergency Management Committee is responsible for emergency planning at a State level. Its functions include:

- continually reviewing the effectiveness of the State Disaster Plan and related plans
- advising the Minister on changes to these plans
- creating and distributing educational material on managing emergencies.

The Committee prepares an annual report, but it has no financial reporting obligations.

State Rescue Board

The principal function of the Board is to ensure the maintenance of efficient and effective rescue services throughout New South Wales.

Last year we reported that the Board had not prepared annual financial reports as required by the *Public Finance and Audit Act 1983*. We recommended the Board address this instance of non-compliance. In 2009, the Board prepared a financial report and its audit resulted in an unqualified Independent Auditor's Report.

Law and Order Overview

LAW AND ORDER SERVICES

The following Government agencies provide, facilitate and regulate the State's Law and Order services. The work of these agencies is closely interrelated and initiatives in one agency can have significant flow on effects for the other agencies. For example, increased policing and investigative activities increases the case load in the court system, which in turn increases the number of offenders managed by the corrective system.

Agencies

- Attorney General's Department.
- New South Wales Crime Commission.
- Department of Corrective Services.
- Independent Commission Against Corruption.
- Judicial Commission of New South Wales.
- Legal Aid Commission of New South Wales.
- Ministry for Police.
- NSW Police Force.
- Office of the Director of Public Prosecutions.
- Police Integrity Commission.

AUDIT OPINIONS

The audits of the above agencies' financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

PERFORMANCE INFORMATION

A high level summary of performance for the three largest Law and Order agencies is included below. This information is based on performance in 2007-08 which is the latest publicly available national data.

Attorney General's Department

- Most court jurisdictions appropriately managed their case load, clearing approximately as many cases as were lodged during the year.
- New South Wales continued to record some of the best results for court timeliness compared to other States and Territories.
- Slightly more than a third of the costs of operating civil courts are recovered through court fees.

NSW Police Force

- Generally the number of crimes against people in New South Wales was stable or has fallen when compared to previous years, which is broadly consistent with national trends.
- Overall investigation clearance rates in New South Wales remain below the national average, with the exception of homicide investigations involving proceedings against offenders.

Department of Corrective Services

- In New South Wales, the proportion of the adult population sent to prison was 10.4 per cent above the national rate.
- New South Wales consistently performs better than the national rate for the successful completion of community correction orders, 80.6 per cent compared to 70.2 per cent.
- The State's rate of an individual's return to prison, 43 per cent, continues to be significantly higher than the national average of 38.2 per cent.

Further comment on each agency's activities and performance is included elsewhere in this Report.

State Plan

On 14 November 2006, the New South Wales Government released the 'State Plan: A New Direction for New South Wales'. Among other things, it defined future strategies and priorities that Law and Order organisations will need to address. These include:

- reducing rates of crime, particularly violent crime:
  - reduce the incidence of property crimes against households by 15 per cent by 2016
  - reduce the incidence of violent crimes against individuals by ten per cent by 2016.
- reducing re-offending:
  - reduce the proportion of all offenders who re-offend within 24 months of being convicted by a court or having been dealt with at a conference by ten per cent by 2016.
- reducing the level of antisocial behaviour:
  - reduce the proportion of people who perceive problems in their local area with:
    - louts
    - noisy neighbours
    - public drunkenness
    - hoon drivers.

The NSW Police Force (the Force) is the lead agency responsible for co-ordinating responses to the first and third priority listed above. In respect of the first priority the Force has advised that New South Wales is ahead of the planned progress as at 30 June 2009 for the first target and on track to achieve the second target.

In respect of the third priority the Force has advised that results at 30 June 2009 were at the high end of the expected range. However there was significant improvement in a number of indicators from 2007-08.

Strategies and initiatives in place to address these two priorities include:

- high visibility policing
- targeting specific locations, crime types and traffic enforcement
- licensing enforcement
- crime prevention and early intervention projects.

The Department of Corrective Services is the lead agency responsible for the second priority listed above. The Department advised that while the rate of re-offending among adult offenders fell slightly, this was offset by a rise in the rate among juvenile offenders. For all offenders, there was a slight rise in the rate of re-offending from 31.1 per cent to 31.2 per cent. The State Plan notes that the rate in 2003 was 29.2 per cent.

The Department has advised that a number of initiatives have been put in place and future actions planned to achieve the target. These include:

- establishment of an Intensive Supervision Program in Newcastle and Western Metropolitan Sydney, targeting serious and/or repeat juvenile offenders aged between 10 and 16 years who are assessed as being at high risk of re-offending or incarceration
- introduction of Community Compliance Groups, which operate around the clock, making unannounced home visits and testing for drug and alcohol use to monitor high-risk offenders and enforce compliance with their legal orders
- establishment of Community Offender Support Program centres for people exiting gaol on parole, or serving a community-based sentence, who would otherwise be without suitable accommodation
- approval to commence a Court Referral of Eligible Defendants into Treatment scheme in Burwood and Tamworth. This is a pre-plea scheme attached to the court which will refer eligible defendants to an intervention that addresses their offending behaviour
- development of alcohol and other drug (AOD) programs for juvenile offenders in custody and the community, including an AOD program developed specifically for young Aboriginal people
- the Forum Sentencing program, which allows victims to confront offenders and have a say in the sentencing process, will be progressively rolled out across the State
- expansion of the Domestic Abuse Program as a component of the Domestic Violence Intervention Court Model to eligible offenders in many locations.

As at 30 June 2009 these strategies and initiatives had been developed and are in various stages of implementation and delivery.

OTHER INFORMATION

Creation of New Departments

On 27 July 2009, the Public Sector Employment and Management (Departmental Amalgamations) Order 2009 abolished the Attorney General's Department and the Department of Corrective Services and created the Department of Justice and Attorney General. Other bodies associated with the new department include:

- Legal Aid Commission
- Judicial Commission
- Industrial Relations Commission
- Director of Public Prosecutions
- Information Commissioner.

This order also created Police and Emergency Services NSW. Entities associated with this department include:

- NSW Police Force
- NSW Fire Brigades
- Rural Fire Service
- State Emergency Service
- NSW Crime Commission.

Section Two

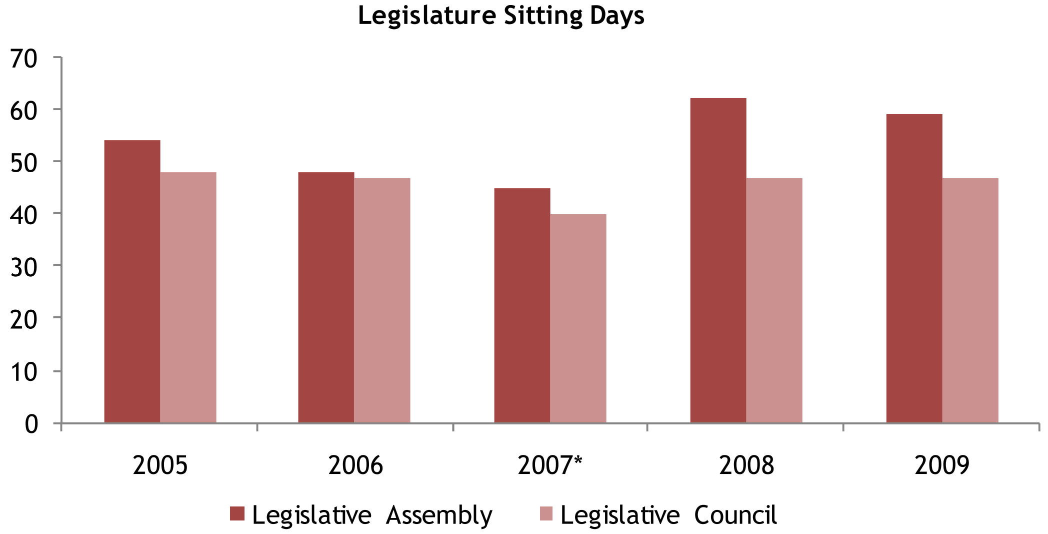
The Legislature

The Legislature

AUDIT OPINION

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

PERFORMANCE INFORMATION



* an election was held in this year.

Year ended 30 June	Legislative Assembly			Legislative Council		
	2009	2008	2007	2009	2008	2007
Sitting days held	***59***	62	45	***47***	47	40
Sitting hours	***430***	469	388	***361***	343	324
Bills						
Introduced	***103***	118	119	***na***	na	na
Initiated in Council	***na***	na	na	***24***	38	11
Received from Assembly	***na***	na	na	***92***	106	103
Passed	***96***	118	105	***108***	128	107
Disposed of/lapsed	***10***	--*	32	***11***	11	1
Questions asked						
On notice (written)	***3,518***	3,005	1,545	***1,333***	1,849	585
Without notice	***480***	482	384	***825***	908	718

Source: The Legislature (unaudited).
na: not applicable.
* Note: nine bills were rejected at the Agreement in Principle Stage.

Parliamentary sitting days are determined by the Government, with the number of sitting days reflecting the legislative and policy programs of the Government. The Legislative Assembly's sitting days decreased by 4.8 per cent from the previous year, but exceeded the five year average of 54 days, while the Legislative Council was slightly above the average of 46 days for the same period.

The Legislature's activities and costs are linked to the activities of the Parliament. The Legislature views comparisons with other jurisdictions as not meaningful due to structural differences in the method of operations.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	2009 $'000	2008 $'000
Employee related	***53,582***	49,766
Other expenses	***70,306***	67,521
OPERATING EXPENSES	***123,888***	117,287
OPERATING REVENUE	***6,504***	7,014
Loss on disposal of non-current assets	***30***	51
NET COST OF SERVICES	***117,414***	110,324
Government contributions	***117,687***	112,793
SURPLUS	***273***	2,469

Employee related expenses included salaries and wages of $41.6 million ($40.0 million in 2008) and $3.1 million paid to contract staff ($1.7 million). Employee related expenses increased due to a rise of four per cent in salaries and wages and unbudgeted costs associated with training new contract security staff (special constables).

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***5,155***	5,857
Non-current assets	***178,932***	191,697
TOTAL ASSETS	***184,087***	197,554
Current liabilities	***10,444***	9,566
Non-current liabilities	***44***	35
TOTAL LIABILITIES	***10,488***	9,601
NET ASSETS	***173,599***	187,953

Non-current assets decreased primarily from a $14.1 million devaluation of property, plant and equipment.

Abridged Service Group Information

The Legislature's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget $'000	2009 Actual $'000	2008 Actual $'000	2009 Actual $'000	2008 Actual $'000
Chamber and Committee Support	***15,530***	***15,498***	14,564	--	--
Members' Support	***94,473***	***95,575***	89,805	--	--
Community Access	***6,090***	***6,341***	5,955	--	--
Non-attributable	--	--	--	***173,599***	187,953
Total all service groups	***116,093***	***117,414***	110,324	***173,599***	187,953

Note: The assets and liabilities of the Legislature are such that they cannot be attributed to specific groups.

LEGISLATURE ACTIVITIES

The Legislature provides the Parliamentary Government for New South Wales. Its main function is to make laws or amend existing laws for the peace, welfare and good government of the State in all matters not specifically reserved for the Commonwealth Parliament. It also has a role in holding Executive Government accountable for its use of taxpayers' moneys, powers and resources.

Under the doctrine of the separation of powers, the Parliament of New South Wales, as the Legislature, is a sovereign body that is distinct from the Executive Government.

The Parliament fulfils its role as a representative and legislative body by ensuring that:

- the two Houses and their committee systems operate effectively to debate and pass legislation and complete inquiries with recommendations to Government.
- there is increased awareness of the role and functions of the Parliament including community access to Members and Parliament House.

The Legislature is responsible for providing administrative and support services for parliamentary representation comprising the Members of the Legislative Assembly and the Legislative Council. Support services comprise House Departments and the Department of Parliamentary Services. The Department of Parliamentary Services provides support and ancillary services to members in the use of their entitlements and for the operations of the two Houses and the Parliamentary House building.

For further information on the Legislature, refer to www.parliament.nsw.gov.au.

Section Three

Commentary on Government Agencies

Attorney General

Attorney General's Department

Legal Aid Commission of New South Wales

Office of Director of Public Prosecutions

Office of the Protective Commissioner and Public Guardian

***Office of the Protective Commissioner-Common Fund**

Public Trustee NSW

Public Trustee NSW - Common Fund

Refer to Appendix 1 for:

Judicial Commission of New South Wales

Legal Profession Admission Board

* The audit was incomplete at the time of compiling this Volume.
The comment will be included in a later 2009 Volume.

Attorney General's Department

AUDIT OPINION

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

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

KEY ISSUES

Victims Compensation

Victims of violent crime are entitled to receive compensation for injuries, even if the offender is unknown or not convicted. Where offenders are convicted, restitution orders can be raised to recover the compensation paid from the offender. Levies are also collected from people convicted of a crime to assist in funding the compensation.

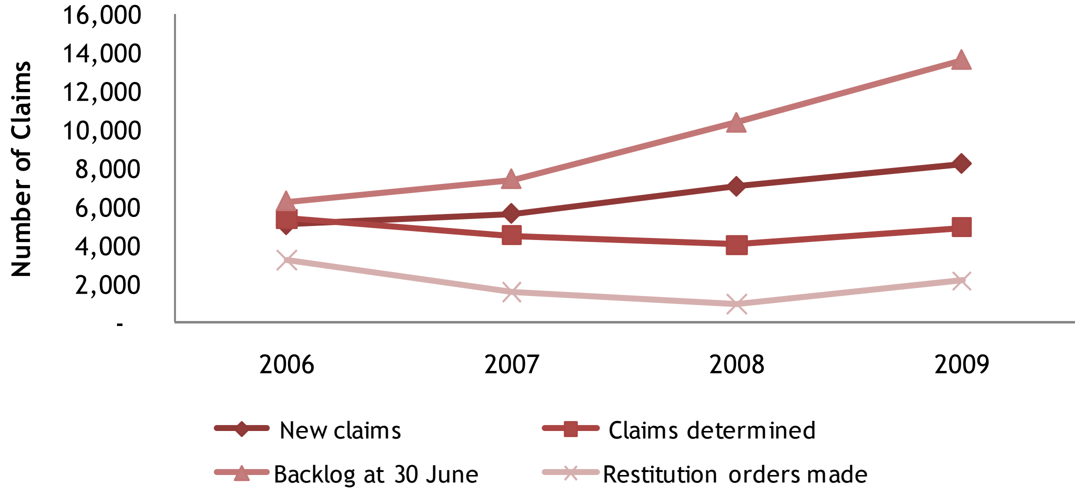
At 30 June 2009, $290 million was recorded as restitution debt, but only $18.4 million was considered likely to be received. During the year the Department awarded $63.5 million in compensation to victims. It recognised only $4.2 million in restitution from offenders.

Backlog of Claims

> I recommend the Department should seek additional funding from the Consolidated Fund to ensure the backlog of claims is processed in a reasonable timeframe.

The Department has 13,384 pending claims for victims compensation at 30 June 2009, which it estimates will result in payments of $155 million. Based on the number of claims determined during 2008-09, this backlog represents more than 2.5 years of claims. The backlog has been growing over the last four years as the following graph shows.

Victims compensation claims



Source: Attorney General's Department (unaudited).

The number of new claims made each year is increasing and the number determined and paid has remained at similar levels over the last four years.

Claims are determined each year to the extent of the budget allocation, and claims in excess of the allocation add to the projected future liability. The budget for 2009-10 is $68.0 million, which is unlikely to meet the liability for new claims lodged much less reduce the backlog.

Section 42(3) of the *Victims Support and Rehabilitation Act 1996* requires money for compensation to be paid out of the compensation fund that the Department manages and if it is insufficient, it is paid from the Consolidated Fund. The intention of the legislation appears to be for the victims to be paid, rather than the claim being delayed due to insufficient funding.

The Department has advised that the number of claims is likely to increase in the future as the scheme becomes more widely known. The Department has also advised that not all claims can be processed until outstanding information is received from other parties or before other matters (such as workers compensation proceedings or clients seeking adjournment) have been resolved. The Department has advised that the average length of time to process a claim with all relevant evidence provided is 18 months.

Restitution

Restitution orders occur in about half the cases where compensation has been awarded, as shown in the graph above. Where offenders are convicted, a debt is raised for the amount of the compensation paid to the victim.

It is difficult to recover restitution from convicted offenders because they are frequently:

- hard to find once released from prison
- from low socio-economic backgrounds with few assets
- serving prison sentences and do not earn much money
- former prisoners, which lowers their employment capacity and income
- unemployed and on social security payments
- living in State housing with dependants that would be affected.

The restitution an offender must pay can be reduced, normally where this will encourage payment of the debt. This has reduced the amounts provisionally ordered by 30 per cent on average.

If an offender defaults, their restitution payment can be enforced under the *Civil Procedure Act 2005*. But this is not always cost effective, except where the Department can register restitution orders against an offender's property.

PERFORMANCE INFORMATION

Clearance Rates

Clearance rates indicate how efficiently and effectively courts are clearing workloads and measures the number of cases finalised as a percentage of the cases registered in the same period. A clearance rate above 100 per cent indicates a court is clearing its backlog of cases, whereas a percentage below 100 per cent indicates that the backlog is increasing.

Supreme Courts have reduced their backlog of civil cases by 3.8 per cent during 2008. The Department has advised that deficiencies in the existing case management database result in the caseload and finalisation rate for Local Courts civil matters being under reported. It anticipates that the implementation of the JusticeLink system in the new year will address these issues.

Year ended 30 June	2008 Clearance Rate							
	NSW %	Vic %	Qld %	WA %	SA %	Tas %	ACT %	NT %
Criminal								
Local/Magistrates courts	***97.3***	101.0	98.2	109.8	110.0	103.1	95.6	97.6
District/County courts	***100.8***	95.7	103.0	111.6	101.1	na	na	na
Supreme/Federal courts	***101.3***	93.9	100.2	104.2	97.7	79.5	70.7	87.3
Civil								
Local/Magistrates courts	***93.5***	97.6	102.7	98.0	109.1	105.9	92.3	93.4
District/County courts	***99.1***	99.0	96.9	97.1	111.1	na	na	na
Supreme/Federal courts	***105.4***	119.9	100.3	107.3	102.1	102.4	86.1	112.5

Source: Productivity Commission's Report on Government Services 2009 (unaudited).
na: not applicable.

Case Completion Times

The backlog measures a court's pending case load against agreed time standards. An indicator of this is the percentage of cases pending for more than twelve months. Civil non-appeal matter backlogs in the Supreme Court of New South Wales were equal second lowest when compared with other states and territories. However, criminal non-appeal matters for the Supreme Court in New South Wales were the second highest and have more than doubled since 2007. The Department has advised there was a significant increase in the number of cases, and the case-mix in New South Wales includes a greater proportion of complex and time consuming murder and manslaughter cases than other states. The backlogs of criminal matters for Local and District Courts have been significantly lower than other states and territories for the past few years.

The table below shows the percentage of non-appeal pending cases older than 12 months.

Year ended 30 June	2008 Backlog							
	NSW %	Vic %	Qld %	WA %	SA %	Tas %	ACT %	NT %
Criminal								
Local/Magistrates courts	***2.1***	7.2	16.1	8.6	12.4	12.0	6.3	33.7
District/County courts	***8.3***	27.4	19.6	20.4	25.9	na	na	na
Supreme/Federal courts	***29.5***	33.7	14.4	8.8	26.5	7.8	24.0	4.6
Civil								
Local/Magistrates courts	***nav***	11.1	6.6	5.3	10.1	3.7	7.5	40.1
District/County courts	***29.0***	28.2	22.4	24.5	43.1	na	na	na
Supreme/Federal courts	***26.0***	9.1	26.0	36.3	30.2	33.3	46.1	49.5

Source: Productivity Commission's Report on Government Services 2009 (unaudited).
nav: not available.
na: not applicable.

Average Cost per Case Finalised

The net administration costs per matter in New South Wales Supreme and District Courts were below national average. The Local Courts' net costs were higher than the national average.

The table below shows the average net cost per finalisation (civil and criminal) in 2007-08 (latest available data).

Court Costs per Finalisation (Average Net Cost per Case Finalised)	2008	
	NSW ($)	National Average ($)
Local	***338***	***302***
District	***4,053***	***4,699***
Supreme	***3,316***	***5,779***
All courts	***676***	***663***

Source: Productivity Commission's Report on Government Services 2009 (unaudited).
Excludes payroll tax.

Cost Recovery from Court Fees Collected (Civil Courts)

Court fees are not determined on a cost recovery or user pays basis. New South Wales passes on more costs to the users of the Courts than other states and territories.

Year ended 30 June	2008 Civil court fees collected as a proportion of civil recurrent expenditure							
	NSW %	Vic %	Qld %	WA %	SA %	Tas %	ACT %	NT %
Supreme (excludes probate)/Federal court	***38.6***	28.0	18.9	13.1	21.4	15.2	26.6	3.5
District/County courts	***33.6***	24.0	28.6	16.6	20.0	na	na	na
Local/Magistrates courts	***41.2***	33.9	27.9	26.5	28.1	38.0	5.1	7.0

Source: Productivity Commission's Report on Government Services 2009 (unaudited).
na: not applicable.

OTHER INFORMATION

Major Projects

JusticeLink has been a long term information technology project that has suffered delays and required increases in its budget. Components of the project have been delivered and are operational within the Department. The Assistant Director General of Courts and Tribunal Services provides regular updates on JusticeLink at Audit Committee and Executive Committee meetings.

The project is still ongoing, despite it having passed a number of estimated completion dates. These delays have increased the cost of the project from the initial budget. The Department initially commenced work on a new case management system in 2001, with full implementation planned for 2006 at an estimated cost of $30.3 million. The capital cost of the project to 30 June 2009 is $45.6 million.

The Department advised that the main reasons for the delays, revisions and budget increases were due to:

- the original package, as tendered by the supplier, not being able to satisfy the Department's requirements
- the complexity and design requirements of the New South Wales Court system
- the design specifications not being sufficiently clear and well defined
- the Department's needs changing in response to new legislation, re-engineering of processes, and the emerging needs of other agencies to link with JusticeLink.

The estimated total capital cost of JusticeLink is $48.2 million. During 2009, the Department:

- incurred capital costs of $2.1 million
- incurred costs of $5.4 million for maintenance of implemented components
- held a bank guarantee from the supplier KAZ Group Pty Ltd for $25.0 million, which expires on 16 October 2010, but will help to protect the Department's interests if the contract requirements are not met.

The components of JusticeLink already in operation include:

- eFiling – an online document filing facility
- onLine Courts – which allows some straightforward case management hearings to be conducted over the internet without the need for parties to attend court
- cost assessments
- Supreme and District Crime Courts criminal matters
- criminal matters in the larger Local Courts.

The following components of JusticeLink will be implemented during the coming year:

- criminal matters in smaller Local Courts on 30 Nov 2009
- progressive roll out of civil matters commences during December 2009 with Supreme Court to be followed early in 2010 with District and Local Courts
- eServices to be implemented April 2010.

Total planned capital expenditure for 2009-10 is $2.6 million. The Department advised that JusticeLink provides building blocks for other projects like 'Joined Up Justice' and 'Legal eServices' The real benefits of JusticeLink will be realised on full implementation.

New IT Projects

Joined Up Justice

- This is a project that will enable New South Wales courts to expand and improve the electronic exchange of information with other organisations.
- Total budgeted capital expenditure is $9.9 million.

Legal eServices

- This is a two year project that will reduce waiting times in courts and provide secure internet access to information only available in courts.
- Total budgeted capital expenditure is $10.0 million.

Initial implementation for both projects is planned to commence in the 2010-11 financial year.

New South Wales State Plan

The Department monitors its achievements against the New South Wales State Plan through its Priority Delivery Plan. At October 2009, the Department has:

- opened a centre at the University of Technology, Sydney to develop and test ongoing technological changes such GPS systems to reduce crime rates
- evaluated late night transport strategies to reduce alcohol related crimes
- upgraded or installed facilities in high priority courts to allow traumatised and distressed victims to give evidence via video link or whilst protected by a screen
- developed strategies to reduce re-offence through education at Young Adult Forums
- implemented a new structured program to reducing illegal use of drugs.

The Department advised that it has either completed or is on track with these strategies as at October 2009.

FINANCIAL INFORMATION

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

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Employee related	***466,710***	440,480	***466,710***	440,480
Compensation to victims of crime	***63,534***	59,571	***63,534***	59,570
Other expenses	***234,404***	216,059	***230,179***	208,072
OPERATING EXPENSES	***764,648***	716,110	***760,423***	708,122
OPERATING REVENUE	***282,212***	249,648	***292,257***	249,643
Other losses	***(1,064)***	(1,517)	***(1,051)***	(1,517)
NET COST OF SERVICES	***483,500***	467,980	***469,217***	459,995
Government contributions	***508,656***	543,294	***501,463***	536,040
SURPLUS	***25,156***	75,315	***32,246***	76,045
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Increase in revaluation reserve	***165,256***	396	***165,256***	396
Superannuation actuarial loss	***(49,022)***	(11,119)	***(49,022)***	(11,119)
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***141,390***	64,592	***148,480***	65,322

Government capital contributions decreased by $49.5 million as several major projects, including the Parramatta Justice Precinct were completed. Land and buildings held by the Department were revalued resulting in a $165 million increase in the asset revaluation reserve. Superannuation actuarial losses significantly increased due to changes in actuarial assumptions arising from the global financial crisis.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
Current assets	***125,844***	109,649	***106,766***	89,254
Non-current assets	***1,306,692***	1,137,452	***1,307,053***	1,130,704
TOTAL ASSETS	***1,432,536***	1,247,102	***1,413,820***	1,219,958
Current liabilities	***117,781***	104,515	***116,521***	101,919
Non-current liabilities	***81,707***	50,929	***81,707***	50,929
TOTAL LIABILITIES	***199,488***	155,444	***198,228***	152,848
NET ASSETS	***1,233,048***	1,091,657	***1,215,592***	1,067,110

Net assets increased due to the revaluation of land and buildings, increasing non-current assets by $165 million. Liabilities increased due to the superannuation actuarial losses referred to earlier.

Abridged Service Group Information

Attorney General's Department net cost of services on a service group basis is detailed below:

Year end 30 June	Net Cost of Services			Net Assets	
	2009 Budget $'000	**2009 Actual $'000**	**2008 Actual $'000**	**2009 Actual $'000**	**2008 Actual $'000**
Legal, Policy & Regulatory Services	***39,116***	***34,792***	34,862	***6,638***	10,138
Court Services	***268,856***	***261,271***	239,883	***1,122,932***	956,737
Court Support Services	***83,509***	***85,631***	80,099	***11,980***	10,938
Crime Prevention & Community Services	***100,537***	***88,835***	83,368	***18,364***	24,544
Registry of Births, Deaths and Marriages (BDM)	***(8,248)***	***(6,556)***	(5,661)	***10,939***	14,840
Crown Solicitors Office (CSO)	***20,963***	***32,646***	25,707	***14,829***	25,460
Business and Personnel Services	***(6,475)***	***(13,117)***	9,720	***(3,172)***	6,964
Non Attributable	--	--	--	***50,537***	42,036
Total	***498,258***	***483,500***	467,980	***1,233,048***	1,091,657

Note: The Budget figures above exclude transfer payments of $7.2 million

CSO net cost of services exceeded budget by $11.7 million due to an increase in core legal work. The Department advised that the budget has remained fixed for a number of years despite increases in the amount of work.

Business and Personnel Services revenue for 2008-09 is higher than the prior year because superannuation charges were higher as a result of the global financial crisis.

DEPARTMENT ACTIVITIES

The Department has a critical role in efficient delivery of justice services, protection of rights and public safety. It assists the Attorney General as the first Law Officer of the State in developing legislation and providing information to Parliament. The Department aims to resolve civil disputes and criminal matters by providing Court and Tribunal services in New South Wales.

The main jurisdictions are the Local, District and Supreme Courts which deal with criminal matters and civil disputes. There are also specialist jurisdictions that deal with industrial relations, claims for dust diseases, land and environment, counselling for the victims of violent crime and the review of administrative decisions.

The Department administers the legal profession through the admission of legal professionals, promotion of professional and ethical standards and management of complaints.

Victims services operates under the *Victims Support and Rehabilitation Act 1996* it compensates and supports victims of crime and seeks to obtain restitution from offenders.

On 27 July 2009, the 'Public Sector Employment and Management (Departmental Amalgamations) Order 2009' abolished the Attorney General's Department and the Department of Corrective Services and created the Department of Justice and Attorney General. Further detail of the merger is covered as part of the Law and Order overview in this report.

The New South Wales State Government announced the merger of the Department's controlled entity, the Office of the Protective Commissioner, with Public Trustee NSW, as part of the New South Wales Mini Budget on 11 November 2008. The new entity, NSW Trustee and Guardian, commenced operations on 1 July 2009.

For further information on the Department of Justice and Attorney General, refer to www.lawlink.nsw.gov.au.

CONTROLLED ENTITY

Comment on the Department's controlled entity, the Office of the Protective Commissioner and Public Guardian, is included elsewhere in this volume.

Legal Aid Commission of New South Wales

AUDIT OPINION

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

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

PERFORMANCE INFORMATION

The Commission provided the following unaudited information regarding its performance.

The table below shows the applications that were refused legal aid as a percentage of the total decisions made on applications.

Year ended 30 June	Percentage of Applications Refused				
	2009	**2008**	**2007**	**2006**	**2005**
Criminal law program	***8.5***	6.2	6.6	7.2	7.3
Family law program	***27.3***	22.7	21.5	24.0	27.2
Civil law program	***41.6***	35.1	36.4	37.5	42.1

The introduction of new grant and case management systems during 2008-09 has improved the Commission's recording and reporting capabilities. Consequently, comparisons between the 2008-09 results and those for previous years may not be valid.

The Commission provides services such as case grants, duty appearances, legal advice, information services and community legal education. It works in partnership with private practitioners who receive funding from the Commission to represent legally aided clients. In 2008-09, private practitioners represented 43.8 per cent of all Commission clients (47.2 per cent in 2007-08). The table below shows total client services by law type over the past five years.

Year ended 30 June	Client Services*				
	2009	**2008**	**2007**	**2006**	**2005**
Criminal law program	***375,399***	296,217	265,660	227,698	190,706
Family law program	***185,858***	160,865	163,329	131,727	100,895
Civil law program	***216,571***	184,802	162,736	142,483	112,767
Total	***777,828***	641,884	591,725	501,908	404,368

* Excludes community legal education.

The rise in client services is attributed to an increased volume of low cost information activities and improved recording of these services.

OTHER INFORMATION

We identified opportunities for the Commission to improve its practices and procedures. We will discuss these further with Commission staff and, where appropriate, report them to management.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Commission	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
Employee related	***74,784***	65,979	**--**	--
Personnel services	**--**	--	***95,043***	73,147
Grants and subsidies	***21,902***	16,406	***21,902***	16,406
Other expenses	***119,242***	115,526	***119,242***	115,526
OPERATING EXPENSES	***215,928***	197,911	***236,187***	205,079
Sale of goods and services				
- Commonwealth Government funding	***36,505***	53,683	***36,505***	53,683
- Other	***4,097***	3,741	***4,097***	3,741
Grants and contributions:				
- Law Society of New South Wales	***43,431***	37,692	***43,431***	37,692
- Commonwealth Government	***9,733***	20,595	***9,733***	20,595
- Other	***890***	1,258	***890***	1,258
Other revenue	***5,719***	7,345	***5,719***	7,345
OPERATING REVENUE	***100,375***	124,314	***100,375***	124,314
Loss on disposal of non-current assets	***6***	32	***6***	32
NET COST OF SERVICES	***115,559***	73,629	***135,818***	80,797
State Government contributions	***108,979***	90,699	***108,979***	90,699
(DEFICIT)/SURPLUS	***(6,580)***	17,070	***(26,839)***	9,902
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY				
Superannuation actuarial losses	***(20,259)***	(8,437)	**--**	--
Other	**--**	1,269	**--**	--
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***(26,839)***	9,902	***(26,839)***	9,902

The increase in employee related expenses is primarily due to award salary rate growth and additional employments in permanent and temporary staff positions.

Commonwealth Government funding decreased due to a change in the funding arrangements during April 2009, which saw Commonwealth funds being paid via State Government contributions. The decrease in contributions from the Commonwealth is due to reduced discretionary funding for expensive criminal cases.

Superannuation actuarial losses significantly increased due to changes in actuarial assumptions arising from the global financial crisis.

Abridged Balance Sheets

At 30 June	Consolidated		Commission	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***88,268***	100,262	***88,268***	100,262
Non-current assets	***17,391***	16,609	***17,391***	16,609
TOTAL ASSETS	***105,659***	116,871	***105,659***	116,871
Current liabilities	***58,117***	43,243	***58,117***	43,243
Non-current liabilities	***4,042***	3,289	***4,042***	3,289
TOTAL LIABILITIES	***62,159***	46,532	***62,159***	46,532
NET ASSETS	***43,500***	70,339	***43,500***	70,339

The decrease in current assets reflects a lower level of cash held at year end, mainly due to higher than budgeted expenses, which required cash to be withdrawn to meet expenditure commitments.

The increase in current liabilities is due to the actuarial loss incurred on the Commission's share of the defined superannuation benefit fund's assets during the year.

Abridged Service Group Information

The Commission's net cost of services and net assets on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget $'000	2009 Actual $'000	2008 Actual $'000	2009 Actual $'000	2008 Actual $'000
Family law	***10,871***	***29,871***	14,973	***13,913***	15,972
Criminal law	***56,333***	***64,739***	45,992	***26,482***	46,746
Civil law	***12,099***	***9,849***	5,825	***1,935***	5,510
Community legal services	***10,564***	***11,100***	6,839	***1,170***	2,111
Total all service groups	***89,867***	***115,559***	73,629	***43,500***	70,339

The primary reason for the actual net cost of services exceeding the budget amount relates to the change in funding arrangements during April 2009, which saw Commonwealth funds being paid via State Government contributions. Commonwealth contributions are included in the determination of net cost of services whereas State Government contributions are excluded.

COMMISSION ACTIVITIES

The Commission is primarily responsible for providing legal aid and other legal services in accordance with the *Legal Aid Commission Act 1979*. Legal aid services are provided by the Commission's officers or by private legal practitioners. A means test applies to most applications for assistance while some are also subject to a legal merit test. A legally assisted person may be required to make an initial contribution towards the Commission's costs and, if successful in a civil action, to meet the balance of any costs from moneys recovered.

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

CONTROLLED ENTITIES

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

Entity Name
Legal Aid Commission Temporary Staff Division
Office of the Legal Aid Commission

Office of the Director of Public Prosecutions

AUDIT OPINION

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

PERFORMANCE INFORMATION

The Office conducts all indictable and some summary prosecutions referred to it by the NSW Police Force. It provided the following information regarding its performance.

Number of trials registered and completed at 30 June	**2009**	**2008**	**2007**	**2006**	**2005**
Supreme Court					
Matters registered	***86***	89	93	79	75
Matters completed	***82***	88	78	65	103
District Court					
Trials registered	***1,798***	1,744	1,755	1,820	2,060
Trials completed	***1,699***	1,692	1,637	1,815	1,973
Local Court					
Committals registered	***6,147***	6,066	5,541	5,473	5,721
Committals completed	***6,375***	5,899	5,758	5,798	6,036

Number of matters not finalised at 30 June	**2009**	**2008**	**2007**	**2006**	**2005**
Supreme Court					
Trials	***96***	94	112	102	96
Sentences	***5***	3	8	2	2
Court of Criminal Appeal (CCA) appeals	***129***	164	152	161	172
District Court					
Trials	***1,672***	1,645	1,741	1,801	2,015
Sentences	***999***	860	798	766	798
All grounds appeals	***506***	475	513	548	574
Severity appeals	***954***	881	980	861	930
Leniency appeals	***9***	14	11	15	27
Local Court					
Committals	***3,043***	2,971	2,707	2,721	2,587
Advising	***101***	90	67	76	87

Source: Office of the Director of Public Prosecutions (unaudited).

OTHER INFORMATION

We identified some relatively minor opportunities for improvement to accounting and internal control procedures. We will discuss these further with the Office's staff and, where appropriate, report them to management.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	2009 $'000	2008 $'000
Employee related	***78,880***	76,391
Other expenses	***23,143***	20,318
OPERATING EXPENSES	***102,023***	96,709
OPERATING REVENUE	***2,155***	3,482
Gain on disposal of non-current assets	***15***	19
NET COST OF SERVICES	***99,853***	93,208
Government contributions	***98,591***	90,421
DEFICIT	***1,262***	2,787

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***5,539***	6,023
Non-current assets	***11,691***	10,762
TOTAL ASSETS	***17,230***	16,785
Current liabilities	***11,889***	10,145
Non-current liabilities	***481***	518
TOTAL LIABILITIES	***12,370***	10,663
NET ASSETS	***4,860***	6,122

Abridged Service Group Information

The Office's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget $'000	2009 Actual $'000	2008 Actual $'000	2009 Actual $'000	2008 Actual $'000
Prosecutions	***88,580***	***94,349***	87,121	***4,409***	5,957
Victim and Witness Assessment	***6,387***	***5,504***	6,087	***451***	165
Total all service groups	***94,967***	***99,853***	93,208	***4,860***	6,122

The overall net cost of services increased primarily due to the affect of the accelerated depreciation and write-off of leasehold improvements associated with the head office relocation expected during 2009-10. A reduced number of witness claims resulted in an under expenditure in Victim and Witness Assessments.

OFFICE ACTIVITIES

The Office was constituted under the *Director of Public Prosecutions Act 1986*. The principal functions and responsibilities of the Director of Public Prosecutions are to institute and conduct, on behalf of the State, prosecutions for indictable offences in the District and Supreme Courts and to appear as appellant or respondent in criminal appeals.

For further information on the Office, refer to www.odpp.nsw.gov.au.

Office of the Protective Commissioner and Public Guardian

AUDIT OPINION

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

PERFORMANCE INFORMATION

Funds Managed

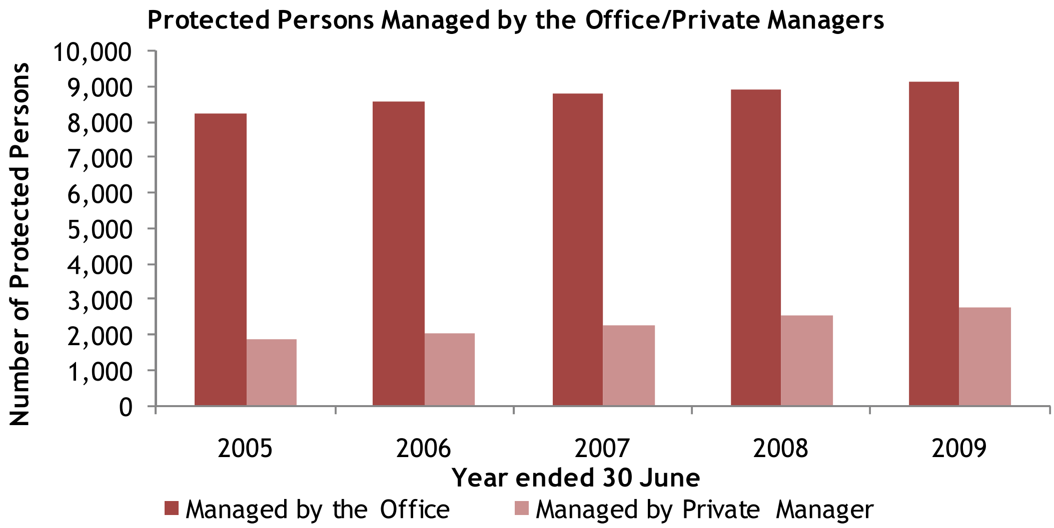
The *Protected Estates Act 1983* outlines how the Protective Commissioner should manage the estates of protected persons. All moneys in the trust fund (Common Fund) are invested in accordance with the *Trustee Act 1925*. A separate financial report is prepared for the Common Fund. The Protective Commissioner also manages other property (client assets external to the Common Fund) such as real estate, shares, terms deposits, etc.

Year ended 30 June	2009 $'000	2008 $'000
Common Fund investments	***1,161,498***	1,204,974
Real property	***685,511***	634,113
Other assets	***257,530***	163,173
TOTAL FUNDS MANAGED	***2,104,539***	2,002,260

Source: Office of the Protective Commissioner and Public Guardian (unaudited).

Number of Clients

The Office manages the affairs of protected persons or authorises and directs the activities of Private Managers.



Source: Office of the Protective Commissioner and Public Guardian (unaudited).

The number of protected persons managed by the Office has steadily increased over the last five years. This is mainly due to an ageing population.

OTHER INFORMATION

Independent Pricing and Regulatory Tribunal (IPART) Review of Fees of the Office of the Protective Commissioner

On 28 February 2009, IPART's report into the Office's fee structure was released. The report made a number of recommendations in relation to both directly managed and privately managed client fees. The Government has accepted IPART's recommendations. Some fee changes, including an income fee cap, occurred in April 2009 with further fee changes becoming effective on 1 July 2009.

Merger with the Public Trustee NSW

Under the July 2009 *NSW Trustee and Guardian Act 2009*, the Office of the Protective Commissioner was merged with the Public Trustee NSW and became known as the NSW Trustee and Guardian. The legislation abolished the Office of the Protective Commissioner and office of Public Trustee and their assets and liabilities at 30 June 2009 form the assets and liabilities of the new entity.

Common Fund Report

The Common Fund consists of funds managed by the Protective Commissioner from the estates of protected persons. The audit of the Office of the Protective Commissioner – Common Fund's financial report for the year ended 30 June 2008 has not been finalised.

In last year's report, we noted that a number of internal control deficiencies had been identified in the payment of client expenses. As a result, we undertook extensive detailed testing of client payments in 2006-07 and 2007-08. Due to the nature of the testing the audit for 2007-08 is not yet complete. We anticipate reporting on the outcome of this audit early in 2010.

The Office has advised that it has addressed all the control deficiencies that were identified. We will review the controls during our next audit visit.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2009 $'000	2008 $'000
Fees	***22,970***	24,771
State Government contributions	***10,018***	9,833
Other revenues	***1,104***	1,554
TOTAL REVENUE	***34,092***	36,158
Personnel services	***32,842***	25,233
Other expenses	***8,361***	11,679
TOTAL EXPENSES	***41,203***	36,912
DEFICIT	***7,111***	754

Personnel services expenses increased mainly due to movements in personnel services liabilities owing to the Attorney General's Department. The Department passed on all the costs resulting from the unfavourable valuation of superannuation schemes relating to officers working at the Office of the Protective Commissioner.

Other expenses decreased in 2008-09 and the majority of the fall was due to a decrease in rental expenses at the new premises in Parramatta.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***22,526***	23,798
Non-current assets	***2,598***	6,774
TOTAL ASSETS	***25,124***	30,572
Current liabilities	***4,725***	5,995
Non-current liabilities	***2,960***	27
TOTAL LIABILITIES	***7,685***	6,022
NET ASSETS	***17,439***	24,550

The decrease in net assets is mainly from the unfavourable valuation of the superannuation schemes, as mentioned above.

OFFICE ACTIVITIES

The Protective Commissioner is a statutory officer under the *Protected Estates Act 1983* who for the period to 30 June 2009:

- manages the affairs of those persons who are not able to manage their own affairs and whose affairs have been formally committed to management by order under the Act, and
- authorises and directs the performance and duties of private managers appointed by the Supreme Court or the Guardianship Tribunal.

The Protective Commissioner is also the Public Guardian under the *Guardianship Act 1987*. The Office of the Public Guardian makes personal lifestyle decisions on behalf of adults who have a decision-making disability. Decisions are made in such areas as accommodation, services and consenting to medical and dental treatment. The Public Guardian also provides support to private guardians.

The Office is controlled by the Attorney General's Department. The Protective Commissioner reports administratively to the Attorney General via the Director-General of the Department.

For further information on the Office, refer to www.lawlink.nsw.gov.au/opc and www.lawlink.nsw.gov.au/opg.

Public Trustee NSW

AUDIT OPINION

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

KEY ISSUES

Interest Suspense Account

Last year I recommended the Public Trustee, in conjunction with The Treasury, amend the legislation governing the Interest Suspense Account to clarify the Public Trustee's rights and obligations relating to these funds.

In July 2009, the *NSW Trustee and Guardian Act 2009* (the Act) was enacted and this clarifies how the Interest Suspense Account can be used. Funds of $67.5 million ($68.4 million in 2007-08) have accumulated in the Interest Suspense Account of the Common Fund.

Section 109 of the Act allows the Trustee to use the funds on matters including loss on realisation of investments and costs incurred on the Common Fund, like advice and court hearings.

PERFORMANCE INFORMATION

The Public Trustee provided the following information about its performance with respect to the volume and value of the Public Trustee's operations:

Year ended 30 June	Volume (No.)		Value ($m)	
	2009	2008	2009	2008
Estates administration	***1,754***	1,829	***483.9***	532.4
Trusts duties	***789***	775	***48.2***	54.3
Powers of attorney services	***229***	106	***73.3***	31.3
Will making	***11,245***	11,474	***na***	na

Source: Public Trustee NSW (unaudited).
na: not applicable.

The volume of Powers of Attorney more than doubled from last year, while the volume for Estates, Trusts, and Wills only fluctuated marginally. Management advised the Power of Attorney product was reviewed and relaunched in April 2008 resulting in an increase in numbers.

Key Performance Indicators

> I recommend the Public Trustee publish Performance Indicator targets and outcomes in its annual report (repeat issue).

The Public Trustee uses a number of performance indicators to assess if it is meeting client needs, including:

Year ended 30 June	Actual			
	2009	2008	2007	2006
Customer satisfaction index (%)	***87***	80	73	77
Process improvement satisfaction index (%)	***84***	76	66	70
Complaints received	***134***	117	84	84
Complaints requiring corrective action	***37***	21	26	24

Source: Public Trustee NSW (unaudited).

The customer satisfaction index and process improvement satisfaction index have continued to improve after a decline in 2006-07. Even though there were increases in the number of complaints received and the number of complaints requiring corrective action, they only represent a very small number of the total population. To improve transparency and accountability of performance, these performance indicators and results could be reported in the Trustee's annual report.

OTHER INFORMATION

Merger with the Office of the Protective Commissioner

Under the July 2009 *NSW Trustee and Guardian Act 2009*, the Public Trustee NSW was merged with the Office of the Protective Commissioner and became known as the NSW Trustee and Guardian. The legislation abolished the office of Public Trustee and the Office of Protective Commissioner and their assets and liabilities at 30 June 2009 form the assets and liabilities of the new entity.

Common Fund Report

The Common Fund financial reports for 2007-08 and 2008-09 were received on 4 September 2009 and 29 September 2009, respectively. The audits for both reports are ongoing. The 2006-07 audit was completed in July 2009.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	2009 $'000	2008 $'000
Fees and commissions	***36,303***	33,094
Investment revenue	***1,617***	2,962
Other revenue	***498***	475
OPERATING REVENUES	***38,418***	36,531
Personnel services and employee related expenses	***48,704***	28,263
Unrealised loss on investment	***5,067***	6,850
Other expenses	***9,227***	8,847
OPERATING EXPENSES	***62,998***	43,960
LOSS BEFORE INCOME TAX	***24,580***	7,429
Income tax equivalent expense	***1,019***	2,163
LOSS	***25,599***	9,592
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY		
Superannuation actuarial losses	***579***	192
Asset revaluation increment	***(803)***	(521)
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***25,375***	9,263

Personnel services and employee related expenses increased by 72.3 per cent mainly due to movements in personnel services liabilities owing to the Attorney General's Department. The Department passed on all the costs resulting from the unfavourable valuation of superannuation schemes relating to officers working at the Public Trustee. Actuarial losses on superannuation schemes amounted to $22.9 million ($7.9 million).

The unfavourable movement in investment income and the unrealised investment losses were primarily due to market conditions that have continued from the previous year.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***20,186***	22,111
Non-current assets	***42,133***	46,669
TOTAL ASSETS	***62,319***	68,780
Current liabilities	***9,352***	11,252
Non-current liabilities	***28,948***	6,470
TOTAL LIABILITIES	***38,300***	17,722
NET ASSETS	***24,019***	51,058

Much of the decrease in current assets was due to a lower level of investments classified as current and improvements in the collection of outstanding receivables. Non-current assets decreased mainly due to unrealised losses on investments of $5.1 million.

Current liabilities decreased due to the fall in the dividend and tax equivalent provisions. The Public Trustee declared a dividend of $1.7 million ($3.5 million), which is payable to the Consolidated Fund. Non-current liabilities increased mainly from the unfavourable valuation of the superannuation schemes, as mentioned earlier.

TRUSTEE ACTIVITIES

Under the *Public Trustee Act 1913*, the Public Trustee may act as a trustee; as an executor or administrator; as collector of estates under an order to collect; as an agent or attorney; as manager of the estate of a protected person; as guardian or receiver of the estate of a minor; and as a receiver of any other property.

The Public Trustee has four core businesses:

- will making
- estate administration
- trusts
- power of attorney services.

Clients are provided with the following services:

- funds management
- taxation
- legal counsel
- property conveyancing
- securities.

The Public Trustee is also the Commissioner of Dormant Funds under the *Dormant Funds Act 1942*. This involves the investigation and disposal of unused funds acquired by trustees for charitable or other public purposes.

For further information on the Public Trustee, refer to www.pt.nsw.gov.au.

Public Trustee NSW - Common Fund

AUDIT OPINION

The audit of the Public Trustee NSW - Common Fund's financial report for the year ended 30 June 2007 resulted in an unqualified Independent Auditor's Report.

PERFORMANCE INFORMATION

The Common Fund has two portfolios. The Primary portfolio invests in fixed interest securities, such as bonds, commercial mortgages and term deposits. The Growth portfolio invests in the Indexed Australian Shares Sector Trust managed by NSW Treasury Corporation.

Investment	Benchmark	2007 Benchmark Return %	2007 Actual Return %	2006 Actual Return %	2005 Actual Return %
Primary Portfolio					
- Bonds	UBS 0+Yr Composite Bond Index	***4.0***	***4.0***	3.6	7.7
- Mortgages	UBS 0-5 Composite Bond Index	***4.8***	***6.9***	6.3	7.1
- Deposits	RBA Cash Target Rate	***6.3***	***6.4***	5.7	5.5
Growth Portfolio	ASX200 Accumulation Index	***28.7***	***27.9***	22.9	25.4

Source: Public Trustee NSW (unaudited).

Investment performance for mortgages is well above benchmark, whilst all other funds performed in line with benchmarks in 2007. At 30 June 2007, 65 per cent of investments were in bonds, seven per cent in mortgages, 5 per cent in deposits and 23 per cent in the growth portfolio (66 per cent, seven per cent, three per cent and 24 per cent in 2005-06, respectively).

Investment performance since 30 June 2007 has varied considerably. The impact of the global financial crisis has reduced investment returns and investment asset values. For example, at 31 October 2009, the unit price of the growth portfolio investments had fallen in value by 33.4 per cent (unaudited) from the price at 30 June 2007.

OTHER INFORMATION

Merger with the Office of the Protective Commissioner

Under the July 2009 *NSW Trustee and Guardian Act 2009*, the Public Trustee NSW was merged with the Office of the Protective Commissioner and became known as the NSW Trustee and Guardian. The legislation abolished the office of Public Trustee and the Office of Protective Commissioner.

Common Fund Report

The Common Fund financial reports for 2007-08 and 2008-09 were received on 4 September 2009 and 29 September 2009, respectively. The audits for both reports are ongoing.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2007 $'000	2006 $'000
Investment income	***142,551***	70,707
Unrealised gains	--	41,290
TOTAL REVENUE	***142,551***	111,997
Management Fees	***6,913***	6,501
Unrealised losses	***4,554***	--
Other expenses	***792***	2,575
TOTAL EXPENDITURE	***12,259***	9,076
SURPLUS	***130,292***	102,921
Distributions to clients*	***130,250***	102,589
CHANGES IN NET ASSETS ATTRIBUTABLE TO CLIENTS*	***42***	332

* Includes unrealised losses of $4.6 million not distributed to clients ($41.3 million unrealised gain).

Total revenue increased due to strong market performance in this period. The decrease in other expenses was a $1.8 million fall in amortisation of the fixed interest premium on investments.

Abridged Balance Sheet

At 30 June	2007 $'000	2006 $'000
Cash and cash equivalents	***52,094***	25,276
Receivables	***87,548***	19,096
Investments	***1,216,075***	1,186,079
TOTAL ASSETS	***1,355,717***	1,230,451
Payables	***1,945***	1,920
Net assets attributable to clients	***1,278,592***	1,153,393
TOTAL LIABILITIES	***1,280,537***	1,155,313
NET ASSETS	***75,180***	75,138

Management advised the cash balance doubled for liquidity purposes. The increase in receivables is largely due to an increase in accrued investment income of $68.1 million. This also reflects the investment market performance in the year.

TRUSTEE ACTIVITIES

Comment on the Public Trustee NSW is included earlier in this Volume.

The Common Fund is managed by the Public Trustee NSW in accordance with the provisions of the *Public Trustee Act 1913* (the Act). The Public Trustee NSW is a corporation sole having a Statutory charter to provide estate and asset management services to all people of New South Wales.

Section 36A of the Act directs that balances of all current accounts in the books of the Public Trustee NSW shall be one Common Fund. The Act also states:

- it authorises the Public Trustee to invest the Common Fund in securities authorised by the *Trustee Act 1925*
- the interest received on those investments to be credited to an account called the Interest Suspense Account and the account is used to:
    - allow interest on balances of accounts in the Common Fund at rates determined by the Public Trustee
    - transfer amounts to the Estates Guarantee and Reserve Account
    - allow for the working of the Act.

For further information on Public Trustee NSW, see www.pt.nsw.gov.au.

Minister for Corrective Services

Department of Corrective Services

Department of Corrective Services

AUDIT OPINION

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

PERFORMANCE INFORMATION

The following commentary is based on information provided by the Department.

Offender and Imprisonment Rates

Year ended 30 June	Rate per 100,000 adult population			
	2008		2007	
	NSW	National	NSW	National
Imprisonment	***179.5***	***162.6***	178.6	162.0
Periodic detention*	***13.7***	***4.8***	14.1	--
Community corrections	***338.7***	***337.5***	342.8	329.4
Total offenders	***531.9***	***504.9***	535.5	491.4
Included within the above categories are Indigenous adults. The rates within this group are:**				
- Imprisonment	***2,350.5***	***2,156.6***	2,329.7	2,142.2
- Community corrections	***3,760.9***	***3,288.2***	3,731.5	3,179.6

Source: Productivity Commission's Report on Government Services 2009 (unaudited).
* Only applicable to New South Wales and Australian Capital Territory.
** Rate per 100,000 indigenous adult population.

The number of persons and length of sentences of offenders managed by the Department is the direct result of the activities of the NSW Police Force and sentencing authorities. They are not performance measures of the Department, but they drive several departmental performance measures.

In New South Wales, the proportion of the adult population imprisoned per 100,000 adults climbed from 2.1 per cent above the national rate in 1997-98 to 10.4 per cent in 2007-08.

Safety and Containment

Year ended 30 June	Rate per 100 offenders			
	2008		2007	
	NSW	National	NSW	National
Type of Assault				
Prisoner on prisoner*:				
Serious assault	***0.31***	***0.48***	0.49	0.59
Assault	***13.07***	***8.52***	13.26	8.47
Prisoner on officer*:				
Serious assault†	**--**	***0.02***	0.01	0.02
Assault†	***0.92***	***0.63***	0.71	0.60
Apparent unnatural death	***0.04***	***0.03***	0.05	0.04
Escapes/absconds rates:				
Open perimeter†	***0.16***	***0.51***	0.17	0.60
Secure perimeter†	***0.02***	***0.09***	--	0.03

Source: Productivity Commission's Report on Government Services 2009 (unaudited).
* The Productivity Commission acknowledges that data on assaults are not directly comparable across all states. 'Serious assaults' refer to acts of physical violence resulting in actual bodily harm involving hospitalisation, including sexual assault. Assaults refer to violence resulting in physical injury but not involving hospitalisation.
† Information not available for every jurisdiction.

New South Wales inmates average fewer out of cell hours than many other jurisdictions. However, differences in recording practices make this comparison difficult.

Year ended 30 June	Out of cell hours per day			
	2008		2007	
	NSW	National	NSW	National
Open perimeter†	***11.9***	***13.6***	12.6	13.5
Secure perimeter†	***7.2***	***9.2***	7.6	9.5

Source: Productivity Commission's Report on Government Services 2009 (unaudited).
† Information not available for every jurisdiction.

Community Correction Orders

Year ended 30 June	Rate per 100 offenders			
	2008		2007	
	NSW	National	NSW	National
Orders successfully completed:				
Restricted movement*	***87.5***	***78.6***	82.8	76.4
Reparation	***81.2***	***63.1***	79.9	66.3
Supervision (compliance)	***80.2***	***73.7***	81.3	71.4
All orders	***80.6***	***70.2***	81.0	69.6

Source: Productivity Commission's Report on Government Services 2009 (unaudited).
* Not applicable to all jurisdictions.

Community correction orders are sentences not involving imprisonment. They comprise:

- restricted movement orders, which subject offenders to a system of restricted movement including supervision or electronic monitoring
- reparation orders, which involve community service orders requiring unpaid work or fine options
- supervision (compliance) orders such as good behaviour bonds and parole orders.

A key effectiveness measure for offenders serving community correction orders is the proportion of orders successfully completed. The Department consistently performs better than the national rate for the successful completion of community correction orders.

Rate of Return

Rate of return is a broader justice-wide outcome and is not only related to the activities of the Department, but also to police, court and community activities. Rate of return is counted as an individual's return to prison or community corrections following conviction by a court within two years of release from corrective services. It is a partial measure of the performance of the justice system in improving public safety by reducing the incidence of crime. The risk factors for returning to corrective services include criminal history, history of antisocial behaviour, family factors and social achievement.

The table below shows the percentage of prisoners returning to prison and corrective services within two years of release.

Year ended 30 June	Per cent			
	2008		2007	
	NSW	National	NSW	National
Per cent of individuals returning to:				
Prison†	***43.0***	***38.2***	43.8	37.5
Corrective services†*	***45.2***	***44.0***	46.3	43.6

Source: Productivity Commission's Report on Government Services 2009 (unaudited).
† Australian Capital Territory not provided.
* Includes prison sentence or a community based order.

The State's rate of return continues to be higher than that of most other Australian jurisdictions.

Prisoner Costs

Year ended 30 June	Cost per Offender per Day			
	2008		2007	
	NSW $	National $	NSW $	National $
Open prisons* (including periodic detention)	***187.7***	***189.2***	186.6	178.4
Secure prisons*	***225.3***	***214.3***	201.7	191.1
All prisons	***210.5***	***206.8***	195.8	187.1
Community corrections	***12.4***	***13.1***	11.6	12.5

Source: Productivity Commission's Report on Government Services 2009 and 2008 (unaudited).
The figures include the cost of offender containment with rehabilitation, reparation and prisoner transport. The costs are adjusted to eliminate jurisdictional differences.
* Information not available for the Northern Territory.

Prison Officers' Employment Conditions

The Department's work place reform program 'The Way Forward', aimed at reducing the cost of service delivery, was implemented at the Mid North Coast, Dillwynia and Wellington Correctional Centres during previous financial years.

The Department advised that it intends to extend the workplace reform package to the remainder of the Department's correctional centres and court complexes during 2009-10.

OTHER INFORMATION

Long Bay Prison Hospital

The Department engaged a private sector company to finance, design, construct and maintain a new prison hospital at Long Bay. This project, undertaken jointly between the Department and Justice Health, was completed during 2008-09.

Upon commissioning, the Department recognised the new prison hospital asset of $61.4 million. The Department also recognised a finance lease liability of $60.9 million and an expenditure commitment of $100.7 million for the facilities management costs, both payable over the period to May 2034.

Outsourcing the Management of Correctional Centres

In 2008, the Department announced plans to outsource the management of the Parklea and Cessnock Correctional Centres. While plans to outsource the management of the Cessnock Correctional Centre did not proceed, the GEO Group was announced as the preferred tenderer on 30 September 2009 to operate the Parklea Correctional Centre.

Overtime

The Department incurred overtime costs during 2008-09 of $40.7 million ($39.6 million in 2007-08). These costs represent 5.8 per cent (6.1 per cent) of total employee related expenses. The number of employees and overtime paid as a percentage of base pay are as follows:

Year ended 30 June	**2009**		**2008**	
Overtime paid as a percentage of base pay	**Number of employees**	**Overtime paid $'000**	**Number of employees**	**Overtime paid $'000**
> 100%	***15***	***882***	11	626
90% - 100%	***6***	***287***	4	203
80% - 89%	***15***	***651***	13	557
70% - 79%	***22***	***870***	12	472
60% - 69%	***54***	***1,874***	41	1,424
50% - 59%	***120***	***3,523***	98	2,835
40% - 49%	***205***	***4,855***	219	5,235
30% - 39%	***376***	***7,008***	460	8,428
20% - 29%	***643***	***8,467***	702	9,197
10% - 19%	***936***	***7,451***	930	7,339
>0% - 9%	***2,141***	***4,825***	1,615	3,288
0%	***3,523***	***--***	3,609	--
Total	***8,056***	***40,693***	7,714	39,604

The review also identified that the most overtime paid to any individual employee during the year was $77,380 ($76,679 in 2007-08).

Recreation Leave

> I recommend the Department continues monitoring recreation leave entitlements and implements appropriate leave reduction strategies.

At 30 June 2009, 1,176 staff (1,471) had recreation leave balances in excess of 60 days, with 66 employees (71) having entitlements exceeding 125 days. This may not only impact operations, but could also affect liquidity because leave entitlements are paid at rates existing at the time leave is taken. We understand that additional officers will be made available to correctional centres as a result of the outsourcing of the management of the Parklea Correctional Centre to assist in reducing excessive recreation leave entitlements.

Property, Plant and Equipment Asset Records (Repeat Issue)

> I recommend the Department reviews its asset records to ensure they are adequate for effective management of these assets.

In previous years, I reported the level of detail in the asset records did not facilitate efficient and effective management and stewardship of the Department's assets. While ancillary procedures exist, some of these procedures were not operating as intended. I also noted other issues impacting the Department's ability to discharge its stewardship responsibilities over these assets. I make this comment again this year as further improvements are required.

Business Continuity (Repeat Issue)

> I recommend the Department continues its efforts to finalise an overarching business continuity plan.

My previous reports advised that an overall business continuity plan had not been finalised. While progress has been made, the overarching business continuity plan for the Department is still under development. I will continue to monitor this during my 2009-10 audit.

Practices and Procedures

My 2008-09 audit identified other opportunities to improve existing practices and procedures. These will be discussed further with Departmental staff and, where appropriate, included as recommendations in our management letter.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	2009 $'000	2008 $'000
Employee related	***701,165***	653,424
Grants and subsidies	***5,454***	5,375
Other expenses	***293,739***	266,681
OPERATING EXPENSES	***1,000,358***	925,480
OPERATING REVENUE	***38,913***	42,256
Gain on disposal of non-current assets	***739***	--
NET COST OF SERVICES	***960,706***	883,224
Government contributions	***954,466***	863,569
DEFICIT	***(6,240)***	(19,655)
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY		
Administrative Transfer	***(6,357)***	--
Asset Revaluation Reserve Increment	***60,712***	50,178
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***48,115***	30,523

Employee related expenses increased mainly due to award increases, recognition of superannuation on-costs on recreation leave entitlements for the first time and back pay for a 1.5 per cent award increase for 2007-08 granted in 2008-09.

Other expenses increased primarily due to a 5.2 per cent increase in inmate numbers as well as new costs associated with the opening of the Long Bay Prison Hospital. Other increases include higher costs on property rentals, property expenses and new agreements negotiated for the outsourcing of some security services.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***36,770***	30,849
Non-current assets	***1,777,521***	1,632,285
TOTAL ASSETS	***1,814,291***	1,663,134
Current liabilities	***187,775***	144,992
Non-current liabilities	***60,259***	--
TOTAL LIABILITIES	***248,034***	144,992
NET ASSETS	***1,566,257***	1,518,142

The increase in non-current assets largely reflects the Long Bay Prison Hospital acquisition valued at $61.4 million and other capital expenditure of $98.3 million.

Current liabilities rose as a result of higher creditor levels and increases in employee entitlements.

The increase in non-current liabilities reflects the finance lease liability relating to the Long Bay Prison Hospital.

Abridged Service Group Information

The Department's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget $'000	2009 Actual $'000	2008 Actual $'000	2009 Actual $'000	2008 Actual $'000
Custody Management	***656,894***	***694,327***	644,070	***1,523,347***	1,493,110
Supervision of Offenders in the Community	***102,863***	***126,096***	108,299	***39,323***	15,992
Offenders Program	***116,116***	***140,283***	130,855	***3,587***	9,040
Total all service groups	***875,873***	***960,706***	883,224	***1,566,257***	1,518,142

The overall rise in the net cost of services over the budgeted amount for all service groups is primarily due to increases in employee related and other expenses.

DEPARTMENT ACTIVITIES

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

The Department is responsible for the State's 32 correctional centres, one of which is a privately managed prison (Junee Correctional Centre) and one is a juvenile correctional centre (Kariong Juvenile Correctional Centre). The Department is also responsible for one transitional centre.

The Department is accountable for the Corrective Services Academy, seven periodic detention centres, 65 Community Offender Services offices and 14 twenty-four hour court cell centres.

The Department is involved in the following community initiatives:

- Establishment of the Community Compliance Group to improve community supervision of serious offenders
- Provision of a number of Community Offender Support Program Centres (COSPS) across New South Wales. COSPS provide short-term supported accommodation for offenders released from custody and under supervision in the community
- A community residential intervention program at Tabulam (Balund-a)
- A community based residential program at Biyani for female offenders with a mental health disorder and co-existing substance issues.

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

Minister for Emergency Services

New South Wales Fire Brigades

NSW Rural Fire Service

State Emergency Service

Refer to Appendix 1 for:

Bush Fire Co-Ordinating Committee

State Rescue Board

New South Wales Fire Brigades

AUDIT OPINION

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

KEY ISSUES

Computer Processing Environment Issues (Repeat Issue)

> I recommend the Brigades dedicate sufficient time and resources to ensure all system implementations include sufficient testing processes.

Last year we identified significant internal control weaknesses within the Brigades' payroll computer processing environment. The Brigades' payroll system was in its last year of operation and I recommended the Brigades ensure strengthened internal controls existed within its new payroll system.

The Brigades implemented its new payroll system in 2008-09. The new payroll system addressed the significant internal control weaknesses previously detected. However, we identified other weaknesses. Some of these problems likely stemmed from the Brigades' implementation processes, which included insufficient testing of the new system.

The Brigades advised that it has developed more robust processes for subsequent system implementations.

Excess Annual Leave Entitlements (Repeat Issue)

> I recommend the Brigades:
>
> - continue to investigate high annual leave balances
> - implement strategies to reduce excess annual leave
> - review workforce requirements to ensure sufficient firefighters to cover all mandatory periods of leave.

The maximum balance under the Brigades' annual leave policy is 40 days. At 30 June 2009, 34 per cent (38 per cent as at 30 June 2008) of all Brigades' employees held annual leave balances in excess of 40 days. Retained firefighters continue to have the highest proportion of excessive annual leave balances.

The Brigades advised that it has developed two proposed strategies to overcome excessive retained firefighter leave balances.

PERFORMANCE INFORMATION

Response Times for all Structural Fires

The Brigades' figures show that in 2008-09, 50 per cent of the first responding fire resources arrived at the scene of an incident in 6 minutes 52 seconds, and 90 per cent arrived in 10 minutes 44 seconds. Response times have remained unchanged compared to 2007-08. Response times reflect the Brigades' ability to respond to incidents and reduce the adverse effects of fire on the community.

Other Statistics

The Brigades' effectiveness depends on the personnel and firefighting equipment available. The Brigades provided the following information about available resources:

Total Numbers as at 30 June	2009	2008	2007	2006	2005
Personnel					
Permanent firefighters	***3,517***	3,463	3,420	3,369	3,250
Retained firefighters	***3,387***	3,212	3,237	3,177	3,197
Full time support and co-ordinating staff	***376***	393	328	364	363
Community fire units	***418***	374	337	314	292
Fleet (all vehicles)	***883***	891	928	929	882
New fleet units brought into operational service (during the financial year)	***33***	19	41	61	24

Source: New South Wales Fire Brigades (unaudited).

The fleet decreased in 2009 due to the disposal of older vehicles that had been kept for major incidents, but were no longer worth maintaining. At 30 June 2009, the fleet included 518 (534 in 2008) operational fire appliances, which are usually located at fire stations and used to respond to incidents.

The fleet replacement program is ongoing and aims to reduce the average age of the Brigades' fleet. The Brigades also plan to replace all fully depreciated fire appliances by 2011. The following table details the Brigades' annual expenditure on the program.

Year ended 30 June	2009 $'000	2008 $'000	2007 $'000	2006 $'000	2005 $'000
Fleet Replacement Program	***21,514***	9,515	13,273	10,260	15,037

Source: New South Wales Fire Brigades (unaudited).

The following table summarises the weighted average age of the Brigades' fleet:

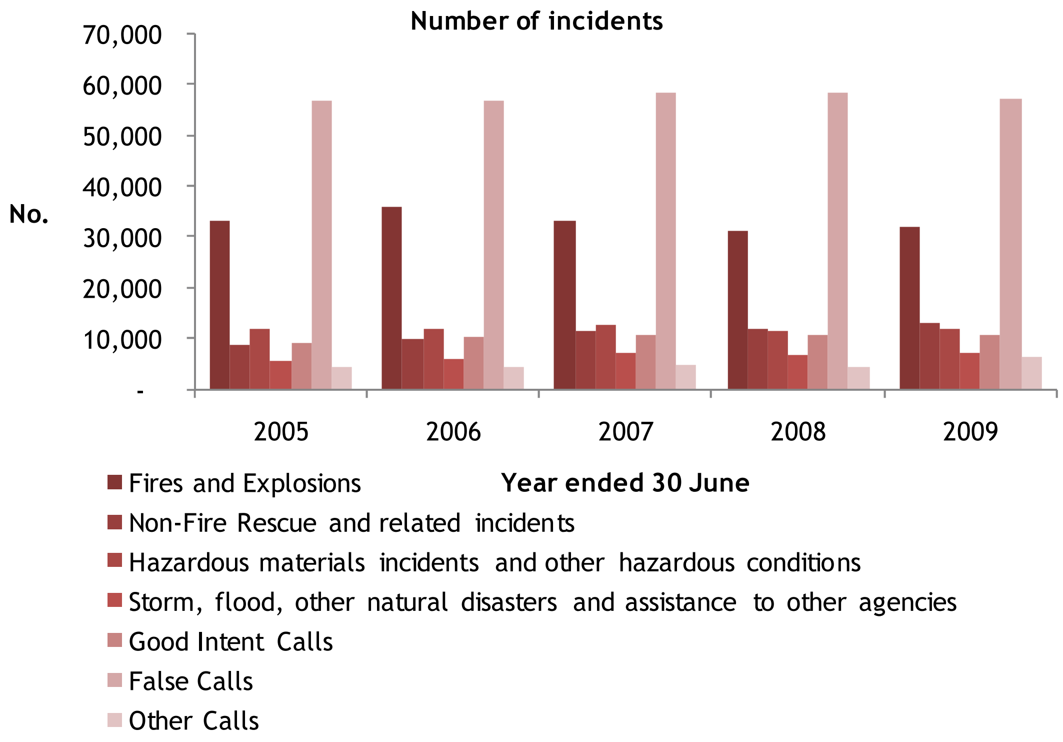
Year ended 30 June	Target	Actual			
	2009	2009	2008	2007	2006
Operational fleet					
Pumpers	***7.5***	***7.2***	7.2	6.6	6.3
Aerials	***10.0***	***7.2***	6.6	5.9	5.9
Special appliances	--	***6.2***	6.0	6.1	5.5
Service exchange/other fleet	--	***14.6***	18.6	18.1	18.0

Source: New South Wales Fire Brigades (unaudited).

'Pumpers' are fire trucks designed to transport firefighters and their equipment, and to pump water. 'Aerials' are appliances with a vertical reach designed for high level rescue or firefighting. 'Special appliances' include Heavy Hazmat Support Vehicles, Heavy Rescue Support Vehicles, and various other appliances used for logistic support, training, and heavy vehicle transport.

'Service exchange/other fleet' are back-up fire appliances strategically located around the State to replace 'operational' fire appliances taken out of active duty (e.g. for maintenance) or for use in major incidents. As at 30 June 2009, there were 97 (129 in 2008) 'service exchange/other fleet' fire appliances.

The Brigades recorded the following fire and other incidents:



Source: New South Wales Fire Brigades (unaudited).

The number of incidents measures community demand for the Brigades' response services. Overall demand is relatively stable. However, there has been significant growth in the demand for non-fire rescue services over the last five years.

Following are some of the indicators used by the Brigades to monitor effectiveness:

For the year ended 30 June	2009	2008	2007	2006	2005
Median loss for structural fires ($)	***2,000***	2,000	2,000	2,000	2,000
Structural fires confined to the object and room of origin (%)	***69***	71	69	69	71
New South Wales homes fitted with smoke alarms (at 31 December) (%)	***94***	93	87	77	72

Source: New South Wales Fire Brigades (unaudited).

The value of loss and extent of fire damage, measures the effectiveness of the firefighting response. The percentage of smoke detectors fitted to homes indicates the effectiveness of the Brigades' education activities.

OTHER INFORMATION

Follow-up: Compliance with the Brigades' Flexible Working Hours Agreement

For the last two years I reported that a number of employees within the Brigades had built up substantial levels of flexitime credits. These credit hours exceeded the maximum allowable under the Brigades' Flexible Working Hours Agreement (the Agreement). I recommended that the Brigades implement strategies to reduce excess flexitime credits.

The Brigades advised employees that the past practice of carrying credit hours in excess of the Agreement would not continue. The Brigades also worked with the affected employees to reduce accumulated excess credit hours. These measures have resulted in the number of employees with excess leave balances falling to 21 (123) at 30 June 2009.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	2009 $'000	2008 $'000
Employee related	***462,299***	426,067
Depreciation and Amortisation	***29,729***	28,430
Other expenses	***72,147***	75,478
TOTAL OPERATING EXPENSES	***564,175***	529,975
TOTAL OPERATING REVENUE	***75,946***	42,677
NET COST OF SERVICES	***488,229***	487,298
Government contributions	***525,373***	492,909
SURPLUS	***37,144***	5,611
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		
Superannuation actuarial gains	***3,878***	587
Increase in asset revaluation reserve	***37,634***	--
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***78,656***	6,198

Total operating revenue increased in 2008-09 because insurance company and local government contributions of $35.5 million relating to 2009-10 were received before 30 June 2009.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Cash and cash equivalents	***132,753***	103,357
Land and buildings	***298,047***	268,065
Fire appliances	***139,590***	121,055
Plant and equipment	***49,075***	41,783
Other	***26,468***	20,475
TOTAL ASSETS	***645,933***	554,735
Payables	***27,841***	26,461
Provisions	***83,476***	72,314
TOTAL LIABILITIES	***111,317***	98,775
NET ASSETS	***534,616***	455,960

The Brigades revalued its land and buildings, and fire appliances during 2008-09. The revaluation increased asset values by $37.6 million. The increase in cash and cash equivalents largely reflects the contributions for 2009-10 that were received before 30 June 2009.

Abridged Service Group Information

The Brigades' net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget $'000	2009 Actual $'000	2008 Actual $'000	2009 Actual $'000	2008 Actual $'000
Community Safety	***25,413***	***25,097***	23,374	***47,917***	42,748
Emergency Management	***312,046***	***292,994***	271,883	***201,008***	175,568
Operational Preparedness	***170,759***	***198,231***	189,492	***101,716***	91,414
Not Attributable	**--**	***7,375***	2,549	***148,507***	146,230
2009-10 funding contributions	**--**	***(35,468)***	--	***35,468***	--
Total all service groups	***508,218***	***488,229***	487,298	***534,616***	455,960

As a result of the new funding arrangements, the Service received contributions in 2008-09 that relate to the 2009-10 funding year. These contributions were not included in the 2008-09 budget.

BRIGADES' ACTIVITIES

The Brigades are responsible for managing fire emergencies in the major cities, metropolitan areas and towns across rural and regional New South Wales. The Brigades also respond to hazardous material and non-fire rescue incidents. The Brigades were established under the *Fire Brigades Act 1989*.

For further information on the Brigades, refer to www.fire.nsw.gov.au.

NSW Rural Fire Service

AUDIT OPINION

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

PERFORMANCE INFORMATION

The effectiveness and efficiency of the Service depends on the number of trained firefighters and the number and types of firefighting equipment available. The Service provided the following information about available resources:

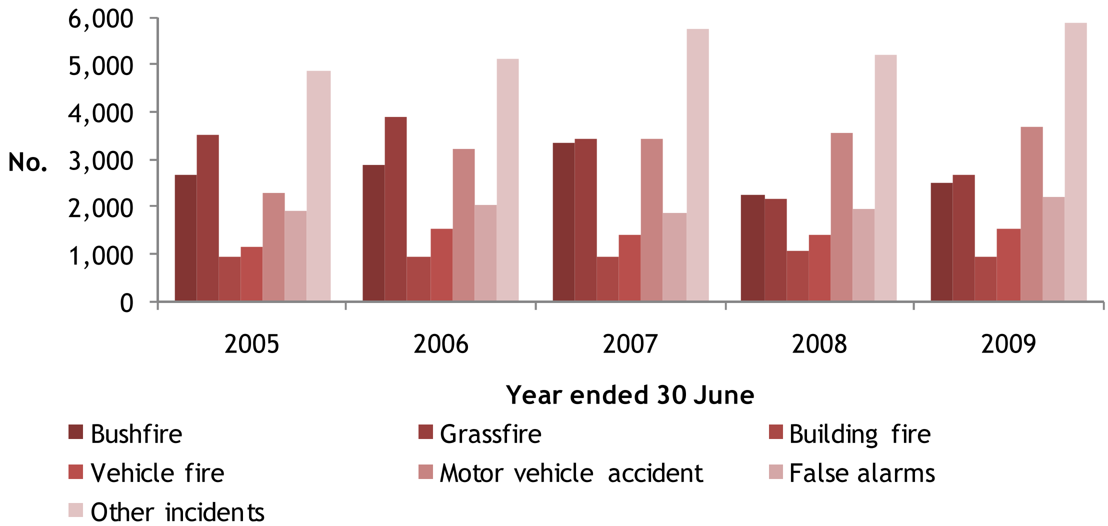
Year ended 30 June	2009	2008	2007	2006	2005
Personnel					
Unpaid volunteers (number at the end of the year)	***70,701***	70,159	71,441	70,745	70,964
Full time equivalent support and coordinating staff	***715***	710	685	680	649
Active firefighters competent to bush firefighter status or higher (%)	***79***	78	85	85	87
Trainers accredited in the year (number)	***282***	261	47	32	100
Community based bush fire brigades (number)	***2,065***	2,058	2,077	2,100	2,069
Tankers supplied or refurbished in the year (number)	***209***	259	258	230	210

Source: NSW Rural Fire Service (unaudited).

The Service's re-introduction of internal training has led to increased accredited trainee numbers in recent years.

The Service recorded the following fire and related incidents:

Number of fire and related incidents



Source: NSW Rural Fire Service (unaudited).

In 2008-09 there were ten emergency declarations (seven in 2007-08) under Section 44 of the *Rural Fires Act 1997*. Approximately 32,700 hectares (85,507 hectares) of land were burnt during these emergencies.

Hazard reduction activities

Hazard reduction activities minimise the threat of damage to life, property and the environment. It involves reducing or removing bushfire fuel. Hazard reduction will not completely stop bushfires, but can assist the Service with containment strategies and property protection. Burning is the most common form of hazard reduction used in New South Wales.

Hazard reduction is the responsibility of land owners and managers. This includes private owners and Government land management agencies, such as the National Parks and Wildlife Service and Forests NSW.

The Service offers advice and assistance on hazard reduction, and is responsible for ensuring hazard reduction activities are carried out effectively. The Service can order land owners and managers to conduct essential hazard reduction activities.

The Service employs other strategies to minimise the threat from bushfires. These include its role in assessing applications for developments in bushfire prone areas and community education activities.

OTHER INFORMATION

Royal Commission into the Victorian 'Black Saturday' bushfires

The Victorian Government established the Victorian Bushfires Royal Commission to investigate the causes and responses to the Black Saturday bushfires.

The Royal Commission published its interim report in August 2009. The report contains 51 interim recommendations covering a range of issues including public warnings and information, relocation, emergency management and public refuges.

The Service is reviewing the interim recommendations to identify areas where it can improve its own policies and practices.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	2009 $'000	2008 $'000
Local government firefighting and equipment costs	***103,645***	87,141
Employee related expenses	***70,334***	67,046
Natural disaster costs	***34,142***	24,243
Other grants and subsidies	***15,362***	14,563
Depreciation and Amortisation	***4,556***	4,434
Other expenses	***19,195***	22,754
TOTAL OPERATING EXPENSES	***247,234***	220,181
Insurance company contributions	***169,030***	146,397
Local government contributions	***29,881***	26,418
Natural disaster relief	***13,297***	10,701
Other revenue	***14,660***	9,617
TOTAL OPERATING REVENUE	***226,868***	193,133
NET COST OF SERVICES	***20,366***	27,048
Government contributions	***40,821***	36,814
SURPLUS	***20,455***	9,766
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY		
Superannuation actuarial losses	***8,305***	3,131
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***12,150***	6,635

The Service reimburses firefighting equipment purchased by local government and also provides other support to local government.

Insurance company and local government contributions increased significantly in 2008-09 due to contributions of $14.8 million relating to 2009-10 being received before 30 June 2009.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Cash and cash equivalents	***46,101***	25,012
Receivables	***3,410***	4,244
Plant and Equipment	***14,429***	14,832
Other	***553***	596
TOTAL ASSETS	***64,493***	44,684
Payables	***5,985***	7,716
Provisions	***28,238***	18,849
TOTAL LIABILITIES	***34,223***	26,565
NET ASSETS	***30,270***	18,119

The increase in cash and cash equivalents largely reflects the 2009-10 contributions of $14.8 million received before 30 June 2009. Most plant and equipment used by the Service in its operations is owned by local government.

The increase in liabilities is due to a detrimental movement in the Service's defined benefit superannuation obligations.

Abridged Service Group Information

The Service's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget $'000	2009 Actual $'000	2008 Actual $'000	2009 Actual $'000	2008 Actual $'000
Community Safety	***16,227***	***12,805***	22,383	***634***	6,486
Operations and Support	***10,488***	***9,792***	(7,371)	***(17,817)***	(14,614)
Emergency Management NSW	***18,927***	***12,540***	12,036	***1,352***	1,235
Not Attributable	**--**	**--**	--	***31,330***	25,012
2009-10 funding contributions	**--**	***(14,771)***	--	***14,771***	--
Total all service groups	***45,642***	***20,366***	27,048	***30,270***	18,119

As a result of the new funding arrangements, the Service received contributions in 2008-09 that relate to the 2009-10 funding year. These contributions were not included in the 2008-09 budget.

Grants made by Emergency Management NSW for natural disaster mitigation were less than expected.

SERVICE ACTIVITIES

The Service is the leading agency for coordinated bush firefighting and is responsible for firefighting in rural fire districts, including over 1,200 villages. The Service also assists other emergency services organisations in emergency situations such as transport accidents, flood and storm and search and rescue operations. The Service was established by the *Rural Fires Act 1997*.

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

State Emergency Service

AUDIT OPINION

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

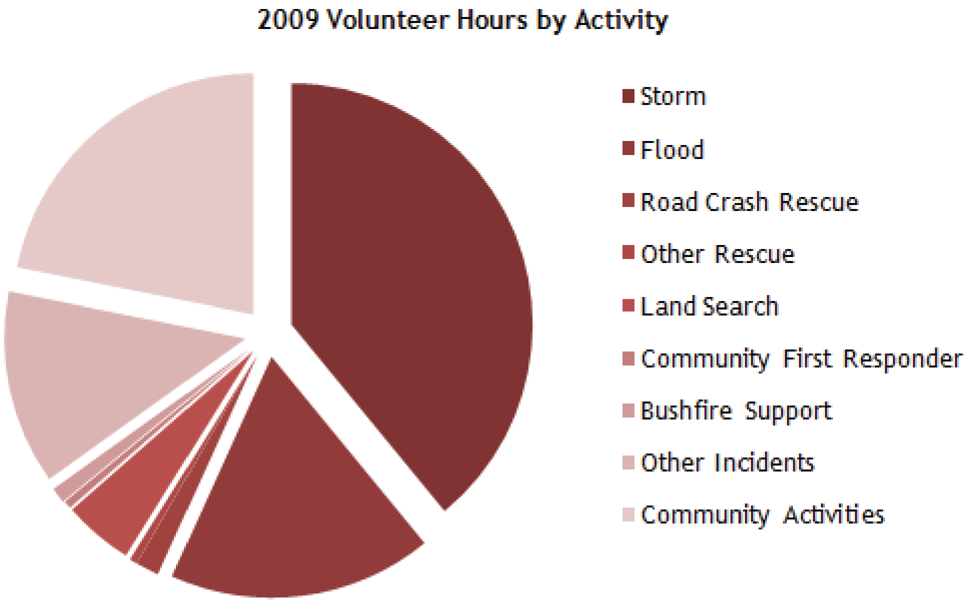
KEY ISSUES

Funding Arrangements

As reported in the Emergency Services Overview, the funding arrangements for the Service changed from 1 July 2009. The Service is now funded through contributions from insurance companies (73.7 per cent), Local government (11.7 per cent) and the State government (14.6 per cent). This brings the Service under the same funding structure as the New South Wales Fire Brigades and the NSW Rural Fire Service.

PERFORMANCE INFORMATION

The Service's volunteers contributed almost 400,000 hours of operational and non-operational support during 2008-09. These hours are broken down as follows.



Source: State Emergency Service (unaudited).

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	2009 $'000	2008 $'000
Employee related expenses	***19,801***	16,825
Disaster relief expenses	***10,291***	16,130
Grants and Subsidies	***7,896***	3,587
Depreciation and Amortisation	***5,925***	5,886
Other expenses	***19,371***	17,992
TOTAL EXPENSES	***63,284***	60,420
Disaster relief grants	***10,291***	16,130
Other revenue	***8,903***	6,687
TOTAL REVENUE	***19,194***	22,817
NET COST OF SERVICES	***44,090***	37,603
Government contributions	***45,966***	37,779
SURPLUS	***1,876***	176

Increases in government contributions and some expenses in 2008-09 are mainly as a result of specific funding for providing increased support to the Service's volunteers.

The decrease in disaster relief expenses and revenue is due to fewer large-scale natural disaster events during 2008-09. Costs incurred in relation to natural disasters are reimbursed through natural disaster relief arrangements between the State and Commonwealth Governments.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Cash and cash equivalents	***9,472***	6,040
Receivables	***2,059***	1,080
Inventories	***4,970***	4,288
Property, Plant and Equipment	***17,136***	31,000
TOTAL ASSETS	***33,637***	42,408
Payables	***2,251***	267
Provisions	***2,281***	1,690
TOTAL LIABILITIES	***4,532***	1,957
NET ASSETS	***29,105***	40,451

During 2008-09, the Service transferred control of its land and buildings to the State Property Authority as a result of Government requirements.

Abridged Service Group Information

The Service's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget $'000	2009 Actual $'000	2008 Actual $'000	2009 Actual $'000	2008 Actual $'000
Recruitment and Training	***12,215***	***11,208***	8,599	***497***	862
Operational Readiness	***31,752***	***32,054***	25,568	***24,754***	39,245
Community Education	***4,883***	***4,483***	3,436	***199***	344
2009-10 funding contributions	**--**	***(3,655)***	--	***3,655***	--
Total all service groups	***48,850***	***44,090***	37,603	***29,105***	40,451

As a result of the new funding arrangements, the Service received contributions in 2008-09 that relate to the 2009-10 funding year. These contributions were not included in the 2008-09 budget.

SERVICE ACTIVITIES

Using volunteers, the Service manages and responds to emergencies resulting from flood, storm, tempest and other incidents. Approximately 10,500 volunteers operating through 228 State Emergency Service units located throughout the State help with these activities.

The Service was established in accordance with *the State Emergency Service Act 1989*.

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

Minister for Local Government

Department of Local Government

Department of Local Government

AUDIT OPINION

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

Administrative Restructure

On 27 July 2009, an Administrative Changes Order created the 13 new super Departments within the New South Wales Public Sector, effective from 1 July 2009. The Government transferred the functions of the Department of Local Government to the Department of Premier and Cabinet and abolished the Department of Local Government.

KEY ISSUES

Investments

In May 2009, the Department released a draft investment policy guideline for local councils. Councils will be expected to use the guideline to prepare investment policies to manage surplus funds. The draft investment policy guideline will be finalised in December 2009 in line with recommendations from the Michael Cole 2008 report on New South Wales Local Government Investments.

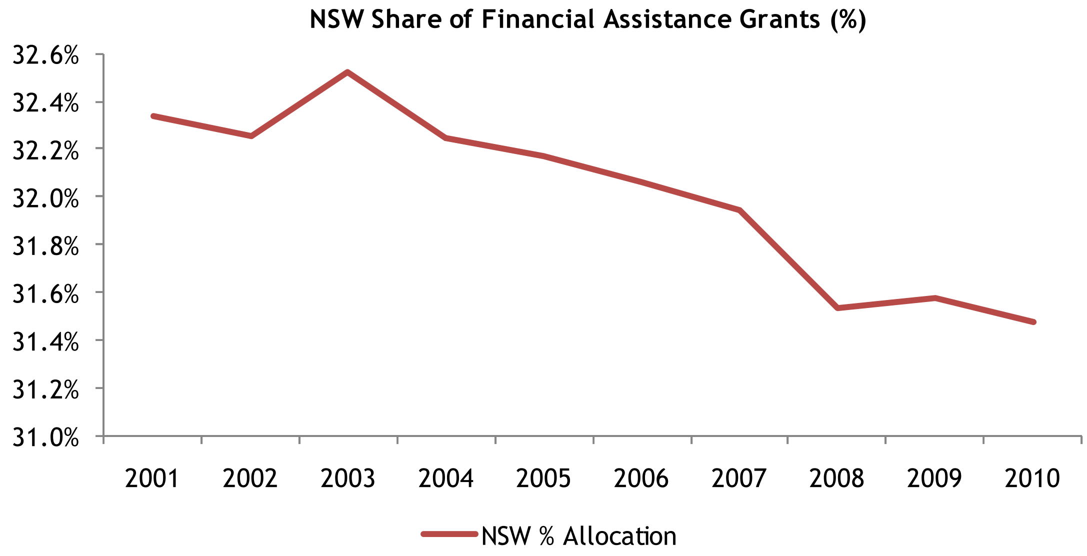
Financial Assistance Grants

The Department administers Commonwealth transfer payments for general purpose and local road grants through the Local Government Grants Commission. The Department paid $748 million to local councils in financial assistance grants in 2008-09 ($557 million in 2007-08). In May 2009, the Commonwealth Government announced in the Commonwealth Budget that it would bring forward the 2009-10 first quarter payment to assist councils deal with the effect of the economic downturn. The Department paid the 2009-10 first quarter payment of $150.9 million in June 2009.

The general purpose component is calculated based on state population. New South Wales' share of the national allocation was 32.71 per cent in 2008-09 (32.66 per cent in 2007-08). New South Wales' expected allocation for 2009-10 is 32.57 per cent.

The local roads component is based on road and bridge length information collected from councils annually. New South Wales' share of the national allocation was 29 per cent in 2008-09 (29 per cent in 2007-08).

The following graph below illustrates cash payments received by New South Wales for both general purpose and local roads and its expected allocation in 2009-10. The decline is due to New South Wales' share of national population decreasing over time.



Source: NSW Local Government Grants Commission (unaudited).

New South Wales' cash payment allocation peaked in 2002-03 at 32.5 per cent and decreased to 31.6 per cent in 2008-09. This resulted in the State forgoing approximately $17.9 million in 2008-09. New South Wales' share of general purpose financial assistance grants will continue to decline if population growth is less than other States and Territories.

PERFORMANCE INFORMATION

New South Wales Local Government Councils Comparative Information and Publications

The Department compiles comparative information on the performance of all local councils in the State. The latest publication 'Comparative Information on New South Wales Local Government Councils 2007/2008' was issued in July 2009. It reported the average level of revenues generated by each council, current ratios, debt service ratios and capital expenditure ratios. It is designed to enhance transparency and public accountability by enabling assessment of councils' performance compared to prior years and with that of other councils. It also helps development of performance benchmarks and industry best practice models.

In 2007, I recommended the Department improve the timeliness of compiling and reporting comparative information. The Department aims to release the 2008-09 comparative information in March 2010. This will be a nine month improvement compared to prior years. New South Wales has 152 local councils compared to approximately 73 local councils in Queensland and 64 in Victoria, which contributes to the Department's difficulties in compiling the information in a timely manner.

Performance Information of Local Councils

The following table highlights some financial indicators of councils' performance. It illustrates the vast difference in size between the local councils. For example, in 2007-08, the City of Sydney Council had revenue from continuing operations of $423.8m compared to the Urana Shire Council which had revenue of $5.5m.

Year ended 30 June 2008	NSW			
	Mean	High	Low	Median
Total revenue($'000)	53,874	423,794	5,511	31,213
Total revenue per capita (a)	985	5,107	562	1,228
Total expenses ($'000)	48,759	332,253	4,339	29,429
Total expenses per capita (b)	972	5,783	569	1,263

Source: 'Comparative Information on NSW Local Government Councils 2007/2008' (unaudited).

(a) total ordinary activities revenue before capital receipts divided by the estimated resident population within council boundaries

(b) total expenses from ordinary activities before capital expenditure divided by the estimated resident population within council boundaries.

Current ratio

The current ratio is an indicator of a council's ability to meet its short term financial obligations as they fall due. The current ratios in New South Wales during 2007-08 ranged from a low of 0.7:1 to a high of 12.1:1. The table below indicates that 99.3 per cent of councils in New South Wales were sufficiently liquid to meet short-term financial obligations.

Current ratio range (a)	2008		2007		2006	
	No of Councils	%	No of Councils	%	No of Councils	%
<=1	**1**	**0.7**	1	0.6	4	2.7
>1=2	**37**	**24.6**	34	22.7	35	23.6
>2=3	**35**	**23.3**	42	28.0	42	28.4
>3-4	**40**	**26.7**	36	24.0	25	16.9
>4	**37**	**24.7**	37	24.7	42	28.4

Source: 'Comparative Information on NSW Local Government Councils 2007/2008' (unaudited).

(a) Calculates as: current assets less all external restrictions divided by current liabilities less specific purpose liabilities.

Debt service ratio

The debt service ratio indicates the proportion of revenue from ordinary activities utilised for debt repayment. It is generally higher for councils that acquired funding for infrastructure development. Ninety eight councils (65.3 per cent) of the 150 councils that lodged financial reports had a debt service ratio of less than five per cent and a further 43 councils (28.7 per cent) had a ratio of between five per cent and ten per cent.

Debt service ratio range	2008		2007		2006	
	No of Councils	%	No of Councils	%	No of Councils	%
No debt	***17***	***11.3***	19	12.5	17	11.5
>0=5	***81***	***54.0***	89	58.6	81	54.7
>5=10	***43***	***28.7***	37	24.3	44	29.7
>10=15	***7***	***4.7***	6	3.9	6	4.1
>15	***2***	***1.3***	1	0.7	0	0.0

Source: 'Comparative Information on NSW Local Government Councils 2007/2008' (unaudited).

Capital expenditure ratio

A capital expenditure ratio of 1:1 is an indicator that depreciation expense was equivalent to the amount by which assets have increased. This indicator assesses a council's ability to replace or add to capital assets compared with the consumption (depreciation) of assets. It does not include land, water and sewerage assets. An increase in the capital expenditure ratio indicates councils in New South Wales acquired or replaced assets faster than they were consumed (depreciated). The jump in 2008 reflects the first year councils' assets were revalued and recorded at fair value.

Capital expenditure ratio	2008	2007	2006
NSW Mean	6.6	1.4	0.9
NSW High	28.9	19.3	16.9
NSW Low	(4.5)	(24.2)	(39.8)
NSW Median	5.6	1.1	1.2

Source: 'Comparative Information on NSW Local Government Councils 2007/2008' (unaudited).

FINANCIAL INFORMATION

Abridged Operating Statement

Year ended 30 June	2009 $'000	2008 $'000
Employee related expenses	***6,734***	6,865
Other expenses	***79,619***	81,386
TOTAL EXPENSES	***86,353***	88,251
TOTAL REVENUE	***6,096***	6,219
Other gains	-	3
NET COST OF SERVICES	***80,257***	82,029
Government contributions	***80,388***	81,290
SURPLUS/(DEFICIT)	***131***	(739)

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***6,905***	7,086
Non-current assets	***450***	599
TOTAL ASSETS	***7,355***	7,685
Current liabilities	***2,362***	2,822
Non-current liabilities	***8***	9
TOTAL LIABILITIES	***2,370***	2,831
NET ASSETS	***4,985***	4,854

Abridged Service Group Information

The Department's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget* $'000	2009 Actual $'000	2008 Actual $'000	2009 Actual $'000	2008 Actual $'000
Capacity Building, Oversight and Provision of Advice for local government	***10,137***	***10,201***	9,369	***3,095***	2,856
Pensioner Rebate Scheme	***76,000***	***70,050***	72,589	**--**	--
Companion Animals Program	**--**	***6***	71	***1,890***	1,998
Total all service groups	***86,137***	***80,257***	82,029	***4,985***	4,854

* Per the 2008-09 Budget Papers - net of transfer payments

Other Publications

The Department also issues various publications across a broad spectrum of activities designed to assist local councils and the general public. In October 2009, 'Councillor Expenses and Facilities Guidelines' was issued. It was developed to assist councils develop, implement and review their policies on the payment of expenses and the provision of facilities to mayors and councillors.

DEPARTMENT ACTIVITIES

The Department aims to improve the quality of service from local government by providing a clear legislative, policy and performance framework, and by monitoring the 152 local government councils in the State.

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

Minister for Police

NSW Police Force

Refer to Appendix 1 for:

Ministry for Police

New South Wales Crime Commission

Police Integrity Commission

NSW Police Force

AUDIT OPINION

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

KEY ISSUES

Death and Disability Scheme

> I recommend that the Force continues to monitor its liquidity closely to ensure it has sufficient funds to meet the increasing costs of the scheme.

The New South Wales Police Force Blue Ribbon Super Scheme was established to facilitate death and disability benefits to eligible police officers under the Crown Employees (Police Officers Death and Disability) Award 2005. The Award provides benefits to Police Officers in the event that they suffer an injury that results in death or total and permanent incapacity (TPI) or partial and permanent incapacity (PPI). TPI is covered through the First State Super Trustee Corporation however PPI is self-insured by the Force.

The Force's liability for PPI is based on an independent actuarial assessment performed each year. This liability has grown from $29.2 million at 30 June 2006 to $147 million at 30 June 2009. The Force will need to continue to monitor its liquidity position closely to ensure it has sufficient funds to meet the increasing costs of the scheme.

Property Management

> I recommend that the Force allocate appropriate resources to enable early finalisation of its review of property management arrangements. Recommendations arising from this review should be implemented as soon as possible to overcome existing control deficiencies.

Management of the Force's property was outsourced to United Group Services Pty Limited (UGS) during 2006-07 as a result of a Government directive. The State Property Authority (SPA) acts as the contract administrator, responsible for compliance and delivery of services by UGS. The duties of SPA include formally directing UGS, certifying works performed and recommending payment for services performed.

There do not appear to be effective control mechanisms in place to ensure that all work performed by UGS is completed to an acceptable level of quality or that costs billed are appropriate. SPA conducts a desk top review of UGS claims for work performed before certifying them for payment. In my view, SPA cannot fulfil this requirement satisfactorily without visiting the sites at various locations.

During 2008-09, management initiated an internal audit review of the contractual arrangements and responsibilities vested on each party. It is envisaged that this review will provide recommendations to overcome the identified weaknesses.

PERFORMANCE INFORMATION

The following crime statistics have been provided by the Force and the Australian Bureau of Statistics (the Bureau) and are unaudited.

The Bureau acknowledges that not all crimes are reported to or recorded by the police in the various jurisdictions and this will impact the comparability of recorded crime levels between States. For example, New South Wales records incidents as crimes that some other jurisdictions may not.

Rates of Crime

The trend for crime rates against people in New South Wales is compared to the national totals in the following table:

Year ended 31 December	2008	2007	2006	2005	2004
Crime Numbers					
NSW					
Murder	***78***	94	102	86	72
Attempted murder	***65***	60	71	61	75
Manslaughter	***9***	9	5	4	4
Kidnapping/abduction*	***539***	449	451	463	464
Robbery	***8,089***	9,346	9,242	9,565	8,887
Unlawful entry with intent	***80,433***	84,761	87,539	103,449	110,765
Motor vehicle theft	***25,654***	26,481	27,959	29,097	33,209
Other theft	***144,458***	151,374	157,360	157,987	170,290
National					
Murder	***260***	253	281	259	263
Attempted murder	***231***	245	244	271	311
Manslaughter	***30***	29	40	42	39
Kidnapping/abduction*	***782***	730	726	729	768
Robbery	***16,508***	17,988	17,375	17,176	16,513
Unlawful entry with intent	***241,690***	248,423	262,005	281,994	308,675
Motor vehicle theft	***68,270***	70,650	75,377	80,365	87,939
Other theft	***496,697***	492,222	518,734	518,335	548,778

* Kidnapping/abduction statistics for NSW include 'deprivation of liberty' offences which are not included for other jurisdictions. Management also advised that NSW encourages the reporting of all incidents, even if no investigation takes place. This information is used for intelligence purposes.

Generally, the numbers of crimes against people in New South Wales were stable or have fallen when compared to previous years.

These trends are supported by the latest statistics released by the Force which show that of the 17 major crime categories measured, from June 2007 to June 2009, seven were trending down and nine were stable. The only category to show an increase was theft from retail stores, which rose 6.2 per cent across New South Wales. The Force does not consider this increase as unusual in light of the current economic environment.

Crime Investigations

In 2008-09, the Force spent 27.8 per cent (27.8 per cent in 2007-08) of its net cost of services on criminal investigations. Police effectiveness in this area is measured by the proportion of investigations finalised within 30 days of the offence becoming known. Analysis of the Force's performance in this area is illustrated in the following table:

Crime	Proportion (%) of investigations finalised in 30 days				Proportion (%) of investigations finalised in 30 days involving proceedings against offenders			
	NSW 2008	National Average 2008	NSW Ranking* 2008	NSW Ranking* 2007	NSW 2008	National Average 2008	NSW Ranking* 2008	NSW Ranking* 2007
Homicide	***65.8***	***76.3***	***5/5***	5/5	***87.0***	***84.5***	***2/3***	3/5
Robbery	***21.1***	***39.0***	***7/8***	8/8	***76.0***	***83.6***	***8/8***	4/8
Unlawful entry with intent	***7.7***	***11.8***	***7/8***	7/8	***53.5***	***80.9***	***8/8***	7/8
Motor vehicle theft	***10.8***	***17.3***	***7/8***	7/8	***35.6***	***66.9***	***8/8***	4/8
Other theft	***12.3***	***16.6***	***7/8***	8/8	***63.4***	***75.6***	***7/8***	4/8

* Information not available for all States/Territories for all categories. The rankings range from one to eight (highest to lowest).

Overall clearance rates in New South Wales remain below the national average for all categories with the exception of homicide investigations involving proceedings against offenders. The Force advised that the rankings are impacted by New South Wales being more likely to record incidents even when there is no evidence available for investigation.

OTHER INFORMATION

World Youth Day (WYD)

The Force established a WYD Security Command to provide policing services for the WYD event, which was held in July 2008. The Force advised that the total expenditure incurred for this event was $17.1 million, of which $14.1 million was recovered through WYD Coordination Authority contributions.

Court Cases and Costs Against the Force

Contingent liabilities from legal claims lodged against the Force totalled $74.6 million at 30 June 2009 ($78.8 million at 30 June 2008). If a claimant is successful, the settlement is met by the NSW Treasury Managed Fund.

Practices and procedures

We identified opportunities for the Force to improve its practices and procedures. We will discuss these further with management.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	2009 $'000	2008 $'000
Employee related	***2,015,488***	1,910,509
Grants and subsidies	***3,689***	3,595
Other expenses	***524,894***	534,409
OPERATING EXPENSES	***2,544,071***	2,448,513
OPERATING REVENUE	***96,926***	122,478
Loss on disposal of non-current assets	***5,438***	3,454
NET COST OF SERVICES	***2,452,583***	2,329,489
Government contributions	***2,388,208***	2,304,106
DEFICIT	***(64,375)***	(25,383)
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		
Net increase in revaluation reserve	***80,789***	29,394
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***16,414***	4,011

An increase in the Force's authorised strength has contributed to the rise in employee related expenses. The Force advised that the extra police were deployed to high priority areas, particularly in critical Local Area Commands as well as key specialised policing operations, such as public order and counter terrorism. Other factors contributing to the increase were award pay increases, higher contributions to superannuation schemes, increased workers' compensation insurance costs and associated taxes.

The decrease in operating revenue was the direct result of a reduction of grant funding ($30.7 million) for the Asia-Pacific Economic Cooperation (APEC) meetings. As APEC culminated with the Economic Leaders Meeting in September 2008 the majority of funding took place during 2007-08.

Government contributions rose largely due an increase in the recurrent appropriation to meet the operational needs of the Force.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***68,456***	67,179
Non-current assets	***1,534,482***	1,432,980
TOTAL ASSETS	***1,602,938***	1,500,159
Current liabilities	***476,095***	359,550
Non-current liabilities	***272,539***	302,719
TOTAL LIABILITIES	***748,634***	662,269
NET ASSETS	***854,304***	837,890

Non-current assets increased as a result of additions to, and revaluation of, property, plant and equipment.

The increase in total liabilities reflects a higher level of provisions required for employee entitlements and associated costs, plus a rising liability for the death and disability self-insurance scheme.

Abridged Service Group Information

The Force's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget $'000	2009 Actual $'000	2008 Actual $'000	2009 Actual $'000	2008 Actual $'000
Community Support	***1,301,915***	***1,318,689***	1,255,173	***449,687***	445,766
Criminal Investigation	***602,986***	***681,672***	648,301	***231,437***	226,204
Traffic and Commuter Services	***200,995***	***285,796***	276,620	***101,303***	101,371
Judicial Support	***178,156***	***166,426***	149,395	***56,503***	52,125
Not Attributable	--	--	--	***15,374***	***12,424***
Total all service groups	***2,284,052***	***2,452,583***	2,329,489	***854,304***	837,890

The primary reasons for the actual net cost of services exceeding the budget amount relate to unexpected increases relating to death and disability self-insurance and employee related expenses and entitlements.

ENTITY ACTIVITIES

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

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

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

Premier

Department of Premier and Cabinet

Election Funding Authority of New South Wales

Events New South Wales Pty Limited

Independent Commission Against Corruption

New South Wales Electoral Commission

Ombudsman's Office

Refer to Appendix 1 for:

Cowra Japanese Garden Maintenance Foundation Limited

Independent Pricing and Regulatory Tribunal

Infrastructure Implementation Corporation

Natural Resources Commission

Sesquicentenary of Responsible Government Trust Fund

Department of Premier and Cabinet

AUDIT OPINION

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

OTHER INFORMATION

Aboriginal Trust Fund Repayment Scheme

The Department received $9.0 million as part of the budget allocation ($1.0 million in 2007-08) towards the Aboriginal Trust Fund Repayment Scheme and paid $428,403 ($380,893) to the claimants.

At 30 June 2009, there were 8,595 (3,221) potential claimants registered with the Scheme, a 266.8 per cent increase since October 2008. Of these claims, 1,160 (634) are direct claims and 7,435 (2,587) are people who wish to make a descendant claim.

At 30 June 2009, 561 (371) interim assessments had been issued to claimants for their response and 471 (467) claims had been finalised.

Prior to 1969, successive New South Wales Governments deducted money from some Indigenous people's pensions, family endowment payments, apprentice wages, inheritances and lump sum compensation payments. This money was paid into a Trust Fund. In December 2004, the New South Wales Government announced it would establish an Aboriginal Trust Fund Repayment Scheme to repay the money.

e-Recruitment Project

The Department is currently managing the eRecruitment project, established in July 2008 to implement a whole-of-government, technology-based system to cover the full recruitment process of identifying vacant positions, through to the appointment of successful applicants.

The eRecruitment system will be used for all types of recruitment to identify the best candidate in the least amount of time. The system will offer a simplified and quicker application process for job seekers and make better use of eligibility lists to rapidly match excess staff throughout agencies in the New South Wales public sector.

The key achievements in the first 12 months of the project include:

- the identification of business requirements and data gathering of system requirements from all public sector agencies
- an implementation plan for the system on pilot agencies, the departments of Commerce, Corrective Services, Premier and Cabinet and WorkCover
- the launch of the new jobs.nsw website
- the appointment of a corporation to provide the eRecruitment system after a comprehensive evaluation process
- a comprehensive plan for the sector-wide deployment for the system endorsed by all agencies.

The total budget for the project is $29.8 million and is planned to be in use in all government agencies by December 2010. Total expenditure to 30 June 2009 was $2.7 million.

Control Issues

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

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	2009 $'000	2008 $'000
Employee related	***99,391***	98,918
Grant and subsidies	***17,610***	36,095
Other expenses	***89,280***	82,357
OPERATING EXPENSES	***206,281***	217,370
OPERATING REVENUE	***9,284***	9,882
Other losses	**--**	18
NET COST OF SERVICES	***196,997***	207,506
Government contributions	***192,728***	211,304
(DEFICIT)/SURPLUS	***(4,269)***	3,798
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY		
WDYCA equity transfer	***959***	--
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***(3,310)***	3,798

Grants and subsidies in 2008 included a $21.2 million payment to Events NSW Pty Limited. Events NSW Pty Limited was initially a part of the Department. It was set up as a separate entity during 2008. The payment of $30.0 million for 2009 has been recognised as a transfer payment as the portion of the Department's appropriations to be paid to Events NSW Pty Limited was specified in the 2008-09 budget papers and therefore the Department had no control over it.

Net equity of $958,583 was transferred to the Department following the abolishment of the World Youth Day Coordination Authority (WYDCA) in December 2008.

The fall in government contributions was due to a significant decrease in the Department's Crown accepted liabilities for employee benefits, mainly because of redundancies and other adjustments.

Abridged Balance Sheet

As at 30 June	2009 $'000	2008 $'000
Current assets	***26,517***	30,876
Non-current assets	***12,460***	14,839
TOTAL ASSETS	***38,977***	45,715
Current liabilities	***20,850***	24,263
Non-current liabilities	***88***	103
TOTAL LIABILITIES	***20,938***	24,366
NET ASSETS	***18,039***	21,349

Current assets decreased mainly due to a decline in cash assets of $3.6 million.

The decrease in non-current assets was mainly due to depreciation and amortisation of the non-current assets.

Current liabilities decreased mainly due to a reduction in the liability owing to the Consolidated Fund of $2.0 million.

Abridged Service Group Information

The Department's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget** $'000	2009 Actual $'000	2008 Actual $'000	2009 Actual $'000	2008 Actual $'000
State Plan Leadership and Support	***5,655***	***3,686***	3,467	***(329)***	(339)
Economic and Regional Coordination	***36,982***	***15,932***	16,872	***(1,436)***	(1,056)
Services and Capabilities Improvement	***31,492***	***16,431***	16,147	***(1,018)***	(1,684)
Policy Support	***46,240***	***26,883***	30,914	***2,030***	3,050
Administrative Support for Government	***100,958***	***134,065***	140,106	***(3,272)***	(2,333)
Not Attributable*	**--**	**--**	--	***22,064***	23,711
Total all service groups	***221,327****	***196,997***	207,506	***18,039***	21,349

* Represents items that could not be reliably allocated to a 'service group'.

** For the 2008-09 budget papers - Includes transfer payment of $30.0 million paid to Events NSW Pty Ltd. The Actuals do not include the transfer payment.

DEPARTMENT ACTIVITIES

The Department of Premier and Cabinet's role is to:

- provide support to the Premier and Cabinet, Ministers and agencies to integrate and coordinate policy across the sector and ensure efficient machinery of government
- coordinate and drive the NSW State Plan
- draft and publish legislation to the Government and members of Parliament
- provide leadership to deliver state infrastructure improvements and to maintain business investment in the state
- manage workforce reforms and employee relations to improve workforce capability
- coordinate significant state events to ensure quality, safety and benefit for the community.

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

On 27 July 2009, an Administrative Changes Order created the 13 new super Departments within the NSW Public Sector, effective from 1 July 2009. The Government transferred the functions of the Department of Local Government to the Department of Premier and Cabinet and abolished the Department of Local Government.

Election Funding Authority of New South Wales

AUDIT OPINION

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

FINANCIAL INFORMATION

Year ended 30 June	2009 $'000	2008 $'000
Election related expenses	***392***	8,407
Political education expenses	***1,811***	1,646
TOTAL EXPENSES	***2,203***	10,053
Government contributions	***2,203***	10,053
TOTAL REVENUES	***2,203***	10,053
SURPLUS	**--**	--
NET ASSETS	**--**	--

The Authority has no physical assets or employees and the New South Wales Electoral Commission administers its transactions.

Payments to political parties for political education during the year ended 30 June were:

Political Party	2009 $'000	2008 $'000
Australian Labor Party (NSW Branch)	***762***	692
Liberal Party of Australia NSW Division	***584***	531
National Party of Australia - NSW	***218***	198
The Greens	***194***	176
Christian Democratic Party (Fred Nile Group)	***53***	49
Total	***1,811***	1,646

AUTHORITY ACTIVITIES

The Authority registers groups and candidates for elections and meets claims for the public funding of election campaigns. It also:

- receives contribution and expenditure declarations from parties, groups, candidates and third parties in respect to State and Local government elections
- distributes annual political education payments to eligible political parties.

For further information on the Election Funding Authority of New South Wales, refer to www.efa.nsw.gov.au.

Events New South Wales Pty Limited

AUDIT OPINION

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

OTHER INFORMATION

Control Issues

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

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	2009 $'000	2008* $'000
Government contributions	***31,000***	21,184
Other Revenue	***646***	108
OPERATING REVENUE	***31,646***	21,292
Events Funding	***27,138***	10,751
Employee Related	***3,505***	1,290
Other Expenses	***6,352***	2,029
OPERATING EXPENSES	***36,995***	14,070
(DEFICIT)/SURPLUS	***(5,349)***	7,222
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY		
Superannuation actuarial losses	***(480)***	(112)
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***(5,829)***	7,111

* The comparative amount is for the period from 3 September 2007 to 30 June 2008.

Abridged Balance Sheet

As at 30 June	2009 $'000	2008 $'000
Current assets	***5,899***	8,389
Non-current assets	***884***	858
TOTAL ASSETS	***6,783***	9,247
Current liabilities	***4,884***	1,941
Non-current liabilities	***617***	195
TOTAL LIABILITIES	***5,501***	2,136
NET ASSETS	***1,282***	7,111

The increases in revenue and expenses and movements in the balance sheet are due to the company's expanded activities in 2008-09 compared with its first period of operation in 2007-08.

The company was involved with a variety of different events during the year including the:

- Men's Australian Open at Royal Sydney Golf Club
- Sydney Festival 2009
- Qantas Socceroos vs Uzbekistan
- Vivid Sydney – a new public festival of music and light.

COMPANY ACTIVITIES

The objectives of Events New South Wales are to:

- identify, attract and nurture events which will provide significant economic and/or community benefits to Sydney and New South Wales
- foster development of a Master Calendar of events to maximise long term benefits to Sydney and New South Wales
- encourage the leveraging of events to maximise the overall economic and community benefits of events to New South Wales
- encourage investment, infrastructure development and other activities which will ensure Sydney and New South Wales will continue to be a leading host of major global events.

For further information on the Company, refer to www.eventsnsw.com.au.

Independent Commission Against Corruption

AUDIT OPINION

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

PERFORMANCE INFORMATION

The Commission completed 87 per cent of investigations within 12 months, which is close to its target of completing more than 90 per cent (90 per cent in 2007-08). The information contained in the table below shows the levels of complaints the Commission received, investigated, referred to other agencies or assessed as requiring no further action. Outcomes of investigations have also been provided.

Year ended 30 June	Target	2009	2008	2007	2006	2005
Complaints						
Matters received	***na***	***2,714***	2,702	2,149	2,191	2,511
Investigated	***na***	***58***	78	73	56	48
Referred to other agencies or assessed as requiring no further action	***na***	***2,300***	2,493	1,673	2,051	2,308
Outcomes of Investigations						
Corrupt conduct findings:						
- Identified	***na***	***52***	51	17	61	15
- issued investigation report	***na***	***13***	7	5	7	6
- investigations completed within 12 months (%)	***>90%***	***87***	90	92	82	30
- recommendations reported by agencies as addressed (%)	***80%***	***93****	85	91	85	*95*

Source: Independent Commission Against Corruption (unaudited).

* For 2008-09, this number refers to recommendations that have been partially or fully implemented. It can also include instances when an agency has considered the recommendation and found an alternative way of addressing the issue. In previous years, 'addressed' also included if the agency did not agree.

na not applicable.

The number of complaints received by the Commission increased for a second consecutive year. The percentage of complaints investigated has fluctuated between 1.9 per cent and 3.4 per cent over a five year period. In three of the last five years, 90 per cent or more of the recommendations from these investigations were addressed by agencies.

FINANCIAL INFORMATION

Year ended 30 June	2009 $'000	2008 $'000
Employee related expenses	***13,496***	13,331
Other expenses	***4,556***	5,291
OPERATING EXPENSES	***18,052***	18,622
OPERATING REVENUE	***782***	882
NET COST OF SERVICES	***17,270***	17,740
Government contributions	***18,198***	17,595
SURPLUS/(DEFICIT)	***928***	(145)
NET ASSETS	***2,909***	1,983

In 2008-09, government contributions rose to fund the Commission's new complaints handling and case management system (MOCCA) and to replace outdated computer equipment. Due to technical issues the MOCCA system was not implemented in 2008-09.

The majority of the increase in net assets was from an increase in cash and plant and equipment.

Abridged Service Group Information

The Commission's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget $'000	2009 Actual $'000	2008 Actual $'000	2009 Actual $'000	2008 Actual $'000
Corruption Investigation	***13,593***	***14,160***	14,370	***2,232***	1,531
Corruption Prevention, Research and Education	***4,305***	***3,110***	3,370	***677***	452
Total all service groups	***17,898***	***17,270***	17,740	***2,909***	1,983

The higher than forecast revenue from the provision of corruption prevention training courses contributed to a lower actual net cost of services in 2008-09.

COMMISSION ACTIVITIES

The Commission, established by the *Independent Commission Against Corruption Act 1988,* is responsible for promoting and enhancing integrity in public administration throughout New South Wales by investigating, exposing and minimising corruption.

For further information regarding the Commission, refer to www.icac.nsw.gov.au.

New South Wales Electoral Commission

AUDIT OPINION

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

PERFORMANCE INFORMATION

There was a significant fall in voter participation in the 2008 Local Government Election when compared to recent State Government Elections. 672,794 voters (318,095 in 2007) representing 14.8 per cent (7.3 per cent) did not vote. Penalty notices were issued to 59.1 per cent (47.8 per cent) of the non-voters. The Commission does not issue a penalty notice to a non-voter if it is already aware of a valid reason, including aged or infirm persons, religious objectors and those who will be out of the State. Only 171,044 or 25.4 per cent (22.4 per cent) of non-voters were fined.

The table below compares voter participation rates for the 2008 Local Government Election with the State Government Elections in 2007, 2003 and 1999.

	2008 Local Government Election	**2007 State Government Election**	**2003 State Government Election**	**1999 State Government Election**
Number of Enrolments ('000)	***4,544***	4,374	4,272	4,115
Voter Participation (%)	***85.2***	92.7	91.9	93.1
Penalty notices for not voting ('000)	***398***	152	207	106
Number of citizens asking to be excused from the fine ('000)	***232***	82	125	65
Number of requests granted ('000)	***227***	81	125	63

Source: New South Wales Electoral Commission (unaudited).

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	2009 $'000	2008 $'000
Employee related	***5,995***	5,324
Other expenses	***33,292***	12,313
TOTAL EXPENSES	***39,287***	17,637
TOTAL REVENUES	***25,006***	3,860
NET COST OF SERVICES	***14,281***	13,777
Government contributions	***16,048***	16,435
SURPLUS	***1,767***	2,658
Net assets	***9,960***	8,193

The New South Wales Government initially paid the Commission to conduct the 2008 Local Government Elections. These monies were refundable to the New South Wales Government when the Commission recovered its costs from the Local Councils. In 2009 the Commission earned $23.3 million for rendering services to the Local Councils and spent $21.1 million on the Local Government Elections.

COMMISSION ACTIVITIES

The Commission assists the Electoral Commissioner administer the *Parliamentary Electorates and Elections Act 1912* by enrolling electors, preparing rolls and conducting elections. The Commission conducts council elections under the *Local Government Act 1993* and other statutory and industrial ballots.

For further information on the New South Wales Electoral Commission, refer to www.elections.nsw.gov.au.

Ombudsman's Office

AUDIT OPINION

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

PERFORMANCE INFORMATION

Formal Complaints and Notifications

In 2008-09, the Office received 32,994 complaints, inquiries and notifications (34,021 in 2007-08). Of these, 8,742 (9,320) were formal complaints and notifications, which were generally down over the prior year categories. The extension of 'class and kind agreements' with a number of agencies contributed to these reductions. These agreements mean that certain agencies need not notify certain classes of complaint or allegation to the Ombudsman.

Year ended 30 June	2009		2008		2007	
	Received	Finalised*	Received	Finalised*	Received	Finalised*
Police	***2,948***	***3,094***	2,969	3,254	3,466	3,555
Employment related child protection	***1,711***	***1,921***	1,920	1,921	2,078	1,830
Community services	***635***	***704***	767	737	560	569
Public sector agencies**	***3,057***	***2,993***	3,280	3,268	3,196	3,223
Agencies outside jurisdiction	***391***	***397***	384	364	392	392
Total	***8,742***	***9,109***	9,320	9,544	9,692	9,569

Source: Ombudsman's Office (unaudited).
* Includes complaints and notifications received in previous years.
** Includes witness protection appeals and controlled operations authorities audited.

Requests for Reviews of Finalised Decisions

Complainants can ask the Ombudsman to review finalised decisions made by his staff. The Office has set the following performance target for each team tasked with making these decisions and uses this as a measure of the quality of the services it provides.

Year ended 30 June	Target	Actual				
	2009 %	2009 %	2008 %	2007 %	2006 %	2005 %
Request for review						
Police	***<1.8***	***2.0***	1.5	1.7	1.6	1.7
Employment related child protection	***<6.0***	***8.3***	7.1	2.5	6.3	1.2
Community services	***<6.0***	***0.9***	0.4	1.4	1.9	1.5
General	***<6.0***	***5.0***	5.8	6.0	5.1	5.5

Source: Ombudsman's Office (unaudited).

The Ombudsman's work in the employment related child protection area is to oversight how agencies handle allegations of misconduct towards children. Only a small part of the Ombudsman's work is handling complaints made directly to the Ombudsman about how those allegations have been handled. 48 such complaints were made during the year and four complainants sought a review of the Ombudsman's decision.

Outcomes of Reviews of Finalised Decisions

	Total Requests for Review Received	Total Decisions Reviewed*	Affirmed	Resolved	Reopened
Police	63	63	61	0	2
Employment related child protection	4	4	4	0	0
Community services	6	6	5	0	1
Public sector agencies	162	162	131	15	16
Agencies outside jurisdiction	7	7	7	0	0
Total 2008-09	***242***	***242***	***208***	***15***	***19***
% of total decisions reviewed	--	--	86	6	8
Total 2007-08	267	283	259	10	14
% of total decisions reviewed	--	--	91	4	5

Source: Ombudsman's Office (unaudited).
* Some reviews are not finalised in the same year of request.

In 86 per cent of cases the original decision made by the delegated officer was affirmed by the Ombudsman and six per cent were resolved after the Ombudsman made further contact with the agency and it agreed to take action to resolve the complaint.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2009 $'000	2008 $'000
Employee related	***18,020***	17,114
Other expenses	***4,585***	4,939
TOTAL EXPENSES	***22,605***	22,053
TOTAL REVENUES	***251***	263
NET COST OF SERVICES	***22,354***	21,790
Government contributions	***21,845***	21,198
DEFICIT	***509***	592

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***629***	1,067
Non-current assets	***1,233***	1,191
TOTAL ASSETS	***1,862***	2,258
TOTAL LIABILITIES	***2,006***	1,893
NET (LIABILITIES)/ASSETS	***(144)***	365

Abridged Service Group Information

The Office's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget $'000	2009 Actual $'000	2008 Actual $'000	2009 Actual $'000	2008 Actual $'000
Complaint Advice, Referral, Resolution or Investigation	***9,496***	***10,405***	9,755	***(67)***	173
Oversight of Agency Investigation of Complaints	***4,262***	***4,633***	4,344	***(31)***	76
Scrutiny of Complaint Handling and Other Systems	***7,652***	***7,043***	6,604	***(46)***	116
Review of Implementation of Legislation	***273***	***273***	1,087	**--**	--
Total all service groups	***21,683***	***22,354***	21,790	***(144)***	365

OFFICE ACTIVITIES

The Office was established by the *Ombudsman Act 1974*. It deals with complaints about New South Wales' public sector agencies (including local councils) and community service providers on matters about child and family services, disability accommodation and support, home and community care and other services. The Office also oversees and monitors the investigation of allegations relating to child protection against employees of government agencies and certain private organisations such as schools and childcare centres. The Office also reviews the deaths of certain children, young people and people with a disability in care.

For further information on the Office, refer to www.ombo.nsw.gov.au.

Appendices

Appendix 1
Agencies not reported elsewhere in this Volume

Appendix 1 – Agencies not reported elsewhere in this Volume

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

Entity Name	Website	Period/Year Ended
Bush Fire Co-ordinating Committee	*	30 June 2009
Cowra Japanese Garden Maintenance Foundation Limited	www.cowra.nsw.gov.au	31 March 2009
Cowra Japanese Garden Trust	*	31 March 2009
Independent Pricing and Regulatory Tribunal	www.ipart.nsw.gov.au	30 June 2009
- Independent Pricing and Regulatory Tribunal Division	www.ipart.nsw.gov.au	30 June 2009
Infrastructure Implementation Corporation	www.premiers.nsw.gov.au	30 June 2009
Judicial Commission of New South Wales	*	30 June 2009
Legal Profession Admission Board	www.lawlink.nsw.gov.au	30 June 2009
Ministry for Police	www.police.nsw.gov.au	30 June 2009
Natural Resources Commission	www.nrc.nsw.gov.au	30 June 2009
- Natural Resources Commission Division	*	30 June 2009
New South Wales Crime Commission	www.crimecommission.nsw.gov.au	30 June 2009
- New South Wales Crime Commission Division	*	30 June 2009
- Office of the New South Wales Crime Commission	*	30 June 2009
Police Integrity Commission	www.pic.nsw.gov.au	30 June 2009
- Police Intergity Commission Division	*	30 June 2009
Sesquicentenary of Responsible Government Trust Fund	*	30 June 2009
State Rescue Board	*	30 June 2009

* This entity does not have a website.

Index

A

Page
A.C.N. 093 230 374 Pty Limited .... Vol 4 2008
Aboriginal Affairs, Department of .... Vol 6 2009
Aboriginal Affairs, Minister for .... Vol 6 2009
Aboriginal Housing Office .... Vol 6 2009
Aboriginal Housing Office Group of Staff .... Vol 6 2009
Aboriginal Land Council, New South Wales .... Vol 6 2009
Access Macquarie Limited .... Vol 2 2009
accessUTS Pty Limited .... Vol 2 2009
ACN 125 694 546 Pty Limited .... Vol 2 2009
Acyte Biotech Pty Ltd .... Vol 2 2009
Adult Migrant English Service, NSW .... Vol 4 2008
Ageing, Minister for .... Vol 6 2009
Ageing, Disability and Home Care,
Department of .... Vol 6 2009
Agencies not reported elsewhere in this Volume 107
Agricultural Business Research Institute .... Vol 2 2009
Agricultural Scientific Collections Trust .... Vol 5 2008
AGSM Limited .... Vol 2 2009
Ambulance Service of New South Wales .... Vol 1 2009
ANZAC Health and Medical Research Foundation . Vol 1 2009
ANZAC Health and Medical Research Foundation
Trust Fund .... Vol 1 2009
Architects Registration Board, NSW .... Vol 6 2009
Art Gallery of New South Wales Foundation .... Vol 4 2008
Art Gallery of New South Wales Trust .... Vol 5 2008
Arts Education Foundation Trust .... Vol 4 2008
Arts, Minister for .... Vol 5 2008
Arts, Sport and Recreation, Department of the ... Vol 5 2008
Asbestos Diseases Research Foundation, The ...... Vol 5 2008
Attorney General 19
Attorney General's Department 21
Audio Nomad Pty Ltd .... Vol 2 2009
Aus Health International Pty Limited .... Vol 6 2007
Australian Centre for Advanced Computing and
Communications Pty Ltd .... Vol 6 2009
Australian Education Consultancy Limited .... Vol 2 2009
Australian Institute of Asian Culture and Visual
Arts Limited, The .... Vol 5 2008
Australian Museum Trust .... Vol 5 2008
Australian Plant DNA Bank Limited .... Vol 2 2009
Australian Proteome Analysis Facility Limited .... Vol 2 2009
Australian School of European Aviation
(JAA) Pty Ltd .... Vol 2 2009
Australian Technology Park Precinct
Management Ltd .... Vol 5 2008
Australian Water Technologies Pty Ltd .... Vol 7 2009
AWT International (Thailand) Limited .... Vol 7 2009

B

Banana Industry Committee .... Vol 5 2008
Belgenny Farm Agricultural Heritage Centre
Trust .... Vol 1 2009
Biobank Pty Limited .... Vol 2 2009
Board of Studies, Office of the .... Vol 5 2008
Board of Studies, The .... Vol 4 2008
Board of Studies Casual Staff Division .... Vol 4 2008
Board of Surveying and Spatial Information 127
Board of Vocational Education and Training,
NSW .... Vol 4 2008
Border Rivers-Gwydir Catchment Management
Authority .... Vol 7 2009
Bosch Institute, The .... Vol 2 2009
Brett Whiteley Foundation, The .... Vol 4 2008
Building and Construction Industry Long Service
Payments Corporation .... Vol 5 2009
Building Insurers' Guarantee Corporation .... Vol 6 2009
Building Professionals Board .... Vol 4 2008
Buroba Pty Ltd .... Vol 5 2009
Bush Fire Co-ordinating Committee 107
Businesslink Pty Ltd, NSW .... Vol 6 2009

C

C.B. Alexander Foundation .... Vol 5 2008
CADRE Design Pty Limited .... Vol 2 2009
CADRE Design Unit Trust ....Vol 2 2009
Cancer Institute Division ....Vol 1 2009
Cancer Institute NSW ....Vol 1 2009
Casino Control Authority, New South Wales........Vol 5 2008
Casino Control Authority Division ....Vol 5 2008
CCP Holdings Pty Limited ....Vol 3 2009
Centennial Park and Moore Park Trust ....Vol 6 2008
Centennial Parklands Foundation ....Vol 6 2008
Central West Catchment Management Authority..Vol 7 2009
Centre for United States Studies Pty Limited ......Vol 2 2009
Cessnock Uni-Clinic Trust ....Vol 2 2009
Charles Sturt Foundation Limited ....Vol 2 2009
Charles Sturt Foundation Trust ....Vol 2 2009
Charles Sturt Services Limited ....Vol 2 2009
Charles Sturt University ....Vol 2 2009
Chief Investigator of the Office of Transport
Safety Investigations ....Vol 4 2008
Children, Office for ....Vol 5 2008
Chipping Norton Lake Authority ....Vol 6 2009
Citizenship, Minister for ....Vol 5 2008
Chiropractors Registration Board ....Vol 5 2008
City West Housing Pty Limited ....Vol 6 2009
Climate Change and the Environment,
Minister for ....Vol 7 2009
Clinical Excellence Commission ....Vol 1 2009
Clinical Excellence Commission Special
Purpose Service Entity ....Vol 1 2009
CMBF Limited ....Vol 2 2009
Coal Compensation Board, New South Wales ......Vol 5 2008
Cobar Water Board ....Vol 7 2009
Cobar Water Board Division ....Vol 7 2009
Cobbora Coal Unit Trust ....Vol 3 2009
Cobbora Management Company Pty Limited ....Vol 3 2009
Cobbora Unincorporated Joint Venture ....Vol 3 2009
Coffs Harbour Technology Park Limited ....Vol 4 2008
Commerce, Department of ....Vol 6 2009
Commerce, Minister for ....Vol 6 2009
Commission for Children and Young
People, NSW ....Vol 6 2009
Community Relations Commission, Office of the ..Vol 5 2008
Community Relations Commission for a
Multicultural New South Wales ....Vol 5 2008
Community Services, Department of ....Vol 6 2009
Community Services, Minister for ....Vol 6 2009
Cooks Cove Development Corporation ....Vol 5 2008
Corporate Governance Arrangements
in Large Government Agencies and
Universities ....Vol 2 2009
Corporation Sole 'Minister Administering the
Environmental Planning and Assessment
Act, 1979' ....Vol 5 2008
Corporation Sole 'Minister Administering the
Heritage Act, 1977' ....Vol 5 2008
Corrective Services, Department of 49
Corrective Services, Minister for 47
Country Energy ....Vol 3 2009
Country Energy Gas Pty Limited ....Vol 3 2009
Cowra Japanese Garden Maintenance
Foundation Limited 107
Cowra Japanese Garden Trust 107
Crime Commission, New South Wales 107
Crime Commission, Office of the New South
Wales 107
Crime Commission Division, New South Wales 107
Crown Employees (NSW Fire Brigades
Firefighting Staff, Death and Disability)
Superannuation Fund ....Vol 5 2009
Crown Entity ....Vol 5 2009
Crown Lands Homesites Program ....Vol 5 2008
Crown Leaseholds Entity ....Vol 5 2008
Cystemix Pty Limited ....Vol 2 2009

D

Dams Safety Committee ....Vol 7 2009
Delta Electricity ....Vol 3 2009
Delta Electricity Australia Pty Ltd ....Vol 3 2009

Dental Board of New South Wales .... Vol 1 2009
Dental Technicians Registration Board .... Vol 5 2008
Director of Public Prosecutions, Office of the 33
Disability Services, Minister for .... Vol 5 2008
Downtown Utilities Pty Limited .... Vol 3 2009
Dumaresq-Barwon Border Rivers Commission .... Vol 7 2009
Duquesne Utilities Pty Ltd .... Vol 5 2009

E

Education and Training, Department of .... Vol 4 2008
Education and Training, Minister for .... Vol 6 2009
Education Training Community Television (ETC TV) Limited .... Vol 2 2009
Elastagen Pty Limited .... Vol 2 2009
Election Funding Authority of New South Wales 95
Electoral Commission, New South Wales 100
Electricity Industry Overview .... Vol 3 2009
Electricity Tariff Equalisation Ministerial Corporation .... Vol 5 2009
Emergency Services, Minister for 57
Emergency Services Overview 3
Emergency Services, Office for .... Vol 6 2008
Energy, Minister for .... Vol 3 2009
Energy Industries Superannuation Scheme .... Vol 5 2009
Energy Investment Fund .... Vol 5 2009
EnergyAustralia .... Vol 3 2009
EnergyAustralia Pty Limited .... Vol 3 2009
Environment and Climate Change, Department of .... Vol 7 2009
Environment Protection Authority .... Vol 7 2009
Environmental Trust .... Vol 7 2009
Eraring Energy .... Vol 3 2009
Events New South Wales Pty Limited 96

F

Fair Trading Administration Corporation .... Vol 6 2009
Festival Development Corporation .... Vol 3 2009
Film and Television Office, New South Wales .... Vol 4 2008
Finance, Minister for .... Vol 6 2009
Financial Counselling Trust Fund .... Vol 6 2009
Financial Reports Not Received by Statutory Date (as at 5 May 2009) .... Vol 2 2009
Financial Reports Received but Audit Incomplete by Statutory Date (as at 5 May 2009) .... Vol 2 2009
Fire Brigades, New South Wales 59
Fire Brigades Superannuation Pty Limited, NSW .... Vol 5 2009
Follow-up Review of CityRail Passenger Security .... Vol 4 2008
Food Authority, NSW .... Vol 5 2008
Food Authority, Office of the NSW .... Vol 5 2008
Forestry Commission of New South Wales (Trading as Forests NSW) .... Vol 1 2009
Forestry Commission Division .... Vol 1 2009
Foundation for the Historic Houses Trust of New South Wales .... Vol 5 2008
Foundation for the Historic Houses Trust of New South Wales Limited .... Vol 5 2008

G

Game Council of New South Wales .... Vol 5 2008
Game Council Division .... Vol 5 2008
Gaming and Racing, Minister for .... Vol 5 2009
Gosford Water Supply Authority .... Vol 7 2009
Government Telecommunications Authority (Telco) , New South Wales .... Vol 6 2009
GraduateSchool.com Pty Limited .... Vol 2 2009
Greater Southern Area Health Service .... Vol 1 2009
Greater Southern Area Health Service Special Purpose Service Entity .... Vol 1 2009
Greater Western Area Health Service .... Vol 1 2009
Greater Western Area Health Service Special Purpose Service Entity .... Vol 1 2009
Greyhound and Harness Racing Regulatory Authority .... Vol 5 2008
Greyhound and Harness Racing Regulatory Authority Division .... Vol 5 2008
Growth Centres Commission .... Vol 4 2008

H

Hamilton Rouse Hill Trust .... Vol 5 2008
Hawkesbury-Nepean Catchment Management Authority .... Vol 7 2009
Health Administration Corporation .... Vol 1 2009
Health Administration Corporation Special Purpose Service Entity .... Vol 1 2009
Health Care Complaints Commission .... Vol 5 2008
Health Care Complaints Commission, Office of the .... Vol 5 2008
Health Foundation, New South Wales .... Vol 6 2008
Health, Department of .... Vol 1 2009
Health, Minister for .... Vol 1 2009
Health Overview .... Vol 1 2009
HealthQuest .... Vol 1 2009
HealthQuest Special Purpose Service Entity .... Vol 1 2009
HepatoCell Therapeutics Pty Ltd .... Vol 2 2009
Historic Houses Trust of New South Wales .... Vol 5 2008
Home Care Service of New South Wales .... Vol 6 2009
Home Care Service Division .... Vol 6 2009
Home Purchase Assistance Fund .... Vol 7 2009
Housing, Minister for .... Vol 7 2009
Housing NSW .... Vol 6 2009
Hunter Development Corporation .... Vol 4 2008
Hunter New England Area Health Service .... Vol 1 2009
Hunter New England Area Health Service Special Purpose Service Entity .... Vol 1 2009
Hunter Uni-Clinics Pty Limited .... Vol 2 2009
Hunter Water Australia Pty Limited. .... Vol 7 2009
Hunter Water Corporation .... Vol 7 2009
Hunter-Central Rivers Catchment Management Authority .... Vol 7 2009

I

Illawarra Technology Corporation Limited .... Vol 2 2009
Independent Commission Against Corruption 98
Independent Pricing and Regulatory Tribunal 107
Independent Pricing and Regulatory Tribunal Division 107
Independent Transport Safety and Reliability Regulator .... Vol 4 2008
Independent Transport Safety and Reliability Regulator Division .... Vol 4 2008
Industrial Relations, Minister for .... Vol 5 2009
Infrastructure Implementation Corporation 107
Ingham Health Research Institute .... Vol 1 2009
Insearch Limited .... Vol 2 2009
Institute for Magnetic Resonance Research .... Vol 2 2009
Institute of Psychiatry, New South Wales .... Vol 5 2008
Institute of Sport, New South Wales .... Vol 5 2008
Institute of Sport Division .... Vol 5 2008
Institute of Teachers, NSW .... Vol 4 2008
Institute of Teachers, Office of the .... Vol 4 2008
Integral Energy Australia .... Vol 3 2009
Internal Audit Bureau of New South Wales .... Vol 6 2009
Internal Audit Bureau Division .... Vol 6 2009
International Livestock Resources and Information Centre Ltd .... Vol 2 2009
ITC (Europe) Ltd .... Vol 2 2009
ITC (Middle East) Ltd .... Vol 2 2009
ITC (New Zealand) Limited .... Vol 2 2009
ITC Education Ltd .... Vol 2 2009
ITC Emirates Limited .... Vol 2 2009

J

Jenolan Caves Reserve Trust .... Vol 7 2009
Jenolan Caves Reserve Trust Division .... Vol 7 2009
John Lewis and Pamela Lightfoot Trust .... Vol 2 2009
Judicial Commission of New South Wales 107
Justice Health .... Vol 1 2009
Justice Health Special Purpose Service Entity .... Vol 1 2009
Justice, Minister for .... Vol 5 2009

Juvenile Justice, Department of .... Vol 6 2009
Juvenile Justice, Minister for .... Vol 6 2009

L

Lachlan Catchment Management Authority........ Vol 7 2009
Lake Illawarra Authority .... Vol 6 2009
LAMS Foundation Limited .... Vol 2 2009
LAMS International Pty Limited .... Vol 2 2009
Land Development Working Account................ Vol 6 2009
Landcom .... Vol 5 2008
Lands, Department of .... Vol 6 2008
Lands, Minister for .... Vol 6 2009
Law and Order Overview 7
Legal Aid Commission of New South Wales 29
Legal Aid Commission, Office of the 32
Legal Aid Commission Temporary Staff Division 32
Legal Opinions Provided by the Crown Solicitor .. Vol 4 2009
Legal Profession Admission Board 107
Legislature, The 13
Legislature (Audit of Members' Additional Entitlements), The .... Vol 2 2009
Liability Management Ministerial Corporation..... Vol 5 2009
Library Council of New South Wales .... Vol 5 2008
Lifetime Care and Support Authority of New South Wales .... Vol 5 2009
Liquor Administration Board .... Vol 5 2008
Local Government, Department of 75
Local Government, Minister for 73
Lord Howe Island Board .... Vol 7 2009
Lotteries Corporation, New South Wales........... Vol 5 2009
Lower Murray-Darling Catchment Management Authority .... Vol 7 2009
Luna Park Reserve Trust .... Vol 5 2008

M

Macquarie Generation .... Vol 3 2009
Macquarie Graduate School of Management Pty Limited .... Vol 2 2009
Macquarie University Medical Research Foundation Limited .... Vol 2 2009
Macquarie University Medical Research Trust ..... Vol 2 2009
Macquarie University Private Hospital Trust....... Vol 2 2009
Macquarie University Professorial Superannuation Scheme .... Vol 2 2009
Macquarie University Property Investment Company No. 2 Pty Limited...................... Vol 2 2009
Macquarie University Property Investment Company Pty Limited .... Vol 2 2009
Macquarie University Property Investment Trust .... Vol 2 2009
Macquarie University .... Vol 2 2009
Marine Parks Authority .... Vol 7 2009
Maritime Authority of NSW .... Vol 5 2008
Maritime Authority of NSW Division .... Vol 5 2008
Medical Board, New South Wales.................... Vol 5 2008
Mid West Primary Pty Ltd .... Vol 3 2009
Midwest Development Corporation Pty Limited... Vol 3 2009
Milk Marketing (NSW) Pty Limited .... Vol 5 2008
Mine Subsidence Board .... Vol 1 2009
Mineral Resources, Minister for .... Vol 1 2009
Minerals Industry/University of New South Wales Education Trust, The New South Wales Vol 2 2009
Ministerial Corporation for Industry................. Vol 5 2008
Mitchell Services Limited .... Vol 2 2009
Motor Accidents Authority of New South Wales ... Vol 5 2009
Motor Accidents Authority of New South Wales, Office of the .... Vol 5 2009
Motor Vehicle Repair Industry Authority .... Vol 6 2009
MU Private Hospital Pty Limited .... Vol 2 2009
MUPH Clinic Pty Limited .... Vol 2 2009
MUPH Clinic Sub-Trust................................. Vol 2 2009
MUPH Hospital Pty Limited .... Vol 2 2009
MUPH Hospital Sub-Trust .... Vol 2 2009
MUPI Holding Trust No. 1 .... Vol 2 2009
MUPI Holding Trust No. 2 .... Vol 2 2009
MUPI Holding Trust No. 3 .... Vol 2 2009
MUPI Holding Trust No. 4 .... Vol 2 2009
MUPI Holding Trust No. 5 .... Vol 2 2009
MUPI Holding Trust No. 6 .... Vol 2 2009
MUPIT Sub-Trust No. 1 .... Vol 2 2009
MUPIT Sub-Trust No. 2 .... Vol 2 2009
MUPIT Sub-Trust No. 3 .... Vol 2 2009
MUPIT Sub-Trust No. 4 .... Vol 2 2009
Murray Catchment Management Authority .... Vol 7 2009
Murrumbidgee Catchment Management Authority .... Vol 7 2009

N

Namoi Catchment Management Authority .... Vol 7 2009
National Marine Science Centre Pty Ltd .... Vol 2 2009
Natural Resources Commission 107
Natural Resources Commission Division................... 107
Newcastle Innovation Limited .... Vol 2 2009
Newcastle International Sports Centre Trust....... Vol 3 2009
Newcastle Port Corporation........................... Vol 5 2008
Newcastle Showground and Exhibition Centre Trust .... Vol 1 2009
NewSouth Eight Pty Ltd................................ Vol 2 2009
NewSouth Five Pty Ltd .... Vol 2 2009
NewSouth Four Pty Ltd .... Vol 2 2009
NewSouth Global (Thailand) Limited .... Vol 2 2009
NewSouth Innovations Pty Ltd .... Vol 2 2009
NewSouth One Pty Ltd .... Vol 2 2009
NewSouth Seven Pty Ltd............................... Vol 2 2009
NewSouth Six Pty Ltd .... Vol 2 2009
Norsearch Limited .... Vol 2 2009
North Coast Area Health Service .... Vol 1 2009
North Coast Area Health Service Special Purpose Service Entity................... Vol 1 2009
Northern Rivers Catchment Management Authority .... Vol 7 2009
Northern Sydney and Central Coast Area Health Service...................................... Vol 1 2009
Northern Sydney and Central Coast Area Health Service Special Purpose Service Entity .... Vol 1 2009
NorthPower Energy Services Pty Limited .... Vol 3 2009
Nurses and Midwives Board .... Vol 5 2008

O

Ombudsman's Office 102
Optical Dispensers Licensing Board .... Vol 5 2008
Optometrists Registration Board .... Vol 5 2008
Osteopaths Registration Board .... Vol 5 2008
Ovine Johne's Disease Transaction Based Contribution Scheme, NSW....................... Vol 5 2008

P

Pacific Industry Services Corporation Pty Limited. Vol 5 2008
Pacific Power (Subsidiary No. 1) Pty Ltd............ Vol 3 2009
Pacific Solar Pty Limited .... Vol 3 2009
Pacific Western Pty Limited .... Vol 4 2008
Parklands Foundation Limited .... Vol 5 2008
Parliamentary Contributory Superannuation Fund .... Vol 5 2009
Parramatta Park Trust .... Vol 5 2008
Parramatta Stadium Trust............................. Vol 2 2009
Parramatta Stadium Trust Division .... Vol 2 2009
Payments to other Government Bodies under the control of the Minister .... Vol 6 2009
Pharmacy Board of New South Wales................ Vol 1 2009
Physiotherapists Registration Board .... Vol 5 2008
Planning, Department of .... Vol 5 2008
Planning, Minister for .... Vol 3 2009
Podiatrists Registration Board .... Vol 5 2008
Police Force, NSW 83
Police Integrity Commission 107
Police Integrity Commission Division 107
Police, Minister for 81
Police, Ministry for 107
Port Kembla Port Corporation .... Vol 5 2008
Ports and Waterways, Minister for .... Vol 5 2008

Premier 89
Premier and Cabinet, Department of 91
Primary Industries, Department of.................. Vol 1 2009
Primary Industries, Minister for...................... Vol 3 2009
Probiotic Health Pty Limited......................... Vol 2 2009
Protective Commissioner – Common Fund,
Office of the .... Vol 2 2009
Protective Commissioner and Public Guardian,
Office of the 36
Psychologists Registration Board .... Vol 5 2008
Public Transport Ticketing Corporation .... Vol 5 2008
Public Transport Ticketing Corporation
Division .... Vol 5 2008
Public Trustee NSW.. 39
Public Trustee NSW – Common Fund....................... 43

Q

Qualified Independent Audit Reports Issued....... Vol 5 2008
Qucor Pty Ltd... Vol 2 2009

R

Rail Corporation New South Wales .... Vol 4 2008
Rail Infrastructure Corporation .... Vol 4 2008
Rail Services Overview .... Vol 4 2008
Redfern and Waterloo, Minister for .... Vol 5 2008
Redfern-Waterloo Authority.......................... Vol 5 2008
Redfern Waterloo Authority, Office of the .... Vol 5 2008
Regional Land Management Corporation Pty Ltd . Vol 5 2008
Remarkspdf Pty Ltd.................................... Vol 2 2009
Rental Bond Board .... Vol 6 2009
Rental Housing Assistance Fund .... Vol 6 2009
Residual Business Management Corporation .... Vol 3 2009
Responsible Gambling Fund .... Vol 5 2008
Rice Marketing Board for the State of
New South Wales .... Vol 5 2008
Risk Frontiers Flood (Australia) Pty Limited .... Vol 2 2009
Risk Frontiers Group Pty Limited .... Vol 2 2009
Riverina Citrus.. Vol 5 2008
Rivservices Limited .... Vol 2 2009
Roads, Minister for..................................... Vol 6 2008
Roads and Traffic Authority of New South Wales . Vol 6 2008
Roads and Traffic Authority Division................ Vol 6 2008
Rocky Point Holdings Pty Ltd......................... Vol 3 2009
Rouse Hill Hamilton Collection Pty Limited .... Vol 5 2008
Royal Alexandra Hospital for Children.............. Vol 1 2009
Royal Alexandra Hospital for Children
Special Purpose Service Entity.................. Vol 1 2009
Royal Botanic Gardens and Domain Trust.......... Vol 7 2009
Rural Assistance Authority, New South Wales ..... Vol 6 2008
Rural Assistance Authority, Office of the .... Vol 6 2008
Rural Australia Foundation Limited .... Vol 2 2008
Rural Fire Service, NSW 65

S

SAS Trustee Corporation .... Vol 5 2009
SAS Trustee Corporation - Pooled Fund .... Vol 5 2009
SAS Trustee Corporation Division of
the Government Service of NSW................ Vol 5 2009
Self Insurance Corporation, NSW .... Vol 5 2009
Services UNE Ltd .... Vol 2 2009
Sesquicentenary of Responsible Government
Trust Fund.. 107
SGSM Limited .... Vol 2 2009
Small Business, Minister for .... Vol 5 2008
Small Business Development Corporation
of New South Wales............................... Vol 5 2008
South Eastern Sydney and Illawarra Area Health
Service .... Vol 1 2009
South Eastern Sydney and Illawarra Area Health
Service Special Purpose Service Entity .... Vol 1 2009
Southern Cross University .... Vol 2 2009
Southern Rivers Catchment Management
Authority .... Vol 7 2009
Sport and Recreation, Minister for .... Vol 3 2009
Sporting Injuries Committee .... Vol 5 2009
Sports Knowledge Australia Pty Limited............ Vol 2 2009
State and Regional Development, Department of. Vol 5 2008
State Council of Rural Lands Protection Boards ... Vol 3 2009
State Council of Rural Lands Protection Boards
Division .... Vol 3 2009
State Development, Minister for .... Vol 5 2008
State Emergency Service..................................... 69
State Library of New South Wales Foundation ..... Vol 5 2008
State Plan... Vol 2 2009
State Property Authority .... Vol 6 2009
State Property Authority, Office of the............ Vol 6 2009
State Rail Authority Residual Holding
Corporation... Vol 5 2009
State Records Authority of New South Wales ...... Vol 6 2009
State Rescue Board... 107
State Sports Centre Trust .... Vol 4 2008
State Sports Centre Trust Division .... Vol 4 2008
State Super Financial Services Australia Limited .. Vol 5 2009
State Transit Authority of New South Wales .... Vol 5 2008
State Transit Authority Division .... Vol 5 2008
State Water Corporation .... Vol 7 2009
Statement of the Budget Result...................... Vol 4 2009
Superannuation Administration Corporation
(trading as Pillar Administration) .... Vol 5 2009
Sydney 2009 World Masters Games Organising
Committee.. Vol 5 2008
Sydney 2009 World Masters Games Organising
Committee Division............................... Vol 5 2008
Sydney 2009 World Masters Games Organising
Committee Division, Office of the .... Vol 5 2008
Sydney Business School Pty Ltd .... Vol 2 2009
Sydney Catchment Authority .... Vol 7 2009
Sydney Catchment Authority Division .... Vol 7 2009
Sydney Cricket and Sports Ground Trust............ Vol 4 2008
Sydney Cricket and Sports Ground Trust
Division .... Vol 4 2008
Sydney Desalination Plant Pty Limited............. Vol 7 2009
Sydney Educational Broadcasting Limited .... Vol 2 2009
Sydney Ferries Corporation .... Vol 5 2008
Sydney Harbour Foreshore Authority .... Vol 5 2008
Sydney Harbour Foreshore Authority,
Office of the.. Vol 5 2008
Sydney Harbour Foreshore Authority
Casual Staff Division, ... Vol 5 2008
Sydney Institutes of Health and Medical
Research, The .... Vol 2 2009
Sydney International Film School Pty Limited ..... Vol 2 2009
Sydney Metropolitan Catchment Management
Authority .... Vol 7 2009
Sydney Olympic Park Authority .... Vol 5 2008
Sydney Olympic Park Authority, Office of the ..... Vol 5 2008
Sydney Olympic Park Authority Sydney
Olympic Park Aquatic and Athletic Centres
Division .... Vol 5 2008
Sydney Opera House Trust .... Vol 5 2008
Sydney Pilot Service Pty Ltd .... Vol 5 2008
Sydney Ports Corporation .... Vol 5 2008
Sydney South West Area Health Service .... Vol 1 2009
Sydney South West Area Health Service
Special Purpose Service Entity .... Vol 1 2009
Sydney Talent Pty Limited .... Vol 2 2009
Sydney Water Corporation .... Vol 7 2009
Sydney West Area Health Service .... Vol 1 2009
Sydney West Area Health Service Special
Purpose Service Entity .... Vol 1 2009
Sydney West International College Pty Limited ... Vol 2 2009
SydneyLearning Pty Limited .... Vol 2 2009

T

Taronga Conservation Society Australia .... Vol 7 2009
Taronga Conservation Society Australia Division .. Vol 7 2009
TCorp Nominees Pty Limited .... Vol 5 2009
Teacher Housing Authority of New South Wales... Vol 6 2009
Technical and Further Education Commission,
New South Wales .... Vol 4 2008
Technical and Further Education Commission
Division, New South Wales .... Vol 4 2008

Technical Education Trust Funds .... Vol 2 2009
Television Sydney (TVS) Limited .... Vol 2 2009
Total State Sector Accounts .... Vol 4 2009
Tourism, Minister for .... Vol 5 2008
TransGrid .... Vol 3 2009
Transport, Minister for .... Vol 5 2008
Transport, Ministry of .... Vol 5 2008
Transport Infrastructure Development
Corporation .... Vol 4 2008
Transport Services Overview .... Vol 5 2008
Treasurer .... Vol 6 2009
Treasury, The .... Vol 5 2009
Treasury Corporation, New South Wales .... Vol 5 2009
Treasury Corporation Division of the
Government Service .... Vol 5 2009
Trustees of the ANZAC Memorial Building .... Vol 2 2009
Trustees of the Farrer Memorial Research
Scholarship Fund .... Vol 3 2009
Trustees of the Museum of Applied Arts
and Sciences .... Vol 5 2008
TVS Limited .... Vol 2 2009

U

U@MQ Limited .... Vol 2 2009
Ucom Fifteen Pty Limited .... Vol 2 2009
Ucom Sixteen Pty Limited .... Vol 2 2009
UNE Partnerships Pty Limited .... Vol 2 2009
UNE Vision Pty Ltd .... Vol 2 2009
UniCentre Conferences and Functions Pty Limited Vol 2 2009
UNILINC Limited .... Vol 2 2009
Uniprojects Pty Limited .... Vol 5 2008
United States Studies Centre Limited .... Vol 2 2009
Universities Admissions Centre (NSW & ACT)
Pty Limited .... Vol 5 2008
Universities Overview .... Vol 2 2009
University of New England .... Vol 2 2009
University of New England Professorial
Superannuation Fund .... Vol 2 2009
University of New England Sports Association ..... Vol 2 2009
University of New South Wales .... Vol 2 2009
University of New South Wales Foundation .... Vol 2 2008
University of New South Wales Foundation
Limited .... Vol 2 2009
University of New South Wales International
House Limited .... Vol 2 2009
University of New South Wales Press Limited ..... Vol 2 2009
University of Newcastle .... Vol 2 2009
University of Sydney, The .... Vol 2 2009
University of Sydney Professorial Superannuation
System .... Vol 2 2009
University of Technology, Sydney .... Vol 2 2009
University of Western Sydney .... Vol 2 2009
University of Western Sydney Foundation
Limited .... Vol 2 2009
University of Western Sydney Foundation Trust .. Vol 2 2009
University of Wollongong .... Vol 2 2009
University of Wollongong Recreation
Aquatic Centre Limited .... Vol 2 2009
UNSW & Study Abroad – Friends and U.S.
Alumni, Inc. .... Vol 2 2009
UNSW (Thailand) Limited .... Vol 2 2009
UNSW Asia School Limited .... Vol 2 2009
UNSW Global (Singapore) Pte Limited .... Vol 2 2009
UNSW Global India Private Limited .... Vol 2 2009
UNSW Global Pty Limited .... Vol 2 2009
UNSW Hong Kong Foundation Limited .... Vol 2 2009
UNSW Hong Kong Limited .... Vol 2 2009
UTSM Services (Malaysia) Sdn Bhd .... Vol 2 2009
UON Foundation Ltd .... Vol 2 2009
UON Foundation Trust .... Vol 2 2009
UON Services Limited .... Vol 2 2009
UON, Singapore Pte Ltd .... Vol 2 2009
Upper Parramatta River Catchment Trust .... Vol 7 2009
Upper Parramatta River Catchment Trust
Division .... Vol 7 2009
UWS College Pty Limited .... Vol 2 2009
UWS Conference and Residential Colleges Limited Vol 2 2009
uwsconnect Limited .... Vol 2 2009

V

Valley Commerce Pty Limited .... Vol 5 2009
Veterinary Practitioners Board .... Vol 5 2008
Vocational Education and Training
Accreditation Board, NSW .... Vol 4 2008

W

Warren Centre for Advanced Engineering
Limited, The .... Vol 2 2009
Waste Recycling and Processing Corporation ...... Vol 2 2009
Water and Energy, Department of .... Vol 7 2009
Water Industry Overview .... Vol 7 2009
Water, Minister for .... Vol 7 2009
Wayahead Pty Limited .... Vol 2 2009
Wentworth Annexe Limited .... Vol 2 2009
Wentworth Park Sporting Complex Trust .... Vol 4 2008
Western Catchment Management Authority .... Vol 7 2009
Western Research Institute Limited .... Vol 2 2009
Western Sydney Buses Division .... Vol 5 2008
Western Sydney Parklands Trust .... Vol 5 2008
Whitlam Institute Within the University of
Western Sydney Limited .... Vol 2 2009
Whitlam Institute Within the University of
Western Sydney Trust .... Vol 2 2009
Wild Dog Destruction Board .... Vol 2 2009
Wild Dog Destruction Board Division .... Vol 2 2009
Wine Grapes Marketing Board .... Vol 2 2009
Wollongong Sportsground Trust .... Vol 5 2008
Wollongong Sportsground Trust Division .... Vol 5 2008
Wollongong UniCentre Limited .... Vol 2 2009
WorkCover Authority, Office of the .... Vol 6 2008
WorkCover Authority of New South Wales .... Vol 6 2008
Workers Compensation Commission of
New South Wales .... Vol 6 2008
Workers Compensation Nominal Insurer
(trading as The NSW WorkCover Scheme) ...... Vol 1 2009
Workers' Compensation (Dust Diseases) Board .... Vol 5 2008
World Youth Day Co-ordination Authority .... Vol 2 2009
World Youth Day Co-ordination Authority,
Office of .... Vol 2 2009
Wyong Water Supply Authority .... Vol 7 2009

Y

Youth, Minister for .... Vol 6 2009

AUDITOR-GENERAL'S REPORT
FINANCIAL AUDITS

Volume Nine 2009

focusing on Education and Communities

AUDITOR-GENERAL
NEW SOUTH WALES

The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

Pursuant to the *Public Finance and Audit Act 1983*, I present Volume Nine of my 2009 Report.

Peter Achterstraat

Peter Achterstraat
Auditor-General

Sydney
December 2009

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 one section which provides comments on financial audits of government agencies. It is divided into ministerial portfolios, each containing one or more government agencies.

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

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

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

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

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

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

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

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

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

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

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

Appendix 1 contains the names of agencies not reported elsewhere in this Volume. These agencies received unqualified audit opinions and have no significant issues to report.

Contents

Significant Items iii

SECTION ONE – Commentary on Government Agencies

Minister for Citizenship 3
Minister for Education and Training 5
Department of Education and Training *7*
New South Wales Technical and Further Education Commission 28
Office of the Board of Studies 34
Minister for Gaming and Racing 37
Minister for Lands 39
Wentworth Park Sporting Complex Trust 41
Minister for Planning 43
Sydney Olympic Park Authority 45
Minister for Sport and Recreation 49
Centennial Park and Moore Park Trust 51
Centennial Parklands Foundation 54
Sydney Cricket and Sports Ground Trust 55
Wollongong Sportsground Trust 57
Minister for the Arts 59
Art Gallery of New South Wales Trust 61
Australian Museum Trust 64
Department of the Arts, Sport and Recreation 67
Historic Houses Trust of New South Wales 70
Library Council of New South Wales 73
Sydney Opera House Trust 76
Trustees of the Museum of Applied Arts and Sciences *79*
Minister for Western Sydney 83
Western Sydney Parklands Trust *85*
Minister for Youth 87

APPENDIX

Appendix 1 – Agencies not reported elsewhere in this Volume 91

INDEX 93

Significant Items

	Page
Department of Education and Training	
The results of the National Assessment Program – Literacy and Numeracy indicated New South Wales students performed consistently better than the national average and had fewer performing at or below the national minimum standard.	8
Although retention rates in New South Wales remained stable in 2008, they fell below the national average.	10
The results of the 2008 national tests for New South Wales Aboriginal students indicated that they performed consistently better than the national average for Aboriginal students	11
The number of workers' compensation claims incurring cost reported by the Department reduced by 5.8 per cent and the number of days lost due to workplace injury decreased by 20.6 per cent in 2008-09.	13
The Building Education Revolution is a $3.5 billion funding boost for New South Wales. The number of projects and tight timeframes creates risks in ensuring value for money is achieved.	15
The Department estimates the backlog of school maintenance has fallen from $50.8 million last year to $21.3 million.	17
There has been little improvement in the number of staff with annual leave balances in excess of 40 days.	19
The Department is still faced with the issue of large numbers of retiring teachers and the loss of their associated skills, 44.1 per cent of school teachers are aged 50 years and over.	19
The number of international students enrolled increased by 23.3 per cent in 2008 resulting in an increase in fees of $8.2 million or 31.7 per cent.	24
New South Wales Technical and Further Education Commission	
Government expenditure per student hour has decreased by 18.1 per cent since 2004.	29
The Commission estimates that backlog maintenance has risen from $27.7 million in 2007-08 to $37.6 million in 2008-09.	29
The number and cost of workers' compensation claims has decreased by 10.3 per cent and 25.3 per cent respectively.	30
157 non-teaching TAFE NSW employees earned 20 per cent or more of their gross salary in overtime.	31
Wentworth Park Sporting Complex Trust	
The Trust does not have the capacity to pay $6.5 million owed to Greyhound Racing NSW.	41

Centennial Park and Moore Park Trust

The Trust has completed its seven year, $50.0 million Park Improvement Plan. 51

The Trust has generated sufficient revenues to meet increasing costs and reduce its reliance on government funding. 52

Wollongong Sportsground Trust

On 16 October 2009, the New South Wales Government announced it would provide $28.9 million to replace the Western Grandstand. 57

The Entertainment Centre hosted fewer events and earned lower returns during 2008-09. 57

Art Gallery of New South Wales Trust

The newly constructed, $27.6 million off-site collection storage facility at Lilyfield is expected to be operational in November 2009. 62

The Art Gallery purchased the 1888 Paul Cezanne painting 'Bords de la Marne' for $16.2 million. 62

Australian Museum Trust

The absence of an appropriate collections database impedes the Museum's ability to discharge its stewardship responsibilities over its collections. 64

A New Collections and Research Building was completed during the year at a cost of $34.0 million. This was the first major new building to be constructed by the Museum in 20 years. 65

Sydney Opera House Trust

Stage Machinery is approaching the end of its useful life and operational problems are now critical. 76

Section One

Commentary on Government Agencies

Minister for Citizenship

Refer to Appendix 1 for:

Community Relations Commission for a Multicultural New South Wales

Minister for Education and Training

Department of Education and Training

New South Wales Technical and Further Education Commission

Office of the Board of Studies

Refer to Appendix 1 for:

Arts Education Foundation Trust

Coffs Harbour Technology Park Limited

*NSW Board of Vocational Education and Training

NSW Institute of Teachers

*NSW Vocational Education and Training Accreditation Board

The Board of Studies

*Uniprojects Pty Limited

*Universities Admissions Centre (NSW & ACT) Pty Limited

* The audit was incomplete at the time of compiling this Volume.
The comment will be included in a later 2009 Volume.

Department of Education and Training

AUDIT OPINION

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

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

PERFORMANCE INFORMATION

The New South Wales State Plan provides the overall direction for improvements in performance and significantly influenced the Department's priorities for 2009. Its priorities included:

- increasing levels of attainment for all students, including increasing the percentage of students exceeding the national benchmarks in reading and numeracy
- more students completing Year 12 or recognised vocational training
- closing the performance gap between Aboriginal students and all students, at schools and at the New South Wales Technical and Further Education Commission (TAFE NSW)
- increasing the proportion of population aged 15-64 participating in vocational education and training.

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

- literacy and numeracy
- year 12 retention rates
- achievement gap for Aboriginal students
- government school enrolments.

Literacy and Numeracy

Prior to 2008, the various states and territories had different ways of assessing student progress in literacy and numeracy. All Australian schools now use the National Assessment Program – Literacy and Numeracy (NAPLAN) to assess the literacy and numeracy learning of students at Years 3, 5, 7 and 9. Students participate in NAPLAN tests in May of each year and 2009 is the second year of testing.

The table below details the 2009 NAPLAN summary results of the percentage of students at or above the national minimum standard:

		NSW			National	
Years	Trend	2009 %	2008 %	2009 Ranking	2009 %	2008 %
Reading						
Year 3	↑	***95.6***	95.1	***1***	***93.8***	92.1
Year 5	↑	***93.6***	93.5	***3***	***91.7***	91.0
Year 7	↓	***94.8***	95.4	***3***	***93.9***	94.2
Year 9	↓	***93.5***	94.4	***3***	***92.2***	92.9
Writing						
Year 3	↓	***97.1***	97.5	***1***	***95.6***	95.4
Year 5	↓	***94.9***	95.1	***1***	***92.8***	92.6
Year 7	↑	***93.7***	93.5	***1***	***92.5***	91.8
Year 9	↑	***89.0***	88.9	***3***	***87.7***	87.2
Spelling						
Year 3	↓	***94.9***	96.1	***1***	***92.2***	92.5
Year 5	↑	***94.6***	94.5	***1***	***92.4***	91.7
Year 7	↑	***94.6***	94.2	***1***	***92.9***	92.5
Year 9	↓	***91.6***	92.2	***1***	***89.7***	89.8
Punctuation and Grammar						
Year 3	↓	***94.9***	95.2	***2***	***92.5***	91.7
Year 5	↓	***93.7***	93.9	***3***	***92.0***	91.9
Year 7	↓	***92.5***	93.4	***3***	***92.0***	91.6
Year 9	↓	***91.0***	91.4	***3***	***90.3***	89.9
Numeracy						
Year 3	↓	***95.6***	96.9	***1***	***94.0***	95.0
Year 5	↑	***95.5***	94.4	***2***	***94.2***	92.7
Year 7	↓	***95.1***	96.0	***3***	***94.8***	95.4
Year 9	↑	***95.4***	94.7	***2***	***94.9***	93.6

Source: Ministerial Council for Education, Early Childhood Develop and Youth Affairs (MCEECDYA) – National Assessment Program – Literacy and Numeracy Summary Report 2009 (unaudited).

Notes:

- Key: ↑ Trending upwards, ↓ Trending downwards, ~ No trend
- The rankings range from one to eight (highest to lowest).

The results of the 2009 national tests indicate that New South Wales students:

- performed consistently better than the national average
- performed better in the early years than in the later years in most domains
- had fewer performing below the national minimum standard.

The Department advised us that it spent $174 million ($116 million in 2007-08) on the literacy and numeracy plan in 2008-09 and an additional $968 million will be spent over the next four years to further improve student literacy and numeracy levels.

Retention Rates from Years 7 to 12 for Government Schools

Year ended 31 December	2008 %	2007 %	2006 %	2005 %	2004 %
All students	***64.6***	64.5	65.1	65.8	65.8
Aboriginal students	***32.2***	30.9	28.7	29.4	29.9
Students from language backgrounds other than English	***106.0***	101.8	105.4	109.5	108.2
Students from low socio-economic status backgrounds	***54.5***	53.2	52.9	55.5	56.4
Geographically isolated students	***41.1***	48.6	41.3	45.6	43.7

Source: DET Statistical Compendium 2008 (unaudited).
Notes:

- Retention rates are 'apparent' as they do not track individual students through their secondary schooling.
- Retention rates for students from low socio-economic status backgrounds and geographically isolated students for 2002 to 2007 and for 2008 are based on participating schools in 2007 and 2008 respectively.
- Year 12 retention rates can exceed more than 100 per cent due to a number of factors including migration of students from interstate and overseas
- Care should be exercised in interpreting changes in apparent retention rates for Aboriginal students and students from geographically isolated areas due to the small numbers involved.

Over the past five years the retention rates from Years 7 to 12 have remained relatively stable with only minor fluctuations from year to year, retention rate for geographically isolated students are at a five year low. In 2008 the Department continued a range of strategies designed to encourage more students to complete Year 12. It expects that the initiatives will start to impact positively on retention rates in 2012 when the 2007 Year 7 students are due to reach Year 12.

Retention Rates of Full-time Students for Government Schools by State (2004-2008) for Years 7/8 to 12

Years	NSW %	Vic %	Qld %	SA %	WA %	Tas %	NT %	ACT %	National %
2008	***64.6***	***71.9***	***70.3***	***64.7***	***68.2***	***61.3***	***67.6***	***95.9***	***68.3***
2007	64.5	73.9	71.1	64.0	63.1	63.3	69.4	96.6	68.3
2006	65.1	72.6	71.6	61.9	65.1	63.2	72.3	103.2	68.5
2005	65.8	74.0	73.0	61.7	65.4	65.5	70.5	99.6	69.4
2004	65.8	74.4	75.3	58.0	65.9	76.0	72.0	100.5	69.9

Source: DET Statistical Compendium 2008 (unaudited).
Notes:

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

Although retention rates in New South Wales remained stable in 2008, they fell below the national average. The State's ranking relative to other States and Territories fell from fifth to seventh.

Full-time Participation Rates for 15 to 24 Year Olds

Years	2008 %	2007 %	2006 %	2005 %	2004 %
NSW	***83.4***	82.4	81.8	82.3	82.3
National	***83.9***	83.6	82.8	82.2	81.7

Source: Australian Bureau of Statistics, Survey of Education and Work, 2004-2008 (unaudited).
Notes: Full-time participation is defined as participation in full-time education or training or full-time work, or a combination of both part-time education or training and part-time work.

The Survey of Education and Work estimates the proportion of 15 to 24 year olds participating in full-time education or training, full-time work, or a combination of part-time education or training and part-time work. Overall, New South Wales ranked fourth relative to other States and Territories. However, when the level of uncertainty associated with these estimates is taken into account, it is likely that only the Australian Capital Territory had a statistically significant higher rate of full-time participation than New South Wales.

The Department has implemented a number of measures to increase participation by youth at risk to ensure they have access to education that leads to workforce participation. Under the Learn or Earn initiative, 12,580 new vocational education and training places will be created between 2007 and 2010 in school and TAFE NSW based trade schools. These places will ensure young people up to the age of 18, who do not complete Year 12 and have not yet got a job, will have a guaranteed training place at TAFE NSW. The employment of 400 new apprentices every year over the next four years by New South Wales Government agencies and utilities will also increase participation for those in the 15 to 19 age group.

The Achievement Gap for Aboriginal Students

Reading and numeracy targets set under the New South Wales State Plan for Aboriginal students are to halve the gaps in minimum and proficient standards that existed in 2008 between Aboriginal students and all students by 2020.

The table below details the 2008 NAPLAN Summary Results of the percentage of Aboriginal students against all student peers at or above the national minimum standard and the achievement gap between them:

	All students			Aboriginal students			Achievement
Years	NSW 2008 %	NSW Ranking	National 2008 %	NSW 2008 %	NSW Ranking	National 2008 %	Gap %
Reading							
Year 3	*95.1*	*2*	*92.1*	*83.5*	*4*	*68.3*	*11.6*
Year 5	*93.5*	*3*	*91.0*	*77.6*	*4*	*63.4*	*15.9*
Year 7	*95.4*	*3*	*94.2*	*82.4*	*4*	*71.9*	*13.0*
Year 9	*94.4*	*3*	*92.9*	*82.3*	*3*	*70.7*	*12.1*
Writing							
Year 3	*97.5*	*1*	*95.4*	*90.9*	*3*	*78.8*	*6.6*
Year 5	*95.1*	*1*	*92.5*	*81.7*	*4*	*69.7*	*13.4*
Year 7	*93.5*	*1*	*91.8*	*76.9*	*4*	*67.9*	*16.6*
Year 9	*88.9*	*2*	*87.2*	*67.7*	*4*	*59.7*	*21.2*
Spelling							
Year 3	*96.1*	*1*	*92.5*	*86.1*	*2*	*69.2*	*10.0*
Year 5	*94.5*	*1*	*91.7*	*82.1*	*3*	*69.7*	*12.4*
Year 7	*94.2*	*2*	*92.5*	*82.0*	*3*	*71.8*	*12.2*
Year 9	*92.2*	*2*	*89.8*	*78.4*	*3*	*67.8*	*13.8*
Punctuation and Grammar							
Year 3	*95.2*	*2*	*91.7*	*82.2*	*3*	*65.3*	*13.0*
Year 5	*93.9*	*3*	*91.9*	*77.6*	*4*	*64.1*	*16.3*
Year 7	*93.4*	*3*	*91.6*	*75.0*	*4*	*62.7*	*18.4*
Year 9	*91.4*	*3*	*89.9*	*71.2*	*3*	*60.7*	*20.2*
Numeracy							
Year 3	*96.9*	*1*	*95.0*	*88.6*	*3*	*78.6*	*8.3*
Year 5	*94.4*	*3*	*92.7*	*78.9*	*4*	*69.2*	*15.5*
Year 7	*96.0*	*3*	*95.4*	*84.5*	*4*	*78.6*	*11.5*
Year 9	*94.7*	*3*	*93.6*	*80.3*	*3*	*72.5*	*14.4*

Source: DET Statistical Compendium 2008 (Sourced from Ministerial Council on Education, Employment, Training and Youth Affairs (MCEETYA) – 2008 National Assessment Program: Literacy and Numeracy Achievement in Reading, Writing and Numeracy) (unaudited).

Notes:

- At the time of preparing this Report the 2009 NAPLAN results by indigenous status are not available on the MCEETYA website
- The rankings range from one to eight (highest to lowest).

The results of the 2008 national tests for New South Wales Aboriginal students indicated that:

- they performed consistently better than the national average for Aboriginal students
- the comparison against all students show significant gaps
- the gaps against all students is less in the early years than in the later years.

The Department has allocated funding of $65.0 million over four years to improve the academic achievements of Aboriginal students, by designing specialised teaching programs in order to reduce the gap. The Department advised us that of the $10.7 million allocated in 2008-09 ($13.0 million in 2007-08), $8.4 million was spent ($9.5 million).

Government Schools

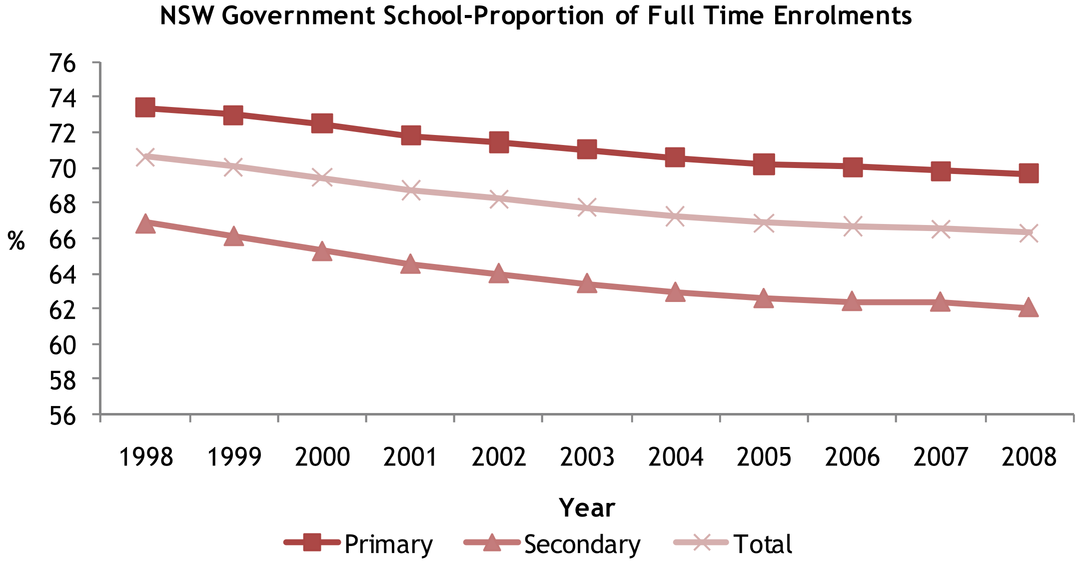
New South Wales' expenditure per student was lower than the national average for both primary and secondary schools in 2007-08.

At 30 June	NSW 2007-08	NSW 2006-07	National 2007-08	NSW Ranking amongst all States and Territories (d)	NSW Ranking Previous Year (d)
Recurrent Expenditure ($) per student on Government Schools (a)					
Primary	***11,148***	10,643	***11,557***	***7***	7
Secondary	***13,977***	13,329	***14,306***	***4***	4
Overall	***12,324***	11,756	***12,639***	***7***	7
Student to Teaching Staff Ratios – Government Schools (b)					
Primary	***15.9***	16.2	***15.6***	***1***	1
Secondary	***12.4***	12.5	***12.3***	***5***	4
Overall	***14.3***	14.4	***14.1***	***2***	2
Full-Time Student Enrolment - Government Schools as a percentage of all schools (c)					
Primary	***69.6***	69.8	***69.7***	***5***	5
Secondary	***62.0***	62.4	***60.8***	***4***	4
Overall	***66.3***	66.5	***65.9***	***4***	5

(a) Source: Ministerial Council on Education, Employment, Training and Youth Affairs – National Report on Schooling in Australia, 2008. Incorporates both salaries and non-salary costs. Includes actual or notional payroll tax and notional eight per cent user cost of capital (unaudited).
(b) Source: Australian Bureau of Statistics, Schools Australia 2008 (Table 23).
(c) Source: Australian Bureau of Statistics, Schools Australia 2008 (Table 7).
(d) The rankings range from one to eight (highest to lowest).
Note: Care should be taken when comparing different jurisdictions as areas of non-comparability continue to exist e.g. there can be large differences between city and country staff ratios within different jurisdictions.

Student to teacher ratios for New South Wales were marginally higher than the national average. The overall ratio of 14.3 was higher than the New South Wales private sector ratio of 13.7 students per teacher.

The proportion of all students enrolling in government schools has been declining for the past ten years. The most significant decline has been in secondary schools, falling from 66.9 per cent in 1998 to 62 per cent in 2008. The movement of students between sectors now seems to be stabilising. The chart below illustrates the decline over the last decade.



Source: Australian Bureau of Statistics, Schools Australia 2008 (Table 7) (unaudited).

Workers' Compensation Claims

	2009	2008	2007
Workers' compensation premium (S'000)	***116,152***	123,866	128,679
Total number of claims incurring cost	***5,698***	6,048	6,008
Number of working days lost	***34,304***	43,231	43,721
Number of stress claims incurring cost	***725***	829	949
Number of working days lost due to stress claims	***9,234***	16,733	19,816

Source: DET Statistics (unaudited).

Workers compensation claims incurring cost reported by the Department reduced by 5.8 per cent in 2008-09. As a result of improved performance workers' compensation premiums have decreased.

A number of targeted programs and initiatives have been implemented under the Departments 'Safe Working and Learning' strategy to improve both claims and injury management outcomes. These initiatives have had success, with the total number of days lost due to workplace injury decreasing by 8,927 days (20.6 per cent) in 2008-09 when compared to 2007-08.

Further reductions are anticipated in the frequency, severity and cost of workers' compensation claims with the continued roll out of programs under the Department's safety strategy.

OTHER INFORMATION

Department

We identified some opportunities for improvement to the Department's accounting and internal control procedures, mainly in the areas of property, plant and equipment recording and payroll. These have been reported to management.

Schools

For the school financial year ended 30 November 2008, we audited financial transactions at 62 primary schools and 10 high schools.

We identified opportunities for schools to improve their internal controls and general compliance with Departmental guidelines, which we reported to school Principals. Many of our findings were similar to those of the previous year. The Department has advised that they communicate common findings to all schools and direct them to take corrective action.

Connected Classrooms Program (CCP)

The CCP consists of three components with a total investment of $158 million over four years.

- The Interactive Classroom Project (ICP) will equip every New South Wales public school with an interactive whiteboard, data projector, control computer, network device and video conferencing components.
- The Learning Tools Project will upgrade student email, individual online working space for all students and teachers and online access to student reports for parents.
- The Network Bandwidth Enhancement Project, for network upgrades, will increase bandwidth speed and secure browsing and content filtering to better enable interactive learning environments.

Year ended 30 June	Total Budget Over 4 Years $'000	2009 Actual $'000	Total Costs to Date $'000
Interactive Classrooms Project	65,297	***28,477***	34,523
Learning Tools Project	28,904	***9,142***	11,366
Network Bandwidth Enhancement Project	63,686	***17,036***	25,954
Total	157,887	***54,655***	71,843

Source: DET Statistics (unaudited).

At 30 June 2009, the Department had installed 1,003 (200 in 2007-08) Interactive Classrooms and upgraded 1,628 schools sites with bandwidth. The student email service has been upgraded and 1.2 million students across New South Wales public schools now have access to an improved email service, Google's G-mail.

Digital Education Revolution (DER)

The DER program is funded through the Commonwealth Government's National Secondary School Computer Fund to provide all secondary students with a 1:1 computer ratio by December 2011. The funding agreements to date amount to $264 million with further funding of $179 million to be made available over five years.

The Department aims to achieve this ratio by providing a wireless enabled laptop computer to all Years 9 to 12 students for their individual use.

Contracts awarded to date include:

- $150 million to supply approximately 220,000 student laptops
- $70.0 million for wireless network access, and
- on-costs of $189 million to cover agreed additional expenditure. The on-costs agreement includes funding for wireless connectivity, professional learning and curriculum support and the employment of over 400 Technology Support Officers, mostly school based.

Total expenditure on the DER program to 30 June 2009 was $11.9 million. The delivery of student laptops commenced in August 2009.

Building Education Revolution (BER)

The BER is a $16.2 billion investment by the Commonwealth Government to improve the quality of facilities in Australian schools and generate jobs in the construction industry.

State	Government Schools Funding $m	Non-Government Schools Funding $m	Total BER Funding $m	Total BER Funding %
NSW	3,475	1,579	5,054	31.2
Vic	2,583	1,247	3,830	23.7
Qld	2,141	961	3,102	19.2
WA	1,277	551	1,828	11.3
SA	959	433	1,392	8.6
Tas	332	114	446	2.8
ACT	153	93	246	1.5
NT	208	65	273	1.7
Total	11,128	5,043	16,171	100.0

Source: DET Statistics (unaudited).

The BER comprises three programs, which include projects to be completed by 2011.

Program – Year ended 30 June	Funding 2009 $m	Funding 2010 $m	Funding 2011 $m	Total Funding $m
Primary Schools for the 21st Century	***98.4***	1,647.5	1,283.9	3,029.8
National School Pride	***88.4***	203.4	--	291.8
Science and Language Centres for 21st Century Secondary Schools	--	153.1	--	153.1
Total	***186.8***	2,004.0	1,283.9	3,474.7

Source: DET Statistics (unaudited).

Primary Schools for the 21st Century

This program is to build or upgrade large scale infrastructure such as libraries, halls and classrooms in public primary schools in New South Wales.

The breakdown of approved funding and payments to 30 June 2009 by region is detailed below:

Region	Number of Schools	Approved Project Funding $'000	Payments to 30 June 2009 $'000
Hunter/Central Coast	242	436,554	***2,613***
Illawarra & South East	188	300,014	***2,776***
New England	106	99,337	***7,210***
North Coast	233	283,515	***23,725***
Northern Sydney	127	307,346	***1,789***
Riverina	162	173,074	***1,457***
South Western Sydney	206	453,753	***2,148***
Sydney	172	357,004	***764***
Western NSW	162	177,007	***1,526***
Western Sydney	186	395,746	***2,309***
Total	1,782	2,983,350	***46,317***

Source: DET Statistics (unaudited).

A managing contractor has been allocated to each region to ensure the timely and professional delivery of projects within the BER guidelines. All managing contractors were appointed following a competitive tender.

National School Pride

This program is providing funding of up to $200,000 for primary, secondary and central schools to refurbish and renew existing infrastructure and undertake minor building works. Over $287 million will be spent on around 2,180 public schools. The projects under this program must be completed by 1 February 2010.

Science and Language Centres for 21st Century Secondary Schools

This program provides funding to build new or refurbished science laboratories and language learning centres in secondary schools across New South Wales. It is estimated that around $151 million will be spent on 118 projects in New South Wales. The completion date for these projects is 30 June 2010.

Governance

The volume of projects and the tight timeframes create risks in ensuring value for money is received from funds expended. These risks were recognised by the Government, which has set up the following governance arrangements:

- a New South Wales Nation Building and Jobs Plan Taskforce has been established to plan and oversee the Nation Building program and advise offices in education and housing. The taskforce reports directly to the Premier and coordinates the reporting of the delivery of the BER program to the Commonwealth. A probity plan was established by the taskforce to ensure the probity risks associated with the delivery requirements are appropriately managed and monitored. A probity auditor has been appointed to the taskforce.

- the Department has:
  - created the Integrated Program Office (IPO), which is responsible for implementation, management and delivery of the BER, including conducting its own audit visits
  - requested its Audit and Risk Management Committee to review and monitor the management and delivery of the BER
  - engaged its internal auditors in an ongoing assurance role in relation to the BER program's expenditure and to provide an annual certification of expenditure to the Commonwealth.

The detailed statement of income and expenditure for the Funding is to be audited annually by the New South Wales Auditor-General. I anticipate reporting my audit findings to the Commonwealth Department of Education, Employment and Workplace Relations (DEEWR) for the year ended 30 June 2009 in early 2010.

The Australian National Audit Office (ANAO) is examining the effectiveness of the establishment of the Primary Schools for the 21st Century element of the program by DEEW).

The New South Wales Government has set up a BER website providing detailed information on a school by school basis. It has also set up a formal complaints process via email. At the date of this Report no complaints had been lodged through this process. The Department advised that it receives queries from schools on the BER projects and it works with those schools to resolve the issues. Refer to www.ber.nsw.gov.au

We will audit the expenditure of BER funds during our annual audit of the Department in 2009-10.

School Facilities and Building Maintenance

The Department has a 4 year enhancement program for addressing maintenance backlog. The total cost of this project, as at 2004, was identified at $120 million. The Government allocated additional funding of $30.0 million in 2006-07 and again in 2007-08. In 2008-09 an additional $31.6 million was allocated to fund the maintenance backlog. As a result of the additional funding, the Department has completed a program of works which has reduced the estimated maintenance backlog to $21.3 million ($50.8 million in 2007-08).

The expenditure details for each region are reflected in the table below:

Year ended 30 June	**2009 $'000**	**2008 $'000**
Hunter/Central Coast	***3,958***	3,643
Illawarra and South East	***1,221***	1,322
New England	***1,293***	1,159
North Coast	***2,787***	2,617
North Sydney	***5,086***	4,837
Riverina	***1,480***	1,372
South Western Sydney	***3,772***	3,578
Sydney	***5,984***	6,135
Western New South Wales	***2,008***	2,075
Western Sydney	***3,734***	3,818
Total	***31,323***	30,556

Source: DET Statistics (unaudited).

Total school maintenance expenditure increased from $246 million in 2007-08 to $292 million in 2008-09. No Commonwealth funded school maintenance programs were undertaken in 2008-09.

The Department is addressing contaminants in schools with an ongoing program of asbestos containment and eradication. In 2008-09, the Department spent $429,000 on the containment and eradication of, mainly, in-ground asbestos in schools over all regional areas.

The Department provides advice to The Treasury, as part of the State Budget process, on its Total Asset Management Plan and funding requirements for the provision of education facilities. The Department uses proceeds from the sale of surplus parts of school sites to partially fund improved facilities. In 2008-09 the Department received $2.7 million from such sales compared to a predicted income of $8.8 million.

Planned Computer Systems Replacement

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

Phase 1 of the program has now progressed to User Acceptance Testing of the finance system which will be implemented for state and regional offices. Business Readiness Testing, implementation of shared service centre, training and data migration will be undertaken prior to the software commencement on 1 March 2010.

The staged development and implementation of the finance system for schools will follow completion of the TAFE NSW finance component, scheduled for implementation in June 2010. A proposal is currently underway to commence the human resources and payroll development for TAFE NSW following the design stage.

The Program Steering Committee continues to be the peak governance body for the program. A Risk Management methodology and approach has been developed and implemented. The program reports on major risks to the Department's Executive and to the Audit and Risk Committee.

Expenditure in 2008-09 was $43.5 million ($20.7 million) and total costs incurred to 30 June 2009 were $74.1 million. We will continue to review the program's implementation and monitor its progress.

Leave Recording

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

The Department continues to promote eLAPS in schools by developing programs to educate and train users. At 30 June 2009, 45.7 per cent (33.5 per cent in 2008) of all leave applications received from teachers and 41.2 per cent (29.5 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, which the Department advised largely relate to complex leave entitlements that require more analysis and manual calculation by the staff in the Employee Services Centres.

In addition, the Department advised that Human Resources staff involved in identifying the business requirements for the Learning Management and Business Reform program to replace the existing payroll and leave systems with SAP have raised issues relating to the recording of attendance in schools. The need to ensure the complete capture and recording of leave in the detailed design phase of the new SAP system has been emphasised.

Annual Leave

I recommend that the Department continue to review the effectiveness of their policies for managing excessive annual leave balances.

Number of staff with more than 40 days annual leave

Entitlement (days) at 30 June 2009	No. of Employees	Total Days	Liability $'000
>100	***42***	***5,444***	***1,566***
81-100	***37***	***3,353***	***941***
61-80	***128***	***8,876***	***2,558***
41-60	***691***	***33,073***	***9,636***
Total	***898***	***50,746***	***14,700***

There has been little improvement from last year. In 2007-08, 902 employees had excess annual leave balances totalling 51,125 days and a liability of $14.2 million.

The Department advised that the Human Resources Directorate reviews leave balances annually. Employees with recreation leave balances in excess of 40 days are advised that, in accordance with the Award, they must reduce their leave balance by a given date or obtain the appropriate approval under the Award to conserve their excess recreation leave.

The new *Crown Employees (Public Service Conditions of Employment) Award 2009* includes a new clause requiring staff to reduce their recreation leave balances below 8 weeks (i.e. 40 days for a full time employee or a pro rata equivalent for a part time employee) by 27 January 2010. The Award still provides for the conservation of recreation leave in excess of 40 days where the delegate is satisfied that a staff member is prevented by occupational or personal reasons from taking sufficient recreation leave to reduce their accrued leave below an acceptable level.

Teacher Age Profiles

The Department is still faced with the loss of large numbers of retiring teachers and their associated skills. While the overall impact of the ageing workforce is likely to be gradual, there is still a risk of teacher shortages.

Using departmental statistics, the table below details the age profile of permanent teachers as at 1 July 2009:

Age Group	2009 No. of Teachers	2009 Percentage	2008 No. of Teachers	2008 Percentage
20 - 24	***868***	***1.8***	947	1.9
25 - 29	***3,924***	***7.9***	3,973	8.0
30 - 34	***4,941***	***10.0***	4,820	9.7
35 - 39	***6,077***	***12.3***	6,146	12.4
40 - 44	***5,325***	***10.8***	5,110	10.3
45 - 49	***6,290***	***12.7***	6,885	13.9
50 - 54	***11,185***	***22.7***	11,951	24.1
55 - 59	***8,439***	***17.1***	7,813	15.8
60 - 64	***1,927***	***3.9***	1,635	3.3
65+	***374***	***0.8***	282	0.6
Total	***49,350***	***100.0***	49,562	100.0

Source: DET Personnel system (unaudited).

Statistics show that 44.1 per cent of school teachers are aged 50 years and over (43.8 per cent in 2008). The Department advised that these employees may reach retirement age over the next eight years, with the majority in the later age groups reaching retirement age in the next four to six years.

To ensure an adequate supply of teachers, the Department undertakes comprehensive workforce planning to develop teacher supply and demand projections for permanent teachers over a seven-year period. The Department also has initiatives in place to attract new teachers such as active promotion of teaching as a career.

FINANCIAL INFORMATION

Abridged Consolidated Operating Statements

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Employee related	***8,158,551***	7,609,666	***7,195,480***	6,714,706
Operating expenses	***1,766,849***	1,648,682	***1,478,451***	1,346,025
Depreciation and amortisation	***405,939***	391,931	***327,848***	316,231
Grants and subsidies	***210,488***	209,712	***234,212***	239,379
Other expenses	***9,455***	4,741	***9,455***	4,741
TOTAL EXPENSES	***10,551,282***	9,864,732	***9,245,446***	8,621,082
TOTAL REVENUE	***951,554***	870,508	***924,290***	849,946
Other gains/(losses)	***3,088***	(8,977)	***3,072***	(7,271)
NET COST OF SERVICES	***9,596,640***	9,003,201	***8,318,084***	7,778,407
Less Government contributions	***9,752,250***	9,123,593	***8,480,140***	7,879,508
SURPLUS	***155,610***	120,392	***162,056***	101,101

Employee related expenses represent 77.8 per cent (77.9 per cent) of total expenditure of the Department. The $481 million increase was primarily due to a 4.4 per cent salary increase for teachers in January 2009 and a four per cent salary increase for administrative staff effective July 2008.

The increase in total revenue of $74.3 million was primarily due to a $34.1 million rise in school and community revenue and external receipts and a $35.1 million increase in Commonwealth grants and contributions.

Abridged Consolidated Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***851,328***	730,049	***689,264***	577,133
Non-current assets	***17,029,562***	16,751,106	***14,038,235***	13,772,121
TOTAL ASSETS	***17,880,890***	17,481,155	***14,727,499***	14,349,254
Current liabilities	***841,957***	616,847	***645,509***	472,493
Non-current liabilities	***199,590***	156,261	***198,748***	155,575
TOTAL LIABILITIES	***1,041,547***	773,108	***844,257***	628,068
NET ASSETS	***16,839,343***	16,708,047	***13,883,242***	13,721,186

The increase in current assets of $112 million was primarily due to an increase of $75.0 million in the Department's cash at bank and the school bank balances of $14.8 million.

Current liabilities increased $173 million due mainly to an increase in payables of $93.3 million, a liability to Consolidated Fund of $21.2 million and a rise in employee benefits and related on-costs provisions of $58.7 million.

Non-current liabilities increased $43.2 million due mainly to the increase in borrowings of $40.8 million relating to the public private partnership projects for construction, design, finance and maintenance of a number of schools.

Surplus Properties

During 2008-09, 29 school properties, surplus to the Department's needs, were sold for $16.1 million ($26.6 million). At 30 June 2009, the value of surplus properties was $62.0 million.

Abridged Service Group Information

The Department's consolidated net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget* $'000	2009 Actual $'000	2008 Actual $'000	2009 Actual $'000	2008 Actual $'000
Preschool education services in government schools	***24,948***	***27,450***	25,267	***(1,960)***	(1,482)
Primary education services in government schools	***4,012,363***	***4,249,775***	3,903,678	***7,419,128***	7,446,050
Secondary education services in government schools	***3,705,758***	***3,815,948***	3,595,875	***5,429,364***	5,422,807
Non-government schools	***9,654***	***10,262***	11,223	***(111)***	(80)
TAFE NSW and community education	***1,415,242***	***1,337,970***	1,301,455	***3,002,919***	2,997,051
Vocational education and training	***138,741***	***162,724***	176,653	***(3,743)***	(2,825)
NSW Adult Migrant English Service (AMES)	--	***(7,489)***	(10,946)	***(2,989)***	22,473
A.C.N. 093 230 374 Pty Limited	--	--	(4)	--	2,289
Not Attributable**	--	--	--	***996,735***	821,764
Total all service groups	***9,306,706***	***9,596,640***	9,003,201	***16,839,343***	16,708,047

* Per the 2008-09 Budget Papers - net of transfer payments.
** Represents items that could not be reliably allocated to a 'service group'.

Cost of Providing Government School Education

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

Year ended 30 June	2009	2008	2007	2006
Actual enrolments(a):				
Primary students	***431,447***	430,885	431,618	434,366
Secondary students	***314,290***	307,260	307,018	306,049
Total	***745,737***	738,145	738,636	740,415
Program costs(b):				
Primary $m	***4,250***	3,904	3,721	3,541
Secondary $m	***3,816***	3,597	3,346	3,270
Total $m	***8,066***	7,501	7,067	6,811
Funding per student:				
Primary $	***9,851***	9,060	8,621	8,152
Secondary $	***12,142***	11,707	10,898	10,685
Average $	***10,816***	10,162	9,568	9,199

Source: DET Statistics (unaudited).
(a) DET Census date. The 2009 figures are estimated figures derived from the NSW Budget papers 2008-09 as actual enrolment figures were not available at the time of the preparation of this Report.
(b) Program costs are net cost of services for government primary and secondary schools excluding transfer payments. Program costs used in the calculation of cost per student included non-cash items, leave and superannuation liabilities assumed by the Crown Entity.

Average enrolments increased by 0.7 per cent over the last four years and the costs of funding per student increased by 17.6 per cent during the same period.

The table below details the number of Year 1 to 12 students currently enrolled in New South Wales government schools who were from outside the government sector and the percentage of 2009 enrolments by region:

Region	2009	
	Number	% Enrolments
Hunter/Central Coast	***3,319***	***3.5***
Illawarra and South East	***2,669***	***4.3***
New England	***1,203***	***6.2***
North Coast	***3,416***	***5.7***
North Sydney	***4,173***	***5.5***
Riverina	***1,746***	***6.0***
South Western Sydney	***4,937***	***4.3***
Sydney	***3,631***	***4.7***
Western New South Wales	***2,001***	***5.9***
Western Sydney	***3,997***	***4.5***
Total	***31,092***	***4.7***

Source: Data Analysis and Collections, Planning and Innovation. Data extracted from National Schools Statistics Collections (NSSC) 2008 and 2009 (Preliminary) (unaudited).

Notes:

- The number of students from outside the government system has been adjusted down for the maximum calculated duplicates.
- It is not possible to further differentiate whether this group of students was from the non-government sector, interstate or overseas.
- Figures reported above exclude 2009 Kindergarten students and support students.
- Figures were derived by comparing students who are currently enrolled in the government system with their whereabouts same time last year.

The table below details the number of international students in government schools and fees raised over the past three years:

Year	2008	2007	2006
Number of students enrolled	***3,470***	2,814	2,100
Fees raised $m	***34.1***	25.9	20.4

Source: Data provided by DET International and TAFE NSW National Business (unaudited).

Notes:

- Data above is for calendar years, not financial years.
- Students do not contribute equally to the revenue raised. This is due to the followings:
  - The number of students enrolled includes students enrolled for any part of the calendar year.
  - There is a different fee charged for primary school, junior secondary school, senior secondary school and intensive English provision.
- International students may enrol for more than one year. Therefore, the total number of students for the three years reported does not indicate the number of individual international students involved.

The number of international students enrolled increased by 23.3 per cent in 2008 resulting in an increase in fees of $8.2 million or 31.7 per cent.

Cost of Funding Non-Government School Education by the Department

In 2008–09, the New South Wales Government provided funding to 930 non-government schools (936 in 2007-08). Funding is mainly in the form of a per capita allowance and an interest subsidy scheme. Some broad trends of funding per student were:

Year ended 30 June	2009	2008	2007	2006
Average enrolments(a):				
Primary Students	***187,406***	186,537	186,005	185,642
Secondary Students	***185,451***	183,399	182,676	181,232
Total	***372,857***	369,936	368,681	366,874
Program costs(b):				
Primary $m	***336***	323	303	287
Secondary $m	***422***	408	390	372
Total $m	***758***	731	693	659
Funding per student:				
Primary $	***1,791***	1,729	1,629	1,543
Secondary $	***2,276***	2,224	2,137	2,054
Average $	***2,033***	1,975	1,881	1,795

Source: Department of Education and Training (unaudited)

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

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

Average enrolments increased by 1.6 per cent over the last four years and the costs of funding per student increased by 13.3 per cent during the same period.

Grants for Conveyance of School Children

The Department's School Student Special Transport Scheme currently provides transport assistance to 10,500 eligible students with disabilities between their permanent residences and over 800 government and non-government schools at no cost to families. The Scheme aims to assist those students who are not able to travel independently and whose parents and carers can demonstrate that they are unable to provide or arrange transport for their child either fully or in part.

The Scheme uses around 650 transport operators to provide over 2,300 return services to and from school each day (over 4,600 trips per day). The services of over 720 escorts are also engaged to support safe travel for students.

The table below details the total cost and the number of student applications approved and rejected over the past five years:

Year ended 30 June	2009	2008	2007	2006	2005
Total cost $'000	***72,932***	68,399	59,800	51,468	48,154
Applications approved*	***10,279****	10,771	10,611	10,176	10,062
Applications declined*	***314****	361	200	288	350
Total Applications	***10,593****	11,132	10,811	10,464	10,412

Source: Department of Education and Training (unaudited)
* Data provided is for calendar years, not financial years.
** Data to 11 August 2009.

The approval rate for 2009 student applications was 97 per cent (96.7 per cent in 2008).

This Scheme operates in addition to the Ministry of Transport's School Student Transport Scheme, which provides subsidised transport for eligible school students to travel to school using existing public transport services and dedicated school bus services.

DEPARTMENT ACTIVITIES

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

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

CONTROLLED ENTITIES

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

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

NSW Adult Migrant English Service (AMES)

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

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

FINANCIAL INFORMATION

Year ended 30 June	2009 $'000	2008 $'000
Revenue	***49,426***	44,600
Employee related expenses	***18,376***	14,846
Other expenses	***31,523***	22,328
(Deficit)/surplus	***(473)***	7,426
Net (liabilities)/assets (at 30 June)	***(2,343)***	22,475

Revenue increased by $4.6 million ($3.6 million) as a result of increased demand for AMES services. Other expenses increased by $9.2 million due to:

- an intra-agency payment to the Department of $5.0 million to ensure AMES complies with its obligation under the competitive neutrality policy
- a $2.5 million increase in fees and charges, and
- a $1.5 million increase in rent and related expenses.

Nets assets fell mainly due to an increase in superannuation liability from a prepaid superannuation of $3.9 million in 2007-08 to a net superannuation liability of $19.7 million in 2008-09 as a result of falls in superannuation reserves due to the global financial crisis.

New South Wales Technical and Further Education Commission

AUDIT OPINION

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

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

PERFORMANCE INFORMATION

Size and Scope of the Commission in New South Wales

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

Year ended 30 June	2006-2008 Change % Increase/ (Decrease)	2008	2007	2006
Total enrolments	***0.7***	***504,009***	497,747	500,410
Annual student hours (ASH) ('000)	***3.6***	***112,660***	108,509	108,785
Net cost of services * ($'000)	***(1.9)***	***1,188,845***	1,204,231	1,212,107
ASH per enrolment	***3.2***	***224***	218	217
Net cost of services/enrolment ($)	***(2.6)***	***2,359***	2,419	2,422
Net cost of services per ASH ($)	***(5.5)***	***10.53***	11.10	11.14

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

Source: New South Wales Technical and Further Education Commission (unaudited).

Enrolments have remained steady and there has been a 3.6 per cent increase in hours of training delivered since 2006. The Commission has advised that this trend reflects a 0.7 per cent increase in enrolment numbers and also a change in the student profile, with an increasing number of students undertaking studies in longer higher level qualifications. In 2008, 42.7 per cent of all enrolments were in these higher level qualifications (Certificate III and above) compared to 40 per cent in 2006.

Higher level qualifications provide better employment outcomes. Increasing the number of people with higher level qualifications has been an agreed goal of State and Commonwealth governments for several years.

Enrolments by Aboriginal and Torres Strait Islanders have increased by 25.3 per cent since 2006, while enrolments by students from language backgrounds other than English increased by 11.6 per cent in the same period.

New South Wales VET Cost per Student Hour

The table below provides details of the volume of vocational education and training hours delivered in New South Wales from training providers in receipt of Government funding. Government expenditure per student hour has decreased by 18.1 per cent since 2004. The Commission has advised that over this period Government funded student enrolments in New South Wales increased by 10.2 per cent and totalled 429,181 in 2008.

Year ended 30 June	2004-2008 Change Increase/ (Decrease)	2008	2007	2006	2005	2004
Government recurrent expenditure* ($m)	***(90.0)***	***1,363***	1,397	1,429	1,434	1,453
Student hours (million)	***14.2***	***112.1***	108.8	105.8	106.7	97.9
Expenditure per student hour ($/hour)	***(2.7)***	***12.2***	12.8	13.5	13.4	14.9
Change in expenditure per student hour since 2004 (%)	***(18.1)***	***(18.1)***	(13.5)	(9.1)	(9.5)	--

Source: National Centre for Vocational Education Research, 2004-08 Australian vocational education and training statistics – financial information. Unpublished data from NCVER. The costs noted in the table above have been adjusted to 2008 dollars to exclude the effect of inflation. (unaudited).

* Government Recurrent Expenditure is made up of:
TAFE NSW (approx 82 per cent of total), VET programs within NSW DET, agricultural colleges and NSW Adult Migrant English Service.

OTHER INFORMATION

We identified some minor opportunities for the Commission to improve internal controls and we have reported these to management. We have reported the following matters to the Commission for the last two years:

- the need to better manage the review and transfer of completed projects in capital works in progress to completed assets. The balance of these projects totalled $91.1 million at 30 June 2009.
- the need to correctly identify land and buildings included in both the Department of Education and TAFE NSW's financial reports. The maximum value of properties potentially duplicated is approximately $12.8 million. As the land and buildings date back in time, the Commission has deferred confirming the accuracy of their records until the 2010 financial year.

Maintenance Backlog

TAFE NSW Institutes are given an overall budget by the Commission. The Institutes determine a maintenance budget based on service priorities. In accordance with the Government's policy of total asset management, the Commission is developing a new methodology for future condition assessments. This uses new software to identify and prioritise maintenance works by matching data collected with maintenance work programs. It was anticipated that the new condition assessments would be completed by the end of 2008, but to date they have not been undertaken. At 30 June 2009, maintenance backlog was estimated by management to be $37.6 million ($27.7 million in 2007-08). The backlog is not considered significant in the context of the estimated replacement value of TAFE NSW buildings of $3.0 billion.

Workers' Compensation Claims

Year Ended 30 June	2009	2008*	2007*
Number of claims incurring cost	***627***	699	639
Number of stress claims incurring cost	***66***	101	82
Estimated cost for all workers compensation claims ($m)	***6.8***	9.1	8.5
Estimated cost for stress claims ($m)	***1.9***	3.6	2.2
Days lost - all injuries	***5,669***	6,993	14,269
Days lost - stress claims	***1,515***	2,707	4,263

* Figures for prior years include data accumulated to date. Therefore the total days lost and costs are higher for the earlier years due to the passage of more time.
Source: New South Wales Technical and Further Education Commission (unaudited).

In 2008-09, the Commission had 15,962 (16,231) full time equivalent employees and there were 66 stress claims made, 34.7 per cent less than in 2007-08. The average cost per stress claim in 2008-09 was $28,971 ($35,947) compared to $10,766 ($13,015) for all types of injuries.

The number of workers' compensation claims has decreased by 10.3 per cent since 2007-08 and there has been a 25.3 per cent reduction in the estimated cost of the claims. The Commission has advised the improvement was due in part to a reduction in the number of claims incurred along with a reduction in the average duration of time lost. The Commission attributes these reductions to the successful implementation of programs and initiatives under its safe working and learning strategy, which targets improvements in injury prevention, return to work and claims management outcomes.

Workers' Compensation Premiums Benchmark

Year ended 30 June	2010+	2009	2008	2007
Equivalent full time employees (EFT)***	15,962	***15,962***	16,231	16,037
Premium cost ($m)	15.2	***16.2***	16.8	18.2
Benchmark* ($m)	14.4	***15.0***	14.5	14.8
Excess** ($m)	0.8	***1.2***	2.3	3.4

* Benchmark paid by The Treasury.
** Excess paid by TAFE NSW.
*** EFT numbers as specified in the Commission's Workers' Compensation Declarations.
\+ Estimates for 2010.

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

The Commission has advised that there has been a $2.6 million reduction (76 per cent) in the short fall payable by the Commission over the last four premium renewal periods as a result of improved claims management. This has also led to a $1.0 million reduction (6.2 per cent) in the deposit premium for the 2009-10 period.

Overtime

Overtime costs decreased two per cent in 2008-09.

Year ended 30 June	2009	2008	2007	2006
Overtime ($m)	***28.8***	29.4	29.3	27.3
Salaries ($m)	***1009.7***	1,002.1	987.1	951.3
Overtime as % of salary	***2.9***	3.0	3.0	2.9

As shown in the table below, 157 (156) non-teaching TAFE NSW employees earn 20 per cent or more of their gross salary in overtime.

Overtime to Base Salary %	Number of Non-Teaching Employees	
	2009	2008
71 – 100	--	1
61 – 70	--	--
51 – 60	***4***	5
41 – 50	***22***	18
31 – 40	***54***	45
21 – 30	***77***	87
10 – 20	***169***	169
0> - 10	***1,798***	1,854
Nil	***3,763***	3,461
Total	***5,887***	5,640

For four employees overtime was more than 50 per cent of their base salary compared to six 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	23,225	39,666	64,317	58.6
Employee 2	21,507	40,465	69,997	53.2
Employee 3	20,827	39,666	61,760	52.5
Employee 4	21,225	42,317	69,756	50.2

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

- overtime paid was for services that needed to be performed and that overtime was the cheapest alternative for providing the required services
- the cost of some overtime has been built into the budget for commercial activities
- of industrial action and other circumstances beyond the control of the Commission
- TAFE NSW operating hours are from 6.00am to 10.00pm, Monday to Saturday, therefore some overtime is unavoidable.

FINANCIAL INFORMATION

Abridged Consolidated Operating Statement

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Employee related	***944,255***	901,141	**--**	--
Personnel services	***343,344***	330,845	***1,232,114***	1,188,636
Other operating expenses	***307,779***	303,384	***307,779***	303,384
Depreciation and amortisation	***78,072***	75,675	***78,072***	75,675
TOTAL EXPENSES	***1,673,450***	1,611,045	***1,617,965***	1,567,695
TOTAL REVENUE	***396,026***	380,560	***396,313***	380,556
Other gains/(losses)	***16***	(1,706)	***16***	(1,706)
NET COST OF SERVICES	***1,277,408***	1,232,191	***1,221,636***	1,188,845
Government contributions	***1,272,110***	1,244,084	***1,216,626***	1,200,734
(DEFICIT)/SURPLUS	***(5,298)***	11,893	***(5,010)***	11,889

The increase in revenue is attributable to the increase in student enrolment numbers, referred to previously.

Abridged Consolidated Balance Sheet

At 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***181,321***	166,353	***181,321***	166,111
Non-current assets	***2,991,280***	2,978,932	***2,991,280***	2,978,932
TOTAL ASSETS	***3,172,601***	3,145,285	***3,172,601***	3,145,043
Current liabilities	***212,669***	180,210	***213,511***	180,943
Non-current liabilities	***842***	687	**--**	--
TOTAL LIABILITIES	***213,511***	180,897	***213,511***	180,943
NET ASSETS	***2,959,090***	2,964,388	***2,959,090***	2,964,100

The increase in current liabilities of $32.5 million was predominately due to:

- a rise in personnel services payable the to the Department of Education and Training of $5.5 million.
- an increase in unearned revenue of $12.1 million due to new programs and increased commercial activity domestically and overseas.
- a $9.9 million increase in accrued salaries and wages.

COMMISSION ACTIVITIES

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

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

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

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

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

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

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

CONTROLLED ENTITIES

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

A.C.N. 093 230 374 Pty Limited

The company ceased trading and was wound up on 15 November 2008.

New South Wales Technical and Further Education Commission Division

The Division provides personnel services to the Commission.

Office of the Board of Studies

AUDIT OPINION

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

FINANCIAL INFORMATION

Abridged Operating Statement

Year ended 30 June	2009 $'000	2008 $'000
Sales of goods and services	***6,209***	6,829
Grant and contributions	***955***	980
Other	***445***	544
TOTAL REVENUE	***7,609***	8,353
Employee Related expenses	***80,208***	80,243
Other operating expenses	***23,781***	23,522
Depreciation and amortisation	***1,954***	1,483
TOTAL EXPENSES	***105,943***	105,248
NET COST OF SERVICES	***98,334***	96,895
Government contributions	***98,351***	97,694
SURPLUS	***17***	799

The fall in other revenue is due primarily to a decrease in interest earned on cash balances.

Depreciation and amortisation rose due to increased asset purchases during the year.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***6,873***	7,331
Non-current assets	***8,141***	7,186
TOTAL ASSETS	***15,014***	14,517
Current liabilities	***5,710***	4,978
Non-current liabilities	***247***	499
TOTAL LIABILITIES	***5,957***	5,477
NET ASSETS	***9,057***	9,040

The increase in non-current assets was due predominantly to the acquisition of leasehold improvements of approximately $959,000, plant and equipment of $1.6 million and intangible assets of $421,000.

The decrease in non-current liabilities was due to a reduction in the provision for restoration costs.

Abridged Service Group Information

Office of the Board of Studies net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget * $'000	2009 Actual $'000	2008 Actual $'000	2009 Actual $'000	2008 Actual $'000
Curriculum Development and Support	***9,071***	***8,322***	8,462	***1,251***	660
Examinations Assessments and Credentialing	***86,569***	***86,755***	85,385	***4,376***	4,089
Registration and Accreditation	***3,420***	***3,513***	3,349	***(127)***	(126)
Not Attributable **	--	***(256)***	(301)	***3,557***	4,417
Total all service groups	***99,060***	***98,334***	96,895	***9,057***	9,040

* Per the New South Wales 2008-09 Budget Papers
** Represents items that could not be reliably allocated to a 'service group'

OFFICE ACTIVITIES

The Office is responsible for developing and delivering professional and administrative services to the Minister for Education and Training, the Board of Studies and its committees. This includes developing and supporting New South Wales curriculum, registering and accrediting non-government schools, registering home schooling, and assessing and examining students for the New South Wales School Certificate and Higher School Certificate (HSC). The Office carries out functions delegated to it by the Board of Studies, including employing staff to run the HSC. The Office bears the cost of carrying out those functions and does not charge the Board for those services.

The Office also includes the Australian Music Examinations Board (NSW) and the Aboriginal Education Consultative Group. The Office is a department under the *Public Sector Employment and Management Act 2002*.

For further information on the Office of the Board of Studies, refer to www.boardofstudies.nsw.edu.au.

Minister for Gaming and Racing

***Greyhound and Harness Racing Regulatory Authority**

Refer to Appendix 1 for:

Casino, Liquor and Gaming Control Authority

*Responsible Gambling Fund

* The audit was incomplete at the time of compiling this Volume. The comment will be included in a later 2009 Volume.

Minister for Lands

Wentworth Park Sporting Complex Trust

Wentworth Park Sporting Complex Trust

AUDIT OPINION

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

KEY ISSUES

Unresolved Loan Repayment – Repeat Issue

I have previously recommended that the Trust endeavour to reach agreement with Greyhound Racing NSW regarding the treatment of monies provided in 1985-87 by the former Racecourse Development Fund.

The Trust records a loan of $6.5 million payable to Greyhound Racing NSW. The money was provided in the period 1985-87 by the former Racecourse Development Fund (the Fund) to finalise construction of the main grandstand. At that time, grant status was not attached to the loan. The loan was finally transferred to Greyhound Racing NSW following privatisation of the TAB and winding up of the Fund.

The Trust's Board advised that it does not have the capacity to repay the loan and believes that, in respect of original arrangements, there is no obligation for repayment. The Trust and Greyhound Racing NSW continue to discuss the status of the loan and the Trust believes the issue will be finalised in 2009-10.

Licence termination

In November 2008, after 75 years of racing at Wentworth Park, the NSW National Coursing Association terminated its licence with the Trust and ceased metropolitan racing operations. The NSW Greyhound Breeders, Owners and Trainers Association is expected to conduct greyhound racing 104 times per year as sole licensee.

FINANCIAL INFORMATION

Year ended 30 June	2009 $'000	2008 $'000
Revenue	***674***	468
Expenses	***2,853***	1,850
Deficit	***2,179***	1,382
Net assets (at 30 June)	***39,468***	39,863

The increase in expenditure was largely due to a $332,000 decrement on the revaluation of Trust buildings (not including the grandstand), an increase in repairs and maintenance costs of $199,000, and $66,000 in demolition costs incurred to remove an old grandstand.

TRUST ACTIVITIES

The Trust is established under the *Crown Lands Act 1989*. Its main function is the care, control and management of the Reserve (Wentworth Park Sporting Complex). It is under the control of the Minister for Lands.

The Trust is empowered to grant leases, subject to Ministerial approval, and licences for the use of the Wentworth Park Sporting Complex for prescribed purposes.

For further information on the Trust refer to www.wentworthparksport.com.au.

Minister for Planning

Sydney Olympic Park Authority

Sydney Olympic Park Authority

AUDIT OPINION

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

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

OTHER INFORMATION

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

Master Plan 2030

The Authority has adopted Master Plan 2030. The Master Plan is aimed at providing a comprehensive blueprint for the sustainable development of the Park over the next 21 years. The Authority anticipates that construction of new high-grade commercial office space, medium to high density housing, education campus facilities and retail outlets will support an expected daily population of up to 45,000 people by 2030.

Major Projects at the Park

In the 2009 financial year the Commonwealth Bank of Australia completed the last of three new office buildings. The complex provides 61,000 square metres of office space and accommodates 3,500 staff.

Construction of a $51.0 million sports and specialist hospital is expected to commence in mid 2010. It will cater to an expected 155,000 patient visits per year when opened.

Other developments planned or underway include:

- $320 million residential development
- $20 million office and retail development
- $20 million serviced apartment complex

FINANCIAL INFORMATION

Abridged Consolidated Income Statements

Year ended 30 June	Consolidated		Parent	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
Employee related	***19,824***	19,798	--	--
Personnel services	***565***	1,134	***19,755***	20,212
Operating expenses	***53,014***	46,230	***52,367***	45,837
Depreciation and amortisation	***50,706***	40,547	***50,706***	40,547
Grants and subsidies	***800***	3,800	***1,520***	4,760
TOTAL EXPENSES	***124,909***	111,509	***124,348***	111,356
TOTAL REVENUE	***44,762***	39,233	***45,464***	39,644
Gain/(loss) on sale of non-current assets	***(129)***	993	***(129)***	993
Other gains	***21,946***	19,859	***21,946***	19,859
NET COST OF SERVICES	***58,330***	51,424	***57,067***	50,860
Government contributions	***34,914***	20,660	***34,106***	20,070
DEFICIT	***23,416***	30,764	***22,961***	30,790

The decrease in grants and subsidies expense is due to a one off $3.0 million contribution paid to the Roads and Traffic Authority for intersection upgrade works in the previous year.

Total revenue increased mainly due to rises in car park receipts, commercial leases and revenue from the Sydney Olympic Park Aquatic and Athletic Centres.

Other gains primarily represent the emerging value of the right to receive assets over the concession period.

The increase in government contributions is mainly due to lower asset sales transferred to the Crown Entity, due to the final instalment of $19.0 million being paid on the former Lidcombe Hospital site in the prior year.

Abridged Consolidated Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***52,112***	54,008	***50,522***	51,918
Non-current assets	***1,768,636***	1,701,713	***1,768,636***	1,701,713
TOTAL ASSETS	***1,820,748***	1,755,721	***1,819,158***	1,753,631
Current liabilities	***15,621***	15,515	***15,569***	15,419
Non-current Liabilities	***55,345***	46,353	***55,345***	46,353
TOTAL LIABILITIES	***70,966***	61,868	***70,914***	61,772
NET ASSETS	***1,749,782***	1,693,853	***1,748,244***	1,691,859

The increase in non-current assets is primarily due to the revaluation of infrastructure which increased by $79.3 million.

Non-current liabilities rose due to the deferral of income received in advance for long term leases of land sites.

AUTHORITY'S ACTIVITIES

The Authority was established in July 2001 by the *Sydney Olympic Park Authority Act 2001*, as a statutory body. It assumed certain assets and rights of the Olympic Coordination Authority, Bicentennial Park Trust and the State Sports Centre.

Under the Act, the Authority:

- promotes, coordinates and manages the orderly and economic development and use of Sydney Olympic Park, including the provision and management of infrastructure
- conducts cultural, sporting, educational, commercial, tourist, recreational, entertainment, and transport activities and facilities
- protects and enhances the natural and cultural heritage of Sydney Olympic Park, including the Millennium Parklands
- provides, operates, and maintains public transport facilities within Sydney Olympic Park
- liaises with and maintains arrangements with Olympic organisations, such as the International Olympic Committee and the Australian Olympic Committee Incorporated.

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

CONTROLLED ENTITIES

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

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

Entity Name	Website
Office of the Sydney Olympic Park Authority	*
Parklands Foundation Limited	www.parklandsfoundation.org.au
Sydney Olympic Park Authority Sydney Olympic Park Aquatic and Athletic Centres Division	*

* These entities do not have websites.

On 10 September 2009, the Authority as the sole member of Parklands Foundation Limited resolved to wind up the Foundation. Any existing programs will be consolidated into the Authority.

Minister for Sport and Recreation

Centennial Park and Moore Park Trust

Centennial Parklands Foundation

***Hunter Region Sporting Venues Authority**

Sydney Cricket and Sports Ground Trust

Wollongong Sportsground Trust

Refer to Appendix 1 for:

Boxing Authority of New South Wales

New South Wales Institute of Sport

Parramatta Park Trust

State Sports Centre Trust

Sydney 2009 World Masters Games Organising Committee

* The audit was incomplete at the time of compiling this Volume.
The comment will be included in a later 2009 Volume.

Centennial Park and Moore Park Trust

AUDIT OPINION

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

PERFORMANCE ISSUES

Park Visits

The table below shows that visits have increased steadily over the past five years. While the cost per visit has also increased slightly over this period, government funding per visit has declined substantially. This indicates the Trust has been able to generate revenues to meet increasing costs and reduce reliance on government funding.

Year ended 30 June	2009	2008	2007	2006	2005
Annual number and costs per visit					
Annual number of visits ('000s)	***5,967***	5,790	5,620	5,460	5,327
Cost per visit including depreciation ($)	***4.40***	4.21	4.10	3.90	3.93
Cost per visit – maintenance ($)	***0.57***	0.53	0.56	0.47	0.66
Net cost to government per visit – recurrent funding ($)	***0.30***	0.32	0.39	0.50	0.44

Source: Centennial Park and Moore Park Trust Annual Report (unaudited).

HIGHLIGHTS

The Trust has completed its seven year $50 million Park Improvement Plan. The main achievements in 2008-09 were:

- The construction of the Korean War Memorial in Moore Park to commemorate the Australian and Korean veterans of the Korean War. The construction was funded by the Department of Commerce.
- Refurbishment and extension of Centennial Parklands Restaurant including new public amenities and visitor information counter. The facility opened to the public in October 2008.
- Completion of a new playground, which was launched by the Minister for Sport and Recreation, the installation of new accessible picnic facilities and a path adjacent to the Centennial Parklands Restaurant.
- Environmental improvements to Kensington and Busby Ponds verges and stormwater treatment, and continued tree replacement program.
- Restoration and installation of the historic Centennial Park Round House Weather Station.

FINANCIAL INFORMATION

Abridged Operating Statement

Year ended 30 June	2009 $'000	2008 $'000
Sale of goods and services	***9,177***	8,616
Investment revenue	***8,614***	8,306
Grants	***7,388***	6,902
Other revenue	***1,594***	1,214
TOTAL REVENUE	***26,773***	25,038
Personnel services	***5,659***	5,483
Other expenses	***20,589***	18,876
TOTAL EXPENSES	***26,248***	24,359
SURPLUS	***525***	679

The Trust's revenue increased by $1.7 million compared to the previous year. This is largely attributed to an increase in Moore Park Golf Course revenues of $300,000, an increase in event revenue of $300,000 and recouped maintenance and operating costs. Grant revenues increased by $400,000 primarily due to the donation of a Korean Memorial from the Department of Commerce with an in-kind value of $800,000. This was offset, in part, by a decrease in the Department of Arts, Sport and Recreation grant of $400,000.

Expenses increased by $1.9 million in the current year. This was primarily due to the following:

- increased depreciation expense as a result of new infrastructure during the year
- increased maintenance and operating costs for Moore Park Golf Course
- increased maintenance repairs within parklands
- increased external contractors fees due to more events being held including World Youth Day
- a four per cent increase in salaries.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***10,695***	11,025
Non-current assets	***740,651***	733,290
TOTAL ASSETS	***751,346***	744,315
Current liabilities	***4,736***	5,339
Non-current liabilities	***6,106***	6,816
TOTAL LIABILITIES	***10,842***	12,155
NET ASSETS	***740,504***	732,160

The increase in non-current assets was due to a revaluation of building, infrastructure and trees during the year.

TRUST ACTIVITIES

The Trust is constituted under the *Centennial Park and Moore Park Trust Act 1983*. It is subject to the control and direction of the Minister for Sports and Recreation. Its principal objectives are to:

- maintain and improve Trust lands
- encourage the use and enjoyment of Trust lands by promoting and increasing the recreational, historical, scientific, educational, cultural and environmental value of those lands
- maintain the right of the public to the use of Trust lands
- ensure the protection of the environment within Trust lands.

For further information on the Parklands, refer to www.cp.nsw.gov.au.

Centennial Parklands Foundation

AUDIT OPINION

The audit of the Foundation's financial report for the year ended 30 June 2009 resulted in a qualified Independent Auditor's Report.

It is impractical for the Foundation to maintain an effective system of internal controls over donations it receives until their initial entry into the financial records. Accordingly, we were unable to express an opinion as to whether all donation revenues received by the Foundation were recorded.

FINANCIAL INFORMATION

Year ended 30 June	2009 $'000	2008 $'000
Revenue	***1,026***	1,013
Expenses	***801***	743
Surplus	***225***	270
Net assets (at 30 June)	***696***	470

Revenue included grants and donations of $500,000 ($500,000 in 2007-08) and goods and services received free of charge, $400,000 ($500,000). Expenditure included grants and donations to the Centennial Park and Moore Park Trust of $400,000 ($300,000).

Cash is invested with a major Australian bank. Interest is earned on daily balances at the daily cash rate.

The Foundation successfully raised $79,000 from the Evergreen fund raising dinner held on 11 October 2008. The money will be used to establish a Recycled Garden and Education Centre, providing a 'classroom in the park' complemented by a best practice recycled demonstration garden.

The Foundation also provided more than $127,000 towards the Centennial Parklands tree replacement program with 213 semi-mature trees planted in 2008-09. A Green Corps program supported by the Commonwealth Government enabled ten trainees to assist with bush and pond system regeneration in the Parklands.

FOUNDATION ACTIVITIES

The Foundation was established as an independent charitable organisation by the Centennial Park and Moore Park Trust under the 'Centennial Parklands Foundation Deed' in July 1998. Its principal objectives are to:

- preserve the natural environmental value of Centennial Parklands
- encourage and promote enjoyment of recreation and activity within natural surroundings
- recognise and appreciate the natural and historical significance of Centennial Parklands
- enhance and promote all other aspects of the environmental benefits provided by Centennial Parklands to be enjoyed by all members of the public, and
- provide information, education and research about the natural environment.

For further information on the Foundation, refer to www.yourparklands.org.au.

Sydney Cricket and Sports Ground Trust

AUDIT OPINION

The audits of the Trust and its controlled entity's financial reports for the year ended 28 February 2009 resulted in unqualified Independent Auditor's Reports.

OTHER INFORMATION

Victor Trumper Stand and the Sheridan Building

During 2008-09 both the Victor Trumper Stand and Sheridan Building were completed and officially opened. Costs of $80.2 million (budget $82.3 million) were incurred on the Victor Trumper Stand, and $11.6 million (budget $10.0 million) on the Sheridan Building.

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

FINANCIAL INFORMATION

Abridged Consolidated Income Statement

Year ended 28 February	2009* $'000	2008** $'000
Government grant	***25,000***	25,000
Membership fees	***16,866***	17,585
Event hire fees	***7,963***	7,310
General	***36,977***	36,388
TOTAL INCOME	***86,806***	86,283
Event operating costs	***9,564***	9,206
Staff related expenses	***13,452***	12,363
General	***37,575***	33,126
TOTAL EXPENDITURE	***60,591***	54,695
SURPLUS	***26,215***	31,588

* Year ended 28 February 2009.
** Year ended 29 February 2008.

The Trust received a $25.0 million grant from the Commonwealth Government which matched the New South Wales Government commitment to the Victor Trumper Stand project.

Abridged Consolidated Balance Sheet

At 28 February	2009* $'000	2008** $'000
Current assets	***12,845***	9,613
Non-current assets	***559,236***	510,563
TOTAL ASSETS	***572,081***	520,176
Current liabilities	***33,144***	30,257
Non-current liabilities	***41,855***	19,052
TOTAL LIABILITIES	***74,999***	49,309
NET ASSETS	***497,082***	470,867

* Year ended 28 February 2009
** Year ended 29 February 2008.

Non-current liabilities increased due to higher borrowings to fund the Victor Trumper Stand development. At 28 February 2009 borrowings from New South Wales Treasury Corporation were $44.3 million ($16.0 million in 2007-08).

TRUST ACTIVITIES

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

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

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

For further information on the Trust, refer to www.scgt.nsw.gov.au.

CONTROLLED ENTITY

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

Entity Name
Sydney Cricket and Sports Ground Trust Division

Wollongong Sportsground Trust

AUDIT OPINION

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

KEY ISSUE

The Trust's biggest challenge is to become financially self sufficient and to provide effectively for the maintenance and replenishment of its key assets, the WIN Entertainment Centre and WIN Stadium.

A major priority of the Trust is to replace the ageing Western Grandstand so WIN Stadium meets national and international standards and remains competitive in attracting significant sporting events. On 16 October 2009, the NSW government announced it would provide $28.9 million to replace the Western Grandstand.

FINANCIAL INFORMATION

Year ended 30 June	Consolidated		Trust	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Revenue	***3,599***	3,955	***3,599***	3,955
Salaries and related expenses	***1,723***	1,709	**--**	--
Other expenses	***2,757***	2,771	***4,480***	4,480
Loss	***881***	525	***881***	525
Net assets (at 30 June)	***56,661***	55,586	***56,661***	55,586

The decrease in revenues was mainly due to fewer events and lower event returns at the Entertainment Centre, including music concerts, family events and conferences.

Net assets increased primarily as a result of a revaluation of land and buildings, comprising both the Stadium and the Entertainment Centre, by $2.0 million.

TRUST ACTIVITIES

The Trust is constituted by the *Wollongong Sportsground Act 1986*. The Trust's major objectives are to:

- develop the Wollongong Showground for tourist and recreation purposes
- encourage, promote and facilitate the use and enjoyment of the Trust lands by members of the public.

The Trust is responsible for the care, control and management of the vested land and the public facilities provided, which most notably are the WIN Entertainment Centre and the adjacent WIN Stadium. It is subject to the control and direction of the Minister for Sport and Recreation.

For further information on the Trust refer to www.wec.org.au.

CONTROLLED ENTITY

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

Entity Name
Wollongong Sportsground Trust Division

Minister for the Arts

Art Gallery of New South Wales Trust

Australian Museum Trust

Department of the Arts, Sport and Recreation

Historic Houses Trust of New South Wales

Library Council of New South Wales

Sydney Opera House Trust

Trustees of the Museum of Applied Arts and Sciences

Refer to Appendix 1 for:

Art Gallery of New South Wales Foundation

New South Wales Film and Television Office

The Brett Whiteley Foundation

Art Gallery of New South Wales Trust

AUDIT OPINION

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

PERFORMANCE INFORMATION

The Trust provided the following information regarding its performance.

Year ended 30 June	2009	2008	2007	2006	2005
Visitor numbers ('000s)	***1,706***	1,356	1,302	1,690	1,351
Admission fees ($m)	***4.8***	2.6	1.9	3.8	1.6
Number of exhibitions	***41***	38	38	52	35
Collections					
Total items ('000s)	***29***	29	28	28	28
Total value ($m)	***813***	795	782	629	615
Acquisitions during the year:					
- dollar value ($m)	***18.6***	14.1	8.2	9.9	11.2
- number of items	***504***	467	442	585	480

(unaudited).

The exhibition program is the major driver for visitor numbers. The increase in visitor numbers and admission fees in 2008-09 was due to favourable responses to several ticketed exhibitions, the most popular being 'Monet and the Impressionists' and 'The Lost Buddhas'.

OTHER INFORMATION

We identified opportunities for improvement to accounting and internal control procedures. We will discuss these further with Trust staff and, where appropriate, report them to management.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2009 $'000	2008 $'000
Government contributions	***27,622***	34,169
Sale of goods and services	***11,515***	9,168
Other	***25,417***	13,918
TOTAL REVENUE	***64,554***	57,255
Personnel services expenses	***20,036***	19,136
Operating expenses	***14,832***	18,268
Depreciation and amortisation	***2,141***	2,115
TOTAL EXPENSES	***37,009***	39,519
SURPLUS	***27,545***	17,736

Government contributions in 2008-09 included a recurrent grant of $20.6 million ($19.6 million) and capital grant of $5.8 million ($13.6 million). The capital grants in 2007-08 and 2008-09 were primarily for the construction of an off-site collection storage facility at Lilyfield with a project cost of $27.6 million, which is expected to be operational in November 2009. This 5,000 square metre facility is expected to address the risks of damage to collection items that are currently overcrowded in the Gallery's on-site storage facility.

Other revenue increased in 2008-09 due to additional donations received primarily for the acquisition of the 1888 Paul Cezanne painting 'Bords de la Marne', which was purchased during the year for $16.2 million.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***33,280***	38,163
Non-current assets	***999,626***	966,746
TOTAL ASSETS	***1,032,906***	1,004,909
Current liabilities	***7,154***	6,707
Non-current liabilities	***19***	14
TOTAL LIABILITIES	***7,173***	6,721
NET ASSETS	***1,025,733***	988,188

The increase in non-current assets is primarily due to purchases of art work and the capital works projects noted above.

TRUST ACTIVITIES

The Trust is constituted under the *Art Gallery of New South Wales Act 1980*. It is subject to the control and direction of the Minister for the Arts. Its main functions are to:

- develop and maintain a collection of works of art
- propagate and increase knowledge and appreciation of art
- give particular emphasis on the visual art of Australia and Asia.

For further information on the Trust, refer to www.artgallery.nsw.gov.au.

CONTROLLED ENTITY

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

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

Entity Name	Website
The Australian Institute of Asian Culture and Visual Arts Limited	www.asianart.com.au

Australian Museum Trust

AUDIT OPINION

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

KEY ISSUES

Collections Database (Repeat Issue)

I have previously recommended the Museum complete its program of recording its collections on an electronic database as soon as possible.

In recent years, I reported that the absence of an appropriate database impacts the Museum's ability to discharge its stewardship responsibilities over its collections. Museum management has again advised that completion of this task is dependent on the availability of funds. They are unable to determine when this work will be completed largely because of the number of collection items.

PERFORMANCE INFORMATION

The Museum provided the following information regarding its performance.

Year ended 30 June	2009	2008	2007	2006	2005
Visitor numbers ('000s)	***322***	333	318	297	336
Admission fees ($m)	***2.5***	1.9	1.8	2.1	2.4
Temporary exhibitions	***5***	8	9	8	10
Website visits (m)	***14.0***	21.0	23.3	17.1	12.2
Value of Collection ($m)	***767,114***	767,064	530,331	530,331	530,301

(unaudited).

Visitor numbers were on similar levels to previous years, primarily due to continued public interest in the Museum's exhibitions, which included:

- Papunya Painting – 'Out of the Desert' from the National Museum of Australia, Canberra from 5 July 2008 to 2 November 2008
- Wildlife Photographer of the Year 2009 from the National History Museum, London from 13 December 2008 to 22 March 2009
- Climate Change – Our Future, Our Choice from 2 May 2009 to 16 August 2009
- Mammoth from the Museum National D'Histoire Naturelle, Paris from 10 April 2009 to 24 July 2009
- Frank Hurley – Journeys into Papua from 29 March 2008 to 15 March 2009.

Admission fees increased in 2008-09 due to an increase of between three per cent and 60 per cent in the price of admission across all categories.

During the year the Museum launched its new website, the centrepiece of which is a new content management system which allows for much greater interaction between and among the Museum and the public. The 'Museum in a Box' program delivered teaching resources to nearly 70,000 school students across NSW.

The value of the Museum's Collections increased significantly in 2007-08 due to a revaluation in that year.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2009 $'000	2008 $'000
Government contributions	***29,733***	45,210
Sale of goods and services	***6,651***	5,663
Other revenue	***5,749***	4,279
TOTAL REVENUE	***42,133***	55,152
Personal services expenses	***22,560***	20,848
Other operating expenses	***13,089***	12,341
Other expenses	***5,030***	3,496
TOTAL EXPENSES	***40,679***	36,685
SURPLUS	***1,454***	18,467

During 2008-09, the Trust received $15.5 million less in Government contributions mainly due to the completion of capital works on the New Collections and Research Building. This was the first major new building to be constructed at the Museum in 20 years.

The Museum was able to generate more than $12.9 million, over one-third of its total funding, from other sources such as admissions revenue, sales, competitive research grants and venue hire.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***10,720***	16,444
Non-current assets	***1,029,584***	1,024,068
TOTAL ASSETS	***1,040,304***	1,040,512
Current liabilities	***4,713***	6,400
Non-current liabilities	***368***	343
TOTAL LIABILITIES	***5,081***	6,743
NET ASSETS	***1,035,223***	1,033,769

The Trust spent $10.1 million in 2009 on additions to property, plant and equipment and collection items. The major items of expenditure were:

- $3.8 million to complete the New Collection and Research Building
- $700,000 for upgrades to the Lizard Island Research Station
- $500,000 for copper roof work.

TRUST ACTIVITIES

The Trust is constituted under the *Australian Museum Trust Act 1975.* Trustees are appointed by the Governor on the recommendation of the Minister for the Arts for a term of up to three years.

The objectives of the Australian Museum Trust Act are to propagate knowledge about the natural environment of Australia and to increase that knowledge, particularly in the natural sciences of biology, anthropology and geology. The Trust is responsible for the control and management of the Museum.

For further information on the Trust, refer to www.austmus.gov.au.

Department of the Arts, Sport and Recreation

AUDIT OPINION

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

KEY ISSUES

On 27 July 2009, the 'Public Sector Employment and Management (Departmental Amalgamations) Order 2009' transferred all branches of the Department of the Arts, Sport and Recreation to Communities NSW and abolished the Department of the Arts, Sport and Recreation.

OTHER INFORMATION

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

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	2009 $'000	2008 $'000
Employee related	***235,761***	223,549
Other expenses	***135,068***	152,369
OPERATING EXPENSES	***370,829***	375,918
OPERATING REVENUE	***214,998***	205,846
NET COST OF SERVICES	***155,831***	170,072
Government contributions	***160,748***	172,324
SURPLUS	***4,917***	2,252
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY		
Superannuation actuarial losses	***(1,951)***	(2,775)
Asset Revaluation Reserve net increase	***49,996***	--
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***52,962***	(523)

The decrease in other expenses of $17.3 million was primarily due to one off payments, in 2008, for Equine Influenza grants, $5.4 million and a capital grant to the Museum of Contemporary Art for the education wing and cafeteria development of $10.0 million.

Loan Guarantees

The Department acts as a guarantor for loans to sporting organisations. At 30 June 2009, the Department had guaranteed 11 loans with outstanding balances totalling $3.3 million.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***57,969***	53,687
Non-current assets	***501,781***	446,427
TOTAL ASSETS	***559,750***	500,114
Current liabilities	***43,351***	39,130
Non-current liabilities	***1,184***	880
TOTAL LIABILITIES	***44,535***	40,010
NET ASSETS	***515,215***	460,104

Non-current assets increased by $55.4 million primarily due to additions to property, plant and equipment of $16.5 million and net revaluation increments of $50.0 million offset by depreciation and amortisation charges of $12.2 million.

The Department's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget $'000	2009 Actual $'000	2008 Actual $'000	2009 Actual $'000	2008 Actual $'000
Arts Industry Development	***44,332***	***49,145***	57,490	***5,777***	8,068
Arts Accommodation Development	***2,845***	***3,037***	3,519	***145,334***	110,330
Regulatory Framework for the Liquor, Gaming, Racing and Charity Industries	***18,671***	***22,236***	21,053	***11,796***	7,163
Liquor, Gaming and Racing Funding and Information Services	***23,376***	***16,795***	17,261	***1,335***	1,345
Sport and Recreation Sector Development	***36,149***	***33,661***	29,823	***225,480***	215,633
Sports Facility Development	***24,104***	***26,241***	32,794	***126,559***	115,760
Personnel Services	***8,704***	***4,716***	8,132	***(1,066)***	1,805
Total all service groups	***158,181***	***155,831***	170,072	***515,215***	460,104

The net cost of services was lower than budget mainly due to increased grants and subsidy payments from grant funding programs across the Department of $8.8 million, offset by decreases in employee related and other operating expenses of $5.6 million and increases in other revenues of $5.4 million.

Administered Revenue and Expenses

The Department levies the following fees and administers expenses on behalf of the Crown Entity.

Activity Description	2009 $'000	2008 $'000
Administered Revenue		
Speedway racing licences	***25***	21
Liquor application/grant fees*	--	1,436
Gaming machine licence fees*	--	704
Hotel gaming machine tax*	--	2
Trade competition fees	***2,136***	2,489
Local court fees	***439***	843
Fines – local court	***599***	889
TOTAL ADMINISTERED REVENUE	***3,199***	6,384
Administered Expenses		
Liquor subsidies	***3,027***	3,033
TOTAL ADMINISTERED EXPENSES	***3,027***	3,033
ADMINISTERED REVENUE LESS EXPENSES	***172***	3,351

* These were collected by the Department on behalf of the former Liquor Administration Board. From 1 July 2008, the responsibility for these collections was transferred to the newly formed Casino, Liquor and Gaming Control Authority. Consequently, these revenues are now recognised in the notes to the financial statements of that Authority.

DEPARTMENT ACTIVITIES

The Department of the Arts, Sport and Recreation consists of three divisions; Arts NSW, NSW Sport and Recreation, and the NSW Office of Liquor, Gaming and Racing.

The purpose of the Department is to improve social well-being through fostering a spirited arts and cultural environment, developing a community based sport and recreation ethos, and ensuring the proper conduct and balanced development of the liquor, gaming, racing and charity industries.

For further information on the Department refer to www.communities.nsw.gov.au, www.arts.nsw.gov.au, www.dsr.nsw.gov.au and www.olgr.nsw.gov.au.

Historic Houses Trust of New South Wales

AUDIT OPINION

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

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

PERFORMANCE INFORMATION

The Trust provided the following information regarding its performance.

Year ended 30 June	2009	2008	2007	2006	2005
Visitor numbers ('000s)	***913***	1,012	1,024	993	1,048
Admission and function fees ($m)	***2.8***	2.8	2.6	2.3	1.7
Temporary exhibitions	***11***	10	9	8	8
Properties					
Number	***18***	16	16	14	14
Value ($m)	***201***	203	202	201	202
Collections					
Total items ('000s)	***46***	46	45	44	43
Total value ($m)	***36***	35	33	27	26
Acquired this year:					
Total value ($'000)	***112***	749	5,448	302	4,780
Number of items	***353***	738	*703*	248	262

(unaudited).

OTHER INFORMATION

The Trust occupies the Justice and Police Museum, which was owned by another Government agency. The Trust has met and capitalised, the cost of upgrading the Museum because it has care and control of this property and derives the benefits of occupation. For a number of years we recommended that action be taken to expedite the transfer of the Museum to the Trust. The Trust has advised that the transfer of ownership has been completed in 2009-10.

Our 2008-09 audit identified some opportunities for improvement to accounting and internal control procedures. These matters have been reported to management.

FINANCIAL INFORMATION

Abridged Operating Statements

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Government contributions	***22,685***	19,231	***22,685***	19,231
Other Revenue	***8,285***	9,142	***7,956***	8,976
TOTAL REVENUE	***30,970***	28,373	***30,641***	28,207
Personnel services	***16,175***	15,700	***16,175***	15,618
Other expenses	***11,149***	12,561	***11,014***	12,496
TOTAL EXPENSES	***27,324***	28,261	***27,189***	28,114
SURPLUS	***3,646***	112	***3,452***	93

The Trust does not have the authority to employ staff. Personnel services are provided by the Department of Arts, Sport and Recreation. The increase in personnel services expenses reflects pay rises and event and function staffing requirements.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***12,664***	8,824	***10,894***	7,250
Non-current assets	***241,352***	241,567	***240,442***	240,803
TOTAL ASSETS	***254,016***	250,391	***251,336***	248,053
Current liabilities	***2,372***	3,334	***3,460***	4,424
Non-current liabilities	***11***	10	***11***	10
TOTAL LIABILITIES	***2,383***	3,344	***3,471***	4,434
NET ASSETS	***251,633***	247,047	***247,865***	243,619

ENTITY ACTIVITIES

The principle functions of the Trust are to:

- manage and conserve historic buildings or places which have been acquired by or vested in it
- collect, manage, maintain and conserve objects and materials associated with those buildings and places
- research and interpret the significance of those buildings, places, objects and materials
- provide educational, cultural and professional services (including research, publications, information, public programs and activities) in respect of those buildings, places, objects and materials.

The Trust manages 18 properties (16 in 2007-08) of historic significance. 'Glenfield' and 'Nissen Hut' were acquired by the Trust during the year.

Under the *Historic Houses Act 1980*, the Trust is subject to the direction and control of the Minister for the Arts.

For further information on the Trust, refer to www.hht.nsw.net.au.

CONTROLLED ENTITIES

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

Where available, we have listed the websites for further information on these entities.

Entity Name	Website
Foundation for the Historic Houses Trust of New South Wales	www.hht.net.au/support_us/foundation
Foundation for the Historic Houses Trust of New South Wales Limited	*
Hamilton Rouse Hill Trust	*
Rouse Hill Hamilton Collection Pty Limited	*

* This entity does not have a website.

Library Council of New South Wales

AUDIT OPINION

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

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

PERFORMANCE INFORMATION

The Library provided the following information regarding its performance:

Year ended 30 June	2009	2008	2007	2006	2005
Onsite visitor numbers ('000s)	**	646	639	629	629
Web page requests (million)	*	*	40.2	31.6	24.6
Electronic records available ('000s)	***1,921***	1,692	1,621	1,567	1,521
Online visits ('000s)	***2,074***	*	*	*	*
Collections					
Total items ('000s)	***5,361***	5,280	5,221	5,158	5,127
Total value ($m)	***1,873***	1,874	1,877	1,880	1,883
Acquired this year:					
dollar value ($m)	***7.7***	6.9	7.1	6.9	7.8
number of items ('000s)	***83.0***	59.0	63.6	53.6	80.9

** Visitation recording recently identified as faulty. Work is underway to rectify for 2009-10.
* New measure in 2008-09 to replace web page requests statistics.

The new performance measure 'Online visits' replaces 'Web page requests' used in previous years. The Library considers the new measure more relevant to monitor and improve its operations.

In October 2008, the Library commenced the eRecords project, which is a long-term project to convert catalogue records on manual cards into electronic records. In 2008-09, 182,500 new electronic records were created for books, maps and heritage research collections. The New South Wales Government has committed funding of $10.0 million over three years to support this project.

In May 2009, the Library Council acquired an Edward Close sketchbook from the early 1800s at auction for $915,000. This is one of the Library's most significant acquisitions. The sketchbook includes unrivalled illustrations of Sydney, the Illawarra and the colonists.

The Library's collections were last revalued in 2004-05 and the next revaluation is scheduled for 2009-10.

OTHER INFORMATION

We identified opportunities for improvement to accounting and internal control procedures. We discussed these with Library staff and reported them to management.

FINANCIAL INFORMATION

Abridged Consolidated Income Statements

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Government contributions	***70,887***	71,732	***70,887***	71,732
Other revenue	***9,649***	8,558	***8,420***	7,050
TOTAL INCOME	***80,536***	80,290	***79,307***	78,782
Personnel services expenses	***28,401***	29,891	***28,099***	29,793
Other expenses	***56,315***	55,549	***55,523***	54,454
TOTAL EXPENSES	***84,716***	85,440	***83,622***	84,247
DEFICIT	***4,180***	5,150	***4,315***	5,465

The Library does not have the authority to employ staff. It recognises personnel services expenses provided by the Department of Arts, Sport and Recreation.

Abridged Consolidated Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***25,754***	22,936	***14,745***	11,924
Non-current assets	***2,102,871***	2,109,686	***2,102,550***	2,109,331
TOTAL ASSETS	***2,128,625***	2,132,622	***2,117,295***	2,121,255
Current liabilities	***6,899***	4,863	***6,844***	4,636
TOTAL LIABILITIES	***6,899***	4,863	***6,844***	4,636
NET ASSETS	***2,121,726***	2,127,759	***2,110,451***	2,116,619

LIBRARY ACTIVITIES

The Library is constituted under the *Library Act 1939*. It is subject to the control and direction of the Minister for the Arts in the performance of its duties and functions relating to local library services.

Its main function is to provide library and information services to the people of New South Wales through the State Library and the statewide network of public libraries and information agencies.

For further information on the Library, refer to www.sl.nsw.gov.au.

CONTROLLED ENTITY

State Library of New South Wales Foundation

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

Entity Name
State Library of New South Wales Foundation

Sydney Opera House Trust

AUDIT OPINION

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

KEY ISSUES

Maintenance Required

I recommend that critical problems with stage machinery at the Sydney Opera House be addressed and consideration be given to other operational shortcomings.

Operational shortcomings with the existing opera theatre at the Sydney Opera House were meant to be addressed in the Opera Theatre Renewal Project. This Project includes a complete renewal of the opera theatre and major structural works to the building over a period of approximately three and a half years. The required funding for this project is significant and has not been made available to date.

Of primary importance is stage machinery, which is approaching the end of its useful life. The current solutions, which seek to mitigate mechanical failure, are only short-term fixes. Management has advised that the problems with the stage machinery are now critical and the theatre will have to close for six to 12 months at some negotiated point in the future, regardless of whether funding is granted for the Project.

PERFORMANCE INFORMATION

The Trust provided the following information regarding its performance:

Year ended 30 June	2009	2008	2007	2006	2005
Performances	***1,677***	1,661	1,595	1,558	1,543
Audience ('000s)	***1,242***	1,270	1,212	1,130	1,135
Guided tour attendees ('000s)	***319***	330	328	270	247

(unaudited).

OTHER INFORMATION

We identified opportunities for improvement to accounting and internal control procedures. We will discuss these further with Trust staff and, where appropriate, report them to management.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2009 $'000	2008 $'000
Sales of goods and services	***50,030***	49,527
Government contributions	***44,834***	21,363
Other	***11,752***	10,926
TOTAL REVENUE	***106,616***	81,816
Personnel services expenses	***38,016***	39,054
Other operating and maintenance expenses	***59,416***	55,284
Depreciation and amortisation	***17,884***	17,801
TOTAL EXPENSES	***115,316***	112,139
DEFICIT	***8,700***	30,323

Government contributions received in 2008-09 included $44.8 million to finance the cost of capital and maintenance works scheduled in 2008-09 and future years.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***69,532***	84,510
Non-current assets	***1,761,806***	1,810,653
TOTAL ASSETS	***1,831,338***	1,895,165
Current liabilities	***31,695***	23,494
Non-current liabilities	***1,208***	1,107
TOTAL LIABILITIES	***32,903***	24,601
NET ASSETS	***1,798,435***	1,870,562

The decrease in net assets in 2008-09 primarily reflects a fall in the valuation of the Opera House building by $63.7 million from $1.66 billion to $1.60 billion. The building was devalued in 2008-09 using a replacement cost methodology. The previous valuation was performed in 2005-06.

TRUST ACTIVITIES

The Trust is constituted under the *Sydney Opera House Trust Act 1961*. It is subject to the control and direction of the Minister for the Arts. Its main functions are to manage and maintain the Sydney Opera House and site as a heritage building, performing arts and conference centre, tourism destination, and to promote and encourage the performing arts.

For further information on the Trust, refer to www.sydneyoperahouse.com.

Trustees of the Museum of Applied Arts and Sciences

AUDIT OPINION

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

PERFORMANCE INFORMATION

The Museum provided the following information regarding its performance:

Year ended 30 June	2009	2008	2007	2006	2005
Visitor numbers ('000s)	***719***	676	622	535	702
Admission fees ($m)	***4.3***	4.3	3.1	2.3	4.3
Temporary exhibitions	***23***	24	31	28	25
Collections					
Total items ('000s)	***389***	389	388	387	387
Total value ($m)	***407***	405	403	401	399
Acquired this year:					
- dollar value ($m)	***1.1***	2.5	1.9	2.1	2.1
- number of items	***414***	889	725	707	546

(unaudited).

The Museum comprises the Powerhouse Museum, the Sydney Observatory and the Powerhouse Discovery Centre. In 2008-09, the Museum achieved the highest overall visitor numbers since 1994-95, primarily due to the success of exhibition *Star Wars: Where Science Meets Imagination*. This was the Museum's most successful temporary paid exhibition with attendance of over 216,600.

Of the 414 collection items acquired during 2008-09, 385 were from donations.

OTHER INFORMATION

We identified some opportunities to improve accounting and internal control procedures which we reported to management.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2009 $'000	2008 $'000
Government contributions	***32,699***	34,074
Sales of goods and services	***7,586***	6,599
Other	***4,975***	4,128
TOTAL REVENUE	***45,260***	44,801
Personnel services expenses	***26,124***	28,049
Other operating expenses	***14,252***	14,196
Depreciation and amortisation	***5,839***	5,703
Other gains	***(15)***	(17)
TOTAL EXPENSES	***46,200***	47,931
DEFICIT	***940***	3,130

Recurrent Government contributions were lower than 2007-08 however capital funding increased for the upgrade of computer network infrastructure.

Personnel services expenses in 2007-08 included the effect of the Museum's voluntary redundancy program. After excluding the effects of this program, personnel expenses increased in 2008-09 by 1.3 per cent.

The introduction of zero base budgeting assisted the Museum in keeping tight control of operating expenses in 2008-09, which were on a similar level to the previous year.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***8,103***	6,339
Non-current assets	***536,145***	538,980
TOTAL ASSETS	***544,248***	545,319
Current liabilities	***6,156***	6,292
Non-current liabilities	***28***	23
TOTAL LIABILITIES	***6,184***	6,315
NET ASSETS	***538,064***	539,004

MUSEUM ACTIVITIES

The Museum is constituted under the *Museum of Applied Arts and Sciences Act 1945*. Under the Act, the Trustees are subject to the control and direction of the Minister for the Arts.

The Museum's main function is to preserve the State's cultural heritage in science, technology, history, decorative arts and design and to provide access to New South Wales' residents.

For further information on the Museum, refer to www.phm.gov.au.

Minister for Western Sydney

Western Sydney Parklands Trust

Western Sydney Parklands Trust

AUDIT OPINION

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

OTHER INFORMATION

We identified opportunities to improve the accounting and internal control procedures and reported them to management.

FINANCIAL INFORMATION

The following information relates to the Trust's finances.

Period ended 30 June	2009 $'000	2008* $'000
Revenue	***11,937***	2,152
Expenditure	***4,151***	1,475
Surplus	***7,786***	677
Net assets (at 30 June)	***422,957***	433,673

* for the period 1 January 2008 to 30 June 2008.

The Trust has an agreement with the Corporation Sole 'Minister Administering the *Environmental Planning and Assessment Act, 1979*' (Corporation) whereby, the Trust will receive a portion of sale proceeds from certain land the Corporation has sold or is planning to sell. In 2008-09, the Trust received $8.5 million under this agreement.

Other increases in revenue and expenses are largely attributable to this being the first full year of operations.

At 30 June 2009, the park was valued at $426 million ($434 million in 2008).

TRUST ACTIVITIES

The Trust, established by the *Western Sydney Parklands Act 2006*, is subject to the control and direction of the Minister. Its principal function is to develop the parklands, stretching 27 kilometres from Mt. Druitt to Hoxton Park, into multiuse urban parkland for the region of Western Sydney. Also, the Trust is to conserve, restore and enhance the natural environment and cultural and historical heritage of the parklands.

For further information on the Trust, refer to www.westernsydneyparklands.com.au.

Minister for Youth

Refer to Appendix 1 for:

Office for Children

Appendix

Appendix 1
Agencies not reported elsewhere in this Volume

Appendix 1 – Agencies not reported elsewhere in this Volume

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

Entity Name	Website	Period/Year Ended
Art Gallery of New South Wales Foundation	www.artgallery.nsw.gov.au	30 June 2009
Arts Education Foundation Trust	www.schools.nsw.edu.au	30 June 2009
Boxing Authority of New South Wales	*	30 June 2009
Casino, Liquor and Gaming Control Authority	www.clgca.nsw.gov.au	30 June 2009
Coffs Harbour Technology Park Limited	www.coffsinnovation.com.au/techpark/index.htm	30 June 2009
Community Relations Commission for a Multicultural New South Wales	www.crc.nsw.gov.au	30 June 2009
- Office of the Community Relations Commission	*	30 June 2009
New South Wales Film and Television Office	www.fto.nsw.gov.au	30 June 2009
New South Wales Institute of Sport	www.nswis.com.au	30 June 2009
- Institute of Sport Division	*	30 June 2009
NSW Institute of Teachers	www.nswteachers.nsw.edu.au	30 June 2009
- Office of the Institute of Teachers	*	30 June 2009
Office for Children	www.kidsgaurdian.nsw.gov.au & www.kids.nsw.gov.au	30 June 2009
Parramatta Park Trust	www.ppt.nsw.gov.au	30 June 2009
State Sports Centre Trust	www.sports-centre.com.au	30 June 2009
- State Sports Centre Trust Division	*	30 June 2009
Sydney 2009 World Masters Games Organising Committee	www.2009worldmasters.com	30 June 2009
- Office Of The Sydney 2009 World Masters Games Organising Committee	*	30 June 2009
- Sydney 2009 World Masters Games Organising Committee Division	*	30 June 2009
The Board of Studies	www.boardofstudies.nsw.edu.au	30 June 2009
- Board of Studies Casual Staff Division	*	30 June 2009
The Brett Whiteley Foundation	www.brettwhiteley.com.au	30 June 2009

* This entity does not have a website.

Index

A

Page

A.C.N. 093 230 374 Pty Limited 33
Aboriginal Affairs, Department of .... Vol 6 2009
Aboriginal Affairs, Minister for .... Vol 6 2009
Aboriginal Housing Office .... Vol 6 2009
Aboriginal Housing Office Group of Staff .... Vol 6 2009
Aboriginal Land Council, New South Wales .... Vol 6 2009
Access Macquarie Limited .... Vol 2 2009
accessUTS Pty Limited .... Vol 2 2009
ACN 125 694 546 Pty Limited .... Vol 2 2009
Acyte Biotech Pty Ltd .... Vol 2 2009
Adult Migrant English Service, NSW 26
Ageing, Minister for .... Vol 6 2009
Ageing, Disability and Home Care,
Department of .... Vol 6 2009
Agencies not reported elsewhere in this Volume 91
Agricultural Business Research Institute .... Vol 2 2009
Agricultural Scientific Collections Trust .... Vol 5 2008
AGSM Limited .... Vol 2 2009
Ambulance Service of New South Wales .... Vol 1 2009
ANZAC Health and Medical Research Foundation . Vol 1 2009
ANZAC Health and Medical Research Foundation
Trust Fund .... Vol 1 2009
Architects Registration Board, NSW .... Vol 6 2009
Art Gallery of New South Wales Foundation.............. 91
Art Gallery of New South Wales Trust 61
Arts Education Foundation Trust 91
Arts, Minister for the 59
Arts, Sport and Recreation, Department of the 67
Asbestos Diseases Research Foundation, The...... Vol 5 2008
Attorney General .... Vol 8 2009
Attorney General's Department .... Vol 8 2009
Audio Nomad Pty Ltd .... Vol 2 2009
Aus Health International Pty Limited .... Vol 6 2007
Australian Centre for Advanced Computing and
Communications Pty Ltd .... Vol 6 2009
Australian Education Consultancy Limited .... Vol 2 2009
Australian Institute of Asian Culture and Visual
Arts Limited, The 63
Australian Museum Trust 64
Australian Plant DNA Bank Limited .... Vol 2 2009
Australian Proteome Analysis Facility Limited .... Vol 2 2009
Australian School of European Aviation
(JAA) Pty Ltd .... Vol 2 2009
Australian Technology Park Precinct
Management Ltd .... Vol 5 2008
Australian Water Technologies Pty Ltd .... Vol 7 2009
AWT International (Thailand) Limited .... Vol 7 2009

B

Banana Industry Committee .... Vol 5 2008
Belgenny Farm Agricultural Heritage Centre
Trust .... Vol 1 2009
Biobank Pty Limited .... Vol 2 2009
Board of Studies, Office of the 34
Board of Studies, The 91
Board of Studies Casual Staff Division 91
Board of Surveying and Spatial Information .... Vol 6 2009
Board of Vocational Education and Training,
NSW .... Vol 4 2008
Border Rivers-Gwydir Catchment Management
Authority .... Vol 7 2009
Bosch Institute, The .... Vol 2 2009
Boxing Authority of New South Wales 91
Brett Whiteley Foundation, The 91
Building and Construction Industry Long Service
Payments Corporation .... Vol 5 2009
Building Insurers' Guarantee Corporation.......... Vol 6 2009
Building Professionals Board .... Vol 4 2008
Buroba Pty Ltd .... Vol 5 2009
Bush Fire Co-ordinating Committee .... Vol 8 2009
Businesslink Pty Ltd, NSW .... Vol 6 2009

C

C.B. Alexander Foundation .... Vol 5 2008
CADRE Design Pty Limited .... Vol 2 2009
CADRE Design Unit Trust .... Vol 2 2009
Cancer Institute Division .... Vol 1 2009
Cancer Institute NSW .... Vol 1 2009
Casino, Liquor and Gaming Control Authority 91
CCP Holdings Pty Limited .... Vol 3 2009
Centennial Park and Moore Park Trust 51
Centennial Parklands Foundation 54
Central West Catchment Management Authority .. Vol 7 2009
Centre for United States Studies Pty Limited ...... Vol 2 2009
Cessnock Uni-Clinic Trust .... Vol 2 2009
Charles Sturt Foundation Limited .... Vol 2 2009
Charles Sturt Foundation Trust .... Vol 2 2009
Charles Sturt Services Limited .... Vol 2 2009
Charles Sturt University .... Vol 2 2009
Chief Investigator of the Office of Transport
Safety Investigations .... Vol 4 2008
Children, Office for 91
Chipping Norton Lake Authority .... Vol 6 2009
Citizenship, Minister for 3
Chiropractors Registration Board .... Vol 5 2008
City West Housing Pty Limited .... Vol 6 2009
Climate Change and the Environment,
Minister for .... Vol 7 2009
Clinical Excellence Commission .... Vol 1 2009
Clinical Excellence Commission Special
Purpose Service Entity .... Vol 1 2009
CMBF Limited .... Vol 2 2009
Coal Compensation Board, New South Wales ...... Vol 5 2008
Cobar Water Board .... Vol 7 2009
Cobar Water Board Division .... Vol 7 2009
Cobbora Coal Unit Trust .... Vol 3 2009
Cobbora Management Company Pty Limited .... Vol 3 2009
Cobbora Unincorporated Joint Venture .... Vol 3 2009
Coffs Harbour Technology Park Limited 91
Commerce, Department of .... Vol 6 2009
Commerce, Minister for .... Vol 6 2009
Commission for Children and Young
People, NSW .... Vol 6 2009
Community Relations Commission, Office of the 91
Community Relations Commission for a
Multicultural New South Wales.......................... 91
Community Services, Department of .... Vol 6 2009
Community Services, Minister for .... Vol 6 2009
Cooks Cove Development Corporation .... Vol 5 2008
Corporate Governance Arrangements
in Large Government Agencies and
Universities .... Vol 2 2009
Corporation Sole 'Minister Administering the
Environmental Planning and Assessment
Act, 1979' .... Vol 5 2008
Corporation Sole 'Minister Administering the
Heritage Act, 1977' .... Vol 5 2008
Corrective Services, Department of .... Vol 8 2009
Corrective Services, Minister for .... Vol 8 2009
Country Energy .... Vol 3 2009
Country Energy Gas Pty Limited .... Vol 3 2009
Cowra Japanese Garden Maintenance
Foundation Limited .... Vol 8 2009
Cowra Japanese Garden Trust .... Vol 8 2009
Crime Commission, New South Wales .... Vol 8 2009
Crime Commission, Office of the New South
Wales .... Vol 8 2009
Crime Commission Division, New South Wales ..... Vol 8 2009
Crown Employees (NSW Fire Brigades
Firefighting Staff, Death and Disability)
Superannuation Fund .... Vol 5 2009
Crown Entity .... Vol 5 2009
Crown Lands Homesites Program .... Vol 5 2008
Crown Leaseholds Entity .... Vol 5 2008
Cystemix Pty Limited .... Vol 2 2009

D

Dams Safety Committee .... Vol 7 2009
Delta Electricity .... Vol 3 2009
Delta Electricity Australia Pty Ltd .... Vol 3 2009

Dental Board of New South Wales .... Vol 1 2009
Dental Technicians Registration Board .... Vol 5 2008
Director of Public Prosecutions, Office of the .... Vol 8 2009
Disability Services, Minister for .... Vol 5 2008
Downtown Utilities Pty Limited .... Vol 3 2009
Dumaresq-Barwon Border Rivers Commission ..... Vol 7 2009
Duquesne Utilities Pty Ltd .... Vol 5 2009

E

Education and Training, Department of 7
Education and Training, Minister for 5
Education Training Community Television
(ETC TV) Limited .... Vol 2 2009
Elastagen Pty Limited .... Vol 2 2009
Election Funding Authority of New South Wales .. Vol 8 2009
Electoral Commission, New South Wales .... Vol 8 2009
Electricity Industry Overview .... Vol 3 2009
Electricity Tariff Equalisation Ministerial
Corporation .... Vol 5 2009
Emergency Services, Minister for .... Vol 8 2009
Emergency Services Overview .... Vol 8 2009
Emergency Services, Office for .... Vol 6 2008
Energy, Minister for .... Vol 3 2009
Energy Industries Superannuation Scheme .... Vol 5 2009
Energy Investment Fund .... Vol 5 2009
EnergyAustralia .... Vol 3 2009
EnergyAustralia Pty Limited .... Vol 3 2009
Environment and Climate Change,
Department of .... Vol 7 2009
Environment Protection Authority .... Vol 7 2009
Environmental Trust .... Vol 7 2009
Eraring Energy .... Vol 3 2009
Events New South Wales Pty Limited .... Vol 8 2009

F

Fair Trading Administration Corporation .... Vol 6 2009
Festival Development Corporation .... Vol 3 2009
Film and Television Office, New South Wales 91
Finance, Minister for .... Vol 6 2009
Financial Counselling Trust Fund .... Vol 6 2009
Financial Reports Not Received by Statutory
Date (as at 5 May 2009) .... Vol 2 2009
Financial Reports Received but Audit Incomplete by
Statutory Date (as at 5 May 2009) .... Vol 2 2009
Fire Brigades, New South Wales .... Vol 8 2009
Fire Brigades Superannuation Pty Limited,
NSW .... Vol 5 2009
Follow-up Review of CityRail Passenger
Security .... Vol 4 2008
Food Authority, NSW .... Vol 5 2008
Food Authority, Office of the NSW .... Vol 5 2008
Forestry Commission of New South Wales
(Trading as Forests NSW) .... Vol 1 2009
Forestry Commission Division .... Vol 1 2009
Foundation for the Historic Houses Trust
of New South Wales 72
Foundation for the Historic Houses Trust
of New South Wales Limited 72

G

Game Council of New South Wales .... Vol 5 2008
Game Council Division .... Vol 5 2008
Gaming and Racing, Minister for 37
Gosford Water Supply Authority .... Vol 7 2009
Government Telecommunications Authority
(Telco) , New South Wales .... Vol 6 2009
GraduateSchool.com Pty Limited .... Vol 2 2009
Greater Southern Area Health Service .... Vol 1 2009
Greater Southern Area Health Service
Special Purpose Service Entity .... Vol 1 2009
Greater Western Area Health Service .... Vol 1 2009
Greater Western Area Health Service
Special Purpose Service Entity .... Vol 1 2009
Greyhound and Harness Racing Regulatory
Authority .... Vol 5 2008
Greyhound and Harness Racing Regulatory
Authority Division .... Vol 5 2008
Growth Centres Commission .... Vol 4 2008

H

Hamilton Rouse Hill Trust 72
Hawkesbury-Nepean Catchment Management
Authority .... Vol 7 2009
Health Administration Corporation .... Vol 1 2009
Health Administration Corporation
Special Purpose Service Entity .... Vol 1 2009
Health Care Complaints Commission .... Vol 5 2008
Health Care Complaints Commission,
Office of the .... Vol 5 2008
Health Foundation, New South Wales .... Vol 6 2008
Health, Department of .... Vol 1 2009
Health, Minister for .... Vol 1 2009
Health Overview .... Vol 1 2009
HealthQuest .... Vol 1 2009
HealthQuest Special Purpose Service Entity .... Vol 1 2009
HepatoCell Therapeutics Pty Ltd .... Vol 2 2009
Historic Houses Trust of New South Wales 70
Home Care Service of New South Wales .... Vol 6 2009
Home Care Service Division .... Vol 6 2009
Home Purchase Assistance Fund .... Vol 7 2009
Housing, Minister for .... Vol 7 2009
Housing NSW .... Vol 6 2009
Hunter Development Corporation .... Vol 4 2008
Hunter New England Area Health Service .... Vol 1 2009
Hunter New England Area Health Service
Special Purpose Service Entity .... Vol 1 2009
Hunter Uni-Clinics Pty Limited .... Vol 2 2009
Hunter Water Australia Pty Limited. .... Vol 7 2009
Hunter Water Corporation .... Vol 7 2009
Hunter-Central Rivers Catchment Management
Authority .... Vol 7 2009

I

Illawarra Technology Corporation Limited .... Vol 2 2009
Independent Commission Against Corruption ...... Vol 8 2009
Independent Pricing and Regulatory Tribunal ..... Vol 8 2009
Independent Pricing and Regulatory Tribunal
Division .... Vol 8 2009
Independent Transport Safety and Reliability
Regulator .... Vol 4 2008
Independent Transport Safety and Reliability
Regulator Division .... Vol 4 2008
Industrial Relations, Minister for .... Vol 5 2009
Infrastructure Implementation Corporation .... Vol 8 2009
Ingham Health Research Institute .... Vol 1 2009
Insearch Limited .... Vol 2 2009
Institute for Magnetic Resonance Research .... Vol 2 2009
Institute of Psychiatry, New South Wales .... Vol 5 2008
Institute of Sport, New South Wales 91
Institute of Sport Division 91
Institute of Teachers, NSW 91
Institute of Teachers, Office of the 91
Integral Energy Australia .... Vol 3 2009
Internal Audit Bureau of New South Wales .... Vol 6 2009
Internal Audit Bureau Division .... Vol 6 2009
International Livestock Resources and Information
Centre Ltd .... Vol 2 2009
ITC (Europe) Ltd .... Vol 2 2009
ITC (Middle East) Ltd .... Vol 2 2009
ITC (New Zealand) Limited .... Vol 2 2009
ITC Education Ltd .... Vol 2 2009
ITC Emirates Limited .... Vol 2 2009

J

Jenolan Caves Reserve Trust .... Vol 7 2009
Jenolan Caves Reserve Trust Division .... Vol 7 2009
John Lewis and Pamela Lightfoot Trust .... Vol 2 2009
Judicial Commission of New South Wales .... Vol 8 2009
Justice Health .... Vol 1 2009
Justice Health Special Purpose Service Entity ..... Vol 1 2009
Justice, Minister for .... Vol 5 2008

Juvenile Justice, Department of .... Vol 6 2009
Juvenile Justice, Minister for .... Vol 6 2009

L

Lachlan Catchment Management Authority........ Vol 7 2009
Lake Illawarra Authority .... Vol 6 2009
LAMS Foundation Limited .... Vol 2 2009
LAMS International Pty Limited .... Vol 2 2009
Land Development Working Account................ Vol 6 2009
Landcom .... Vol 5 2008
Lands, Department of .... Vol 6 2008
Lands, Minister for 39
Law and Order Overview............................. Vol 8 2009
Legal Aid Commission of New South Wales .... Vol 8 2009
Legal Aid Commission, Office of the .... Vol 8 2009
Legal Aid Temporary Staff Division................. Vol 8 2009
Legal Opinions Provided by the Crown Solicitor .. Vol 4 2009
Legal Profession Admission Board .... Vol 8 2009
Legislature, The .... Vol 8 2009
Legislature (Audit of Members' Additional Entitlements), The .... Vol 2 2009
Liability Management Ministerial Corporation..... Vol 5 2009
Library Council of New South Wales 73
Lifetime Care and Support Authority of New South Wales .... Vol 5 2009
Liquor Administration Board .... Vol 5 2008
Local Government, Department of.................. Vol 8 2009
Local Government, Minister for...................... Vol 8 2009
Lord Howe Island Board .... Vol 7 2009
Lotteries Corporation, New South Wales .... Vol 5 2009
Lower Murray-Darling Catchment Management Authority .... Vol 7 2009
Luna Park Reserve Trust .... Vol 5 2008

M

Macquarie Generation................................. Vol 3 2009
Macquarie Graduate School of Management Pty Limited... Vol 2 2009
Macquarie University Medical Research Foundation Limited .... Vol 2 2009
Macquarie University Medical Research Trust ..... Vol 2 2009
Macquarie University Private Hospital Trust....... Vol 2 2009
Macquarie University Professorial Superannuation Scheme .... Vol 2 2009
Macquarie University Property Investment Company No. 2 Pty Limited...................... Vol 2 2009
Macquarie University Property Investment Company Pty Limited............................ Vol 2 2009
Macquarie University Property Investment Trust .... Vol 2 2009
Macquarie University .... Vol 2 2009
Marine Parks Authority .... Vol 7 2009
Maritime Authority of NSW .... Vol 5 2008
Maritime Authority of NSW Division .... Vol 5 2008
Medical Board, New South Wales.................... Vol 5 2008
Mid West Primary Pty Ltd............................ Vol 3 2009
Midwest Development Corporation Pty Limited... Vol 3 2009
Milk Marketing (NSW) Pty Limited .... Vol 5 2008
Mine Subsidence Board .... Vol 1 2009
Mineral Resources, Minister for .... Vol 1 2009
Minerals Industry/University of New South Wales Education Trust, The New South Wales Vol 2 2009
Ministerial Corporation for Industry................. Vol 5 2008
Mitchell Services Limited .... Vol 2 2009
Motor Accidents Authority of New South Wales ... Vol 5 2009
Motor Accidents Authority of New South Wales, Office of the .... Vol 5 2009
Motor Vehicle Repair Industry Authority .... Vol 6 2009
MU Private Hospital Pty Limited..................... Vol 2 2009
MUPH Clinic Pty Limited .... Vol 2 2009
MUPH Clinic Sub-Trust................................ Vol 2 2009
MUPH Hospital Pty Limited .... Vol 2 2009
MUPH Hospital Sub-Trust .... Vol 2 2009
MUPI Holding Trust No. 1 .... Vol 2 2009
MUPI Holding Trust No. 2 .... Vol 2 2009
MUPI Holding Trust No. 3 .... Vol 2 2009
MUPI Holding Trust No. 4..............................Vol 2 2009
MUPI Holding Trust No. 5..............................Vol 2 2009
MUPI Holding Trust No. 6..............................Vol 2 2009
MUPIT Sub-Trust No. 1 ....Vol 2 2009
MUPIT Sub-Trust No. 2 ....Vol 2 2009
MUPIT Sub-Trust No. 3 ....Vol 2 2009
MUPIT Sub-Trust No. 4 ....Vol 2 2009
Murray Catchment Management Authority ....Vol 7 2009
Murrumbidgee Catchment Management Authority ....Vol 7 2009

N

Namoi Catchment Management Authority ....Vol 7 2009
National Marine Science Centre Pty Ltd ....Vol 2 2009
Natural Resources Commission ....Vol 8 2009
Natural Resources Commission Division ....Vol 8 2009
Newcastle Innovation Limited ....Vol 2 2009
Newcastle International Sports Centre Trust.......Vol 3 2009
Newcastle Port Corporation...........................Vol 5 2008
Newcastle Showground and Exhibition Centre Trust ....Vol 1 2009
NewSouth Eight Pty Ltd...............................Vol 2 2009
NewSouth Five Pty Ltd................................Vol 2 2009
NewSouth Four Pty Ltd ....Vol 2 2009
NewSouth Global (Thailand) Limited ....Vol 2 2009
NewSouth Innovations Pty Ltd ....Vol 2 2009
NewSouth One Pty Ltd ....Vol 2 2009
NewSouth Seven Pty Ltd..............................Vol 2 2009
NewSouth Six Pty Ltd ....Vol 2 2009
Norsearch Limited ....Vol 2 2009
North Coast Area Health Service ....Vol 1 2009
North Coast Area Health Service Special Purpose Service Entity...................Vol 1 2009
Northern Rivers Catchment Management Authority ....Vol 7 2009
Northern Sydney and Central Coast Area Health Service.....................................Vol 1 2009
Northern Sydney and Central Coast Area Health Service Special Purpose Service Entity ....Vol 1 2009
NorthPower Energy Services Pty Limited ....Vol 3 2009
Nurses and Midwives Board ....Vol 5 2008

O

Ombudsman's Office ....Vol 8 2009
Optical Dispensers Licensing Board ....Vol 5 2008
Optometrists Registration Board ....Vol 5 2008
Osteopaths Registration Board ....Vol 5 2008
Ovine Johne's Disease Transaction Based Contribution Scheme, NSW.......................Vol 5 2008

P

Pacific Industry Services Corporation Pty Limited.Vol 5 2008
Pacific Power (Subsidiary No. 1) Pty Ltd...........Vol 3 2009
Pacific Solar Pty Limited ....Vol 3 2009
Pacific Western Pty Limited ....Vol 4 2008
Parklands Foundation Limited 48
Parliamentary Contributory Superannuation Fund ....Vol 5 2009
Parramatta Park Trust 91
Parramatta Stadium Trust.............................Vol 2 2009
Parramatta Stadium Trust Division ....Vol 2 2009
Payments to other Government Bodies under the control of the Minister ....Vol 6 2009
Pharmacy Board of New South Wales................Vol 1 2009
Physiotherapists Registration Board ....Vol 5 2008
Planning, Department of ....Vol 5 2008
Planning, Minister for 43
Podiatrists Registration Board ....Vol 5 2008
Police Force, NSW ....Vol 8 2009
Police Integrity Commission ....Vol 8 2009
Police Integrity Commission Division ....Vol 8 2009
Police, Minister for ....Vol 8 2009
Police, Ministry for ....Vol 8 2009
Port Kembla Port Corporation ....Vol 5 2008
Ports and Waterways, Minister for...................Vol 5 2008

Premier .... Vol 8 2009
Premier and Cabinet, Department of .... Vol 8 2009
Primary Industries, Department of .... Vol 1 2009
Primary Industries, Minister for .... Vol 3 2009
Probiotic Health Pty Limited .... Vol 2 2009
Protective Commissioner – Common Fund,
Office of the .... Vol 2 2009
Protective Commissioner and Public Guardian,
Office of the .... Vol 8 2009
Psychologists Registration Board .... Vol 5 2008
Public Transport Ticketing Corporation .... Vol 5 2008
Public Transport Ticketing Corporation
Division .... Vol 5 2008
Public Trustee NSW .... Vol 8 2009
Public Trustee NSW – Common Fund .... Vol 8 2009

Q

Qualified Independent Audit Reports Issued .... Vol 5 2008
Qucor Pty Ltd .... Vol 2 2009

R

Rail Corporation New South Wales .... Vol 4 2008
Rail Infrastructure Corporation .... Vol 4 2008
Rail Services Overview .... Vol 4 2008
Redfern and Waterloo, Minister for .... Vol 5 2008
Redfern-Waterloo Authority .... Vol 5 2008
Redfern Waterloo Authority, Office of the .... Vol 5 2008
Regional Land Management Corporation Pty Ltd . Vol 5 2008
Remarkspdf Pty Ltd .... Vol 2 2009
Rental Bond Board .... Vol 6 2009
Rental Housing Assistance Fund .... Vol 6 2009
Residual Business Management Corporation .... Vol 3 2009
Responsible Gambling Fund .... Vol 5 2008
Rice Marketing Board for the State of
New South Wales .... Vol 5 2008
Risk Frontiers Flood (Australia) Pty Limited .... Vol 2 2009
Risk Frontiers Group Pty Limited .... Vol 2 2009
Riverina Citrus .... Vol 5 2008
Rivservices Limited .... Vol 2 2009
Roads, Minister for .... Vol 6 2008
Roads and Traffic Authority of New South Wales . Vol 6 2008
Roads and Traffic Authority Division .... Vol 6 2008
Rocky Point Holdings Pty Ltd .... Vol 3 2009
Rouse Hill Hamilton Collection Pty Limited 72
Royal Alexandra Hospital for Children .... Vol 1 2009
Royal Alexandra Hospital for Children
Special Purpose Service Entity .... Vol 1 2009
Royal Botanic Gardens and Domain Trust .... Vol 7 2009
Rural Assistance Authority, New South Wales ..... Vol 6 2008
Rural Assistance Authority, Office of the .... Vol 6 2008
Rural Australia Foundation Limited .... Vol 2 2008
Rural Fire Service, NSW .... Vol 8 2009

S

SAS Trustee Corporation .... Vol 5 2009
SAS Trustee Corporation - Pooled Fund .... Vol 5 2009
SAS Trustee Corporation Division of
the Government Service of NSW .... Vol 5 2009
Self Insurance Corporation, NSW .... Vol 5 2009
Services UNE Ltd .... Vol 2 2009
Sesquicentenary of Responsible Government
Trust Fund .... Vol 8 2009
SGSM Limited .... Vol 2 2009
Small Business, Minister for .... Vol 5 2008
Small Business Development Corporation
of New South Wales .... Vol 5 2008
South Eastern Sydney and Illawarra Area Health
Service .... Vol 1 2009
South Eastern Sydney and Illawarra Area Health
Service Special Purpose Service Entity .... Vol 1 2009
Southern Cross University .... Vol 2 2009
Southern Rivers Catchment Management
Authority .... Vol 7 2009
Sport and Recreation, Minister for 49
Sporting Injuries Committee .... Vol 5 2009
Sports Knowledge Australia Pty Limited .... Vol 2 2009
State and Regional Development, Department of . Vol 5 2008
State Council of Rural Lands Protection Boards ... Vol 3 2009
State Council of Rural Lands Protection Boards
Division .... Vol 3 2009
State Development, Minister for .... Vol 5 2008
State Emergency Service .... Vol 8 2009
State Library of New South Wales Foundation 75
State Plan .... Vol 2 2009
State Property Authority .... Vol 6 2009
State Property Authority, Office of the .... Vol 6 2009
State Rail Authority Residual Holding
Corporation .... Vol 5 2009
State Records Authority of New South Wales ...... Vol 6 2009
State Rescue Board .... Vol 8 2009
State Sports Centre Trust 91
State Sports Centre Trust Division 91
State Super Financial Services Australia Limited .. Vol 5 2009
State Transit Authority of New South Wales .... Vol 5 2008
State Transit Authority Division .... Vol 5 2008
State Water Corporation .... Vol 7 2009
Statement of the Budget Result .... Vol 4 2009
Superannuation Administration Corporation
(trading as Pillar Administration) .... Vol 5 2009
Sydney 2009 World Masters Games Organising
Committee 91
Sydney 2009 World Masters Games Organising
Committee Division 91
Sydney 2009 World Masters Games Organising
Committee, Office of the 91
Sydney Business School Pty Ltd .... Vol 2 2009
Sydney Catchment Authority .... Vol 7 2009
Sydney Catchment Authority Division .... Vol 7 2009
Sydney Cricket and Sports Ground Trust 55
Sydney Cricket and Sports Ground Trust
Division 56
Sydney Desalination Plant Pty Limited .... Vol 7 2009
Sydney Educational Broadcasting Limited .... Vol 2 2009
Sydney Ferries Corporation .... Vol 5 2008
Sydney Harbour Foreshore Authority .... Vol 5 2008
Sydney Harbour Foreshore Authority,
Office of the .... Vol 5 2008
Sydney Harbour Foreshore Authority
Casual Staff Division, ... Vol 5 2008
Sydney Institutes of Health and Medical
Research, The .... Vol 2 2009
Sydney International Film School Pty Limited ..... Vol 2 2009
Sydney Metropolitan Catchment Management
Authority .... Vol 7 2009
Sydney Olympic Park Authority 45
Sydney Olympic Park Authority, Office of the 48
Sydney Olympic Park Authority Sydney
Olympic Park Aquatic and Athletic Centres
Division 48
Sydney Opera House Trust 76
Sydney Pilot Service Pty Ltd .... Vol 5 2008
Sydney Ports Corporation .... Vol 5 2008
Sydney South West Area Health Service .... Vol 1 2009
Sydney South West Area Health Service
Special Purpose Service Entity .... Vol 1 2009
Sydney Talent Pty Limited .... Vol 2 2009
Sydney Water Corporation .... Vol 7 2009
Sydney West Area Health Service .... Vol 1 2009
Sydney West Area Health Service Special
Purpose Service Entity .... Vol 1 2009
Sydney West International College Pty Limited ... Vol 2 2009
SydneyLearning Pty Limited .... Vol 2 2009

T

Taronga Conservation Society Australia .... Vol 7 2009
Taronga Conservation Society Australia Division .. Vol 7 2009
TCorp Nominees Pty Limited .... Vol 5 2009
Teacher Housing Authority of New South Wales ... Vol 6 2009
Technical and Further Education Commission,
New South Wales 28
Technical and Further Education Commission
Division, New South Wales 33

Technical Education Trust Funds .... Vol 2 2009
Television Sydney (TVS) Limited..................... Vol 2 2009
Total State Sector Accounts.......................... Vol 4 2009
Tourism, Minister for .... Vol 5 2008
TransGrid.. Vol 3 2009
Transport, Minister for .... Vol 5 2008
Transport, Ministry of .... Vol 5 2008
Transport Infrastructure Development
Corporation .... Vol 4 2008
Transport Services Overview .... Vol 5 2008
Treasurer .... Vol 6 2009
Treasury, The.. Vol 5 2009
Treasury Corporation, New South Wales .... Vol 5 2009
Treasury Corporation Division of the
Government Service .... Vol 5 2009
Trustees of the ANZAC Memorial Building.......... Vol 2 2009
Trustees of the Farrer Memorial Research
Scholarship Fund .... Vol 3 2009
Trustees of the Museum of Applied Arts
and Sciences 79
TVS Limited .... Vol 2 2009

U

U@MQ Limited .... Vol 2 2009
Ucom Fifteen Pty Limited .... Vol 2 2009
Ucom Sixteen Pty Limited .... Vol 2 2009
UNE Partnerships Pty Limited........................ Vol 2 2009
UNE Vision Pty Ltd .... Vol 2 2009
UniCentre Conferences and Functions Pty LimitedVol 2 2009
UNILINC Limited.. Vol 2 2009
Uniprojects Pty Limited.............................. Vol 5 2008
United States Studies Centre Limited .... Vol 2 2009
Universities Admissions Centre (NSW & ACT)
Pty Limited... Vol 5 2008
Universities Overview .... Vol 2 2009
University of New England........................... Vol 2 2009
University of New England Professorial
Superannuation Fund .... Vol 2 2009
University of New England Sports Association..... Vol 2 2009
University of New South Wales .... Vol 2 2009
University of New South Wales Foundation .... Vol 2 2008
University of New South Wales Foundation
Limited .... Vol 2 2009
University of New South Wales International
House Limited .... Vol 2 2009
University of New South Wales Press Limited ..... Vol 2 2009
University of Newcastle.............................. Vol 2 2009
University of Sydney, The .... Vol 2 2009
University of Sydney Professorial Superannuation
System .... Vol 2 2009
University of Technology, Sydney .... Vol 2 2009
University of Western Sydney .... Vol 2 2009
University of Western Sydney Foundation
Limited .... Vol 2 2009
University of Western Sydney Foundation Trust .. Vol 2 2009
University of Wollongong .... Vol 2 2009
University of Wollongong Recreation
Aquatic Centre Limited .... Vol 2 2009
UNSW & Study Abroad – Friends and U.S.
Alumni, Inc. .... Vol 2 2009
UNSW (Thailand) Limited .... Vol 2 2009
UNSW Asia School Limited .... Vol 2 2009
UNSW Global (Singapore) Pte Limited .... Vol 2 2009
UNSW Global India Private Limited .... Vol 2 2009
UNSW Global Pty Limited .... Vol 2 2009
UNSW Hong Kong Foundation Limited .... Vol 2 2009
UNSW Hong Kong Limited............................ Vol 2 2009
UTSM Services (Malaysia) Sdn Bhd................... Vol 2 2009
UON Foundation Ltd .... Vol 2 2009
UON Foundation Trust................................ Vol 2 2009
UON Services Limited .... Vol 2 2009
UON, Singapore Pte Ltd .... Vol 2 2009
Upper Parramatta River Catchment Trust .... Vol 7 2009
Upper Parramatta River Catchment Trust
Division .... Vol 7 2009
UWS College Pty Limited .... Vol 2 2009
UWS Conference and Residential Colleges LimitedVol 2 2009
uwsconnect Limited...................................Vol 2 2009

V

Valley Commerce Pty Limited ....Vol 5 2009
Veterinary Practitioners Board ....Vol 5 2008
Vocational Education and Training
Accreditation Board, NSW ....Vol 4 2008

W

Warren Centre for Advanced Engineering
Limited, The.......................................Vol 2 2009
Waste Recycling and Processing Corporation ......Vol 2 2009
Water and Energy, Department of ....Vol 7 2009
Water Industry Overview ....Vol 7 2009
Water, Minister for ....Vol 7 2009
Wayahead Pty Limited ....Vol 2 2009
Wentworth Annexe Limited ....Vol 2 2009
Wentworth Park Sporting Complex Trust.................. 41
Western Catchment Management Authority........Vol 7 2009
Western Research Institute Limited ....Vol 2 2009
Western Sydney, Minister for 83
Western Sydney Buses Division ....Vol 5 2008
Western Sydney Parklands Trust 85
Whitlam Institute Within the University of
Western Sydney Limited ....Vol 2 2009
Whitlam Institute Within the University of
Western Sydney Trust ....Vol 2 2009
Wild Dog Destruction Board ....Vol 2 2009
Wild Dog Destruction Board Division.................Vol 2 2009
Wine Grapes Marketing Board ....Vol 2 2009
Wollongong Sportsground Trust 57
Wollongong Sportsground Trust Division................... 58
Wollongong UniCentre Limited ....Vol 2 2009
WorkCover Authority, Office of the ....Vol 6 2008
WorkCover Authority of New South Wales..........Vol 6 2008
Workers Compensation Commission of
New South Wales ....Vol 6 2008
Workers Compensation Nominal Insurer
(trading as The NSW WorkCover Scheme)......Vol 1 2009
Workers' Compensation (Dust Diseases) Board ....Vol 5 2008
World Youth Day Co-ordination Authority ....Vol 2 2009
World Youth Day Co-ordination Authority,
Office of...Vol 2 2009
Wyong Water Supply Authority ....Vol 7 2009

Y

Youth, Minister for 87

AUDITOR-GENERAL'S REPORT
FINANCIAL AUDITS

Volume Ten 2009

focusing on Transport, Planning and Industry

AUDITOR-GENERAL
NEW SOUTH WALES

The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

Pursuant to the *Public Finance and Audit Act 1983*, I present Volume Ten of my 2009 Report.

Peter Achterstraat
Auditor-General

Sydney
December 2009

GUIDE TO USING THIS VOLUME

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

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

This Volume has three sections. Section One contains an overview of the findings for this Volume's focus agencies. Section Two provides comments on financial audits of government agencies. It is divided into ministerial portfolios, each containing one or more government agencies. Section Three incorporates a Performance Audit review.

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

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

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

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

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

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

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

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

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

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

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

Appendix 1 contains the names of agencies not reported elsewhere in this Volume. These agencies received unqualified audit opinions and have no significant issues to report.

Contents

Significant Items ... iii

SECTION ONE – Overview

Transport Services Overview ... 3

SECTION TWO – Commentary on Government Agencies

Minister for Mineral Resources ... 17

Mine Subsidence Board ... 19

Minister for Planning ... 21

Corporation Sole 'Minister Administering the Environmental Planning and Assessment Act, 1979' ... 23

Corporation Sole 'Minister Administering the Heritage Act, 1977 ... 25

Department of Planning ... 26

Landcom ... 29

Minister for Primary Industries ... 33

Department of Primary Industries ... 35

Forestry Commission of New South Wales ... 44

New South Wales Rural Assistance Authority ... 49

NSW Food Authority ... 53

NSW Ovine Johne's Disease Transaction Based Contribution Scheme ... 56

Riverina Citrus ... 57

Minister for Small Business ... 59

Minister for State Development ... 61

Department of State and Regional Development ... 63

Minister for Tourism ... 67

Minister for Transport ... 69

Ministry of Transport ... 71

Public Transport Ticketing Corporation ... 75

Rail Corporation New South Wales ... 78

Rail Infrastructure Corporation ... 103

Roads and Traffic Authority of New South Wales ... 108

State Transit Authority of New South Wales ... 120

Sydney Ferries ... 131

Sydney Metro ... 137

Transport Infrastructure Development Corporation ... 142

SECTION THREE – Performance Auditing

Grants to the Transport Workers Union and related parties ... 151

APPENDIX

Appendix 1 – Agencies not reported elsewhere in this Volume... 157
Appendix 2 - Financial Reports Not Received by Statutory Date (as at 24 November 2009) 158
Appendix 3 - Financial Reports Received but Audit Incomplete by Statutory Date (as at 24 November 2009) 159
Appendix 4 - Qualified Independent Auditor's Reports Issued 163

INDEX... 165

Significant Items

	Page
Transport Services Overview	
The Government needs to review the Transport Infrastructure Development Corporation's and Rail Infrastructure Corporation's corporate structure as the current statutory State owned corporation structure may not be appropriate.	4
Farebox revenue covers 50 per cent of State Transit Authority's, 34 per cent of Sydney Ferries' and 22 per cent of RailCorp's costs.	4
On average, passengers are subsidised $7.87 for each train trip, $6.73 for each ferry trip and $1.35 for each bus trip.	5
This year passenger journey growth was 2.9 per cent for CityRail services, 2.5 per cent for Sydney Ferries and 0.8 per cent for Sydney Buses.	5
At least 95 per cent of CityRail, Sydney Buses and Sydney Ferries services ran on time during the year.	6
The Independent Transport Safety and Reliability Regulator needs additional funding to perform annual customer service surveys of Sydney metropolitan bus services and Sydney Ferries services.	11
Corporation Sole 'Minister Administering the *Environmental Planning and Assessment Act*, *1979*'	
The financial records of the Corporation included assets valued at $112 million that were either not controlled by it or were recorded twice, effectively double counting the assets.	23
Department of Planning	
The Department needs to review its accounting and control procedures over revenue as a matter of urgency.	26
Landcom	
Total sales income declined, but the gross margin improved from 28 per cent in 2007-08 to 33 per cent in 2008-09. This was mainly due to sales release of Mt Annan and Ponds Stage 2, which provided average margins of 33 per cent and 45 per cent, respectively.	30
Department of Primary Industries	
Drought claims have fallen from 30,455 in 2006-07 to 12,042 claims for 2008-09 due to the general improvement in the drought. Claims paid were $14.0 million in 2008-09.	40
Mineral royalties and fees collected in 2008-09 totalled $1.3 billion more than double the $573 million collected in 2007-08.	43
Forestry Commission of New South Wales (trading as Forests NSW)	
My audit opinion was qualified because the Commission has not resolved whether $797 million of forest plantation establishment costs are tax deductible.	44
The change in the valuation method has resulted in native and hardwood forest values being reduced to nil.	44

A change in the method for valuing forests and plantations has resulted in the removal of prior year audit qualifications. 46

NSW Food Authority

In 2008-09, 1,180 penalty notices were issued for food breaches and the names of 671 food premises were included in the 'Name and Shame' register. 53

Department of State and Regional Development

The Government has agreed to provide support of up to $35.0 million, which includes the cost of Government services, over five years to facilitate the V8 supercar racing event at Homebush Bay. 64

Public Transport Ticketing Corporation

The Corporation recorded a deficit of $10.2 million and has net liabilities of $74.1 million at 30 June 2009. 75

Rail Corporation New South Wales

RailCorp has advised that it has fully implemented 26 of the 40 recommendations from ICAC's Operation Monto. The operation investigated allegations that RailCorp employees and contractors acted fraudulently and/or engaged in bribery when procuring goods and services for maintenance purposes and track construction. 80

A continuing shortage of signal engineers has led to delays in commissioning projects such as the Rail Clearways Program. 81

Most rail fleet carriage acquisitions are late or running behind schedule. Completion of 626 new carriages is five months behind schedule. 82

The new CityRail timetable resulted in 8,000 additional seats. However, morning peak capacity on the East Hills and Bankstown lines was reduced. 83

RailCorp's overtime bill was $126 million for the year with more than 360 employees being paid 50 per cent or more of their annual salary in overtime. 86

The number of CityRail fleet failures affecting peak services is reducing. On average 2.7 per cent of all carriages failed every month in 2008-09. 87

On-time running continues to improve. All lines except the Northern line met or exceeded the 92 per cent target in 2008-09. 90

RailCorp is not managing its property leases effectively. At 30 June 2009, 696 of its leases had expired. 94

RailCorp had around 690 contractors working for it at 31 October 2009, 160 of whom cost more than $1,000 per day. 94

RailCorp is spending $870 million upgrading its electrical infrastructure. The upgrade is essential so it can reliably operate the new Waratah cars. 95

While the level of crowding on trains has reduced since March 2008, it remains the biggest cause of customer dissatisfaction. 98

Rail Infrastructure Corporation

The Corporation may choose to terminate the current 60 year Country Regional Network management agreement with Australian Rail Track Corporation. The Corporation advises it would not be liable for any penalties.	103
Backlog maintenance has come down $117 million to $698 million. The Corporation expects to clear the backlog over the next 15 years. It advises that the safety of the network is not compromised by the maintenance backlog.	105

Roads and Traffic Authority of New South Wales

The M4 will be handed back to the Authority on 15 February 2010. The Authority's estimated value of $207 million at 30 June 2009 was not supported by an assessment of the physical condition of the motorway.	108
The long term target for pavement rebuilding is not being achieved and is unlikely to be achieved under the existing funding arrangements.	108
Victoria Road was the only road of Sydney's seven major routes to suffer a decrease in average speed in the morning peak, achieving 21 km/hr.	111
The cost of contract employees was $64.2 million in 2008-09. The Authority continues to engage contractors for longer than one year, with some having been engaged for over 20 years	112
Generally, overtime has increased for the top overtime earners. 28 employees earned more than $50,000 in overtime and the most overtime earned by an employee was $114,000 ($98,000 in 2007-08).	113
The Pacific Highway, Ballina Bypass, originally expected to be completed in 2002, has been extended to 2012. The expected final cost is now $640 million compared to the initial estimate of $118 million.	115

State Transit Authority of New South Wales

The Authority's bus replacement strategy has resulted in a decline in the average age of its fleet from 13.2 to 11.7 years. For the first time since 2002, this places its fleet age below the statutory requirement of 12 years.	122
Compared to other bus operators, Sydney Buses had lower levels of customer satisfaction in relation to buses keeping to timetable and crowding in the peak periods of travel.	125

Sydney Ferries

Sydney Ferries incurred an operating deficit of $14.5 million and its current liabilities of $38.3 million significantly exceeded its current assets of $12.9 million at 30 June 2009.	131
The result of the Government's Ferry Market Review process is expected to be announced in December 2009. There is significant uncertainty as to whether Ferries will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in its financial report.	131

Sydney Metro

Sydney Metro is still developing its Metro Network Strategy, in line with the New South Wales Government's forthcoming Transport Blueprint. The Strategy will define and guide the development of the metro system. 137

The estimated cost of Stage 1 (CBD Metro) is up to $5.3 billion while the current estimate for Stage 2 (West Metro) is $7.7 billion. 137

Sydney Metro's board has vacant positions increasing the risk of decisions being made with insufficient expertise on the board at this critical phase of Sydney Metro's life. 139

Transport Infrastructure Development Corporation

Commissioning of the Lidcombe and Homebush Turnbacks has been further delayed to April 2011, despite construction having been completed in April 2008, due to a shortage of signal engineering resources. 142

The Rail Clearways program , announced in the 2004 Mini Budget, is now a 13 project program (previously 15) to be completed over 11 years (previously 6) at an estimated cost of $2.0 billion (previously $1.3 billion). Expenditure to 30 June 2009 was $883 million. 142

The Epping to Chatswood Rail Line commenced operating in February 2009 (originally scheduled for mid 2008). The final forecast cost of $2.347 billion (excluding interest costs on borrowings), is some $300 million more than the original budget. 144

Section One

Transport Services Overview

Transport Services Overview

TRANSPORT SERVICES

The Ministry of Transport (MoT), a budget sector agency, and the following Government entities provide, facilitate and regulate the State's transport services:

State Owned Corporations

- Rail Infrastructure Corporation (RIC)
- Transport Infrastructure Development Corporation (TIDC)

Statutory Authorities

- Chief Investigator of the Office of Transport Safety Investigations
- Independent Transport Safety and Reliability Regulator
- Public Transport Ticketing Corporation
- Rail Corporation New South Wales (RailCorp) (a)
- State Transit Authority (State Transit) (b)
- Sydney Ferries Corporation (Sydney Ferries)
- Sydney Metro

(a) RailCorp includes CityRail and CountryLink.
(b) State Transit includes Sydney Buses, Western Sydney Buses, and Newcastle Buses and Ferries.

The MoT was abolished in July 2009 and its functions and staff were transferred to the newly created Department of Transport and Infrastructure (NSWTI). This change is part of the Government's major structural reform to the public sector. NSWTI is now the lead public transport agency with responsibility for transport policy, planning and coordination, as well as overseeing infrastructure delivery and asset management.

RailCorp and Sydney Ferries became statutory authorities on 1 January 2009 by amendments made to the *Transport Administration Act 1988.*

AUDIT OPINIONS

The audits of the above entities' financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

However the Independent Auditor's Report for Sydney Ferries included an emphasis of matter regarding significant uncertainty as to whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The current market review of Sydney Ferries and possible privatisation of parts or all of its business creates this uncertainty.

KEY ISSUES

Corporate Governance Structures in Transport

RailCorp and Sydney Ferries became statutory authorities on 1 January 2009 by amendments made to the *Transport Administration Act 1988*. The change means they report directly to, and take directions from, the Transport Minister. Previously both were State owned corporations. The change in governance structure aims to increase accountability, enable greater Ministerial control of the entities' activities and ultimately improve service levels.

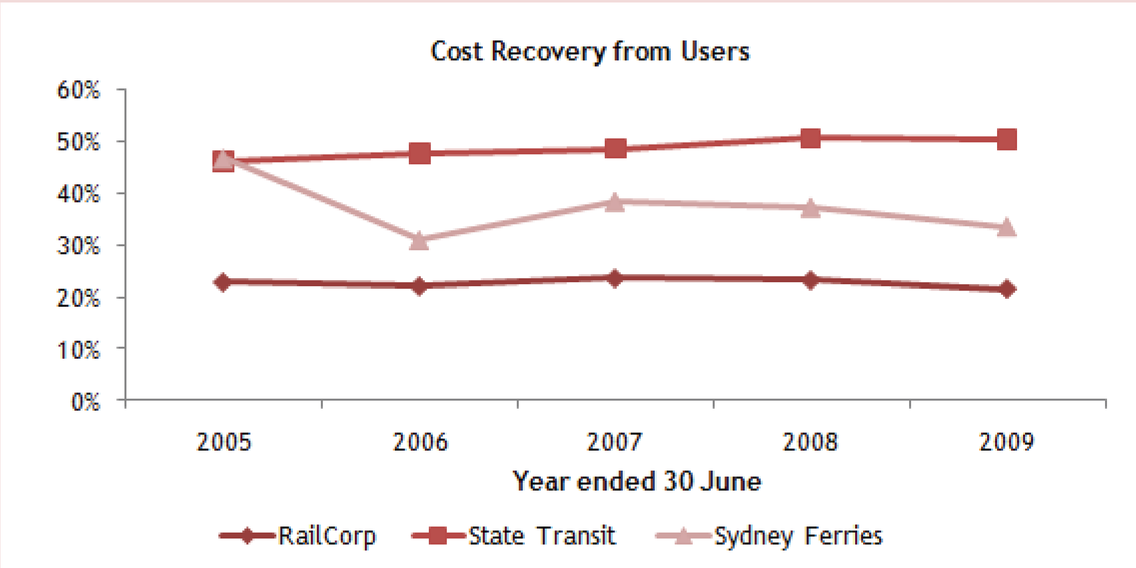
> I recommend the Government review the appropriateness of TIDC's and RIC's corporate governance structure. They are the only not-for-profit Statutory State owned corporations (SOCs) in the NSW public sector.

As a result of RailCorp and Sydney Ferries becoming statutory authorities, TIDC and RIC are now the only SOCs in the transport portfolio. They are also the only SOCs that are not-for-profit and pay no tax or dividends. SOCs are generally for-profit, tax and dividend paying entities, which generate most of their revenue from providing goods and services to the public. In comparison, TIDC and RIC rely heavily on government funding to carry out their functions. In 2008-09, 36 per cent of TIDC's revenue and 89 per cent of RIC's revenue came from government grants.

Cost Recovery from Users

The transport services sector incorporates rail, bus and ferry services. As well as providing direct benefits to users, these services generate substantial indirect benefits to the wider community (including reduced: road congestion; traffic accidents and greenhouse gas emissions). These external benefits are funded by taxpayers through government subsidies.

Rail services continue to depend significantly on government funding to meet both operating expenses and capital investment. The level of cost recovery has remained consistently low, notwithstanding increases in the absolute level of fare income. In 2008-09, passenger revenue only covered 22 per cent (23 per cent in 2007-08) of RailCorp's operating costs.



State Transit is a for-profit entity and has the best level of cost recovery from users of the three transport services. State Transit's cost recovery was approximately 50 per cent in 2008-09, the same as the prior year.

The cost recovery for ferry services has dropped from a high of 47 per cent in 2004-05 to 34 per cent in 2008-09. This is due to operating expenses increasing by 51 per cent over those years and farebox revenue only increasing by eight per cent.

Year ended 30 June	RailCorp		State Transit		Sydney Ferries	
	2009 $	2008 $	2009 $	2008 $	2009 $	2008 $
Cost of services provided per passenger journey	***10.03***	9.02	***2.71***	2.60	***10.13***	9.38
Passenger revenue per passenger journey	***2.16***	2.09	***1.36***	1.31	***3.40***	3.50
Net cost per passenger journey*	***7.87***	6.93	***1.35***	1.29	***6.73***	5.88

Source: Amounts were calculated based on published financial information and passenger numbers advised by RailCorp, State Transit and Sydney Ferries (unaudited).

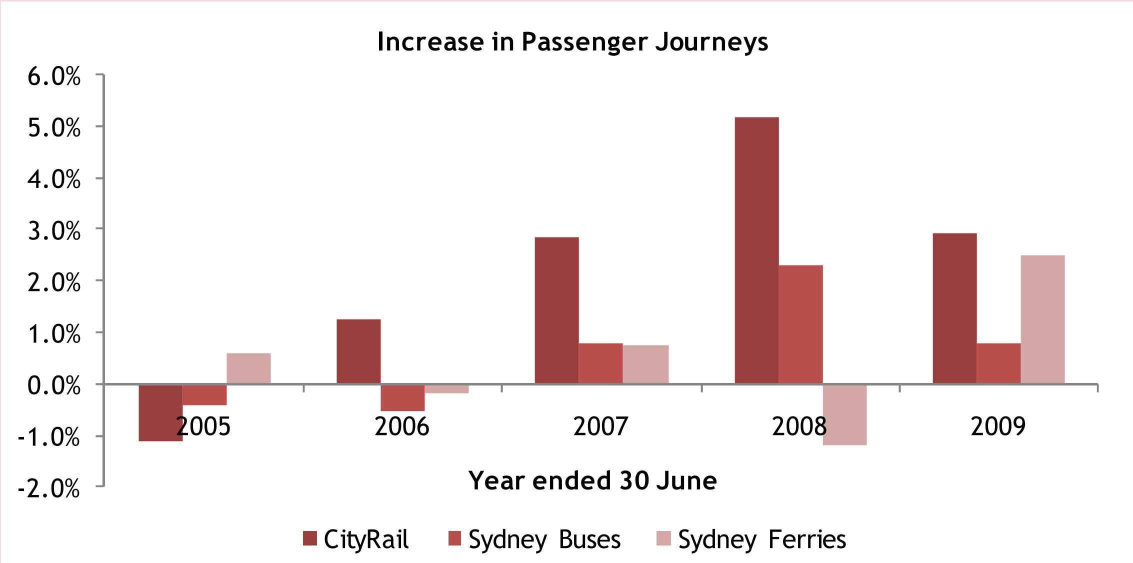
* The net cost per passenger journey essentially represents the amount subsidised by taxpayers through Government contributions, less any other revenue sources.

The cost of providing services per passenger journey increased for all three operators. RailCorp recorded the highest increase in cost per journey, with its cost increasing by a dollar, or 11.2 per cent.

RailCorp and State Transit recorded 3.3 per cent and 3.8 per cent increases in passenger revenue per journey respectively. Passenger revenue per journey decreased at Sydney Ferries from $3.50 to $3.40. This was mainly due to an increase in the number of concession travellers and the Manly JetCat service ceasing in January 2009. Fares on the Manly JetCat service were significantly higher than the Manly ferry service.

Patronage Growth

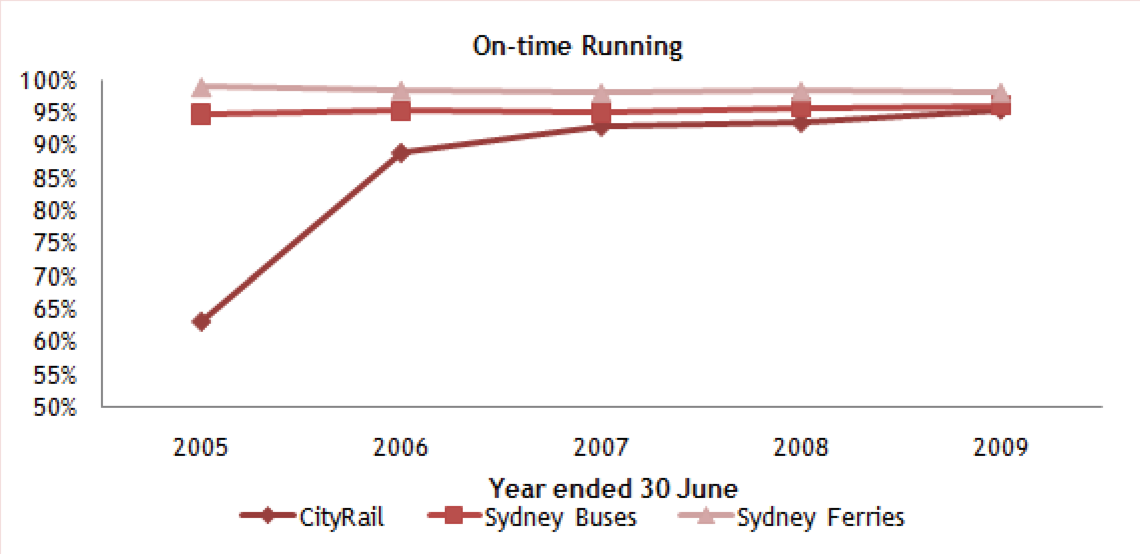
In 2008-09, there were 512 million passenger journeys (501 million) on CityRail services, Sydney buses and Sydney ferries. This represents a 2.1 per cent increase from the prior year. All three transport operators recorded an increase in passenger journeys, with CityRail recording the highest growth (2.9 per cent) and Sydney Buses recording the lowest (0.8 per cent). The table below shows passenger growth over the last five years.



State Transit advised that its passenger journey growth in 2008-09 was affected by the economic downturn which led to reduced employment in the CBD, and the opening of the Epping to Chatswood Railway Line. For further information on passenger journeys, refer to the comments on RailCorp, State Transit and Sydney Ferries in this volume.

On-time running

On-time running performance for Sydney ferry and bus services remained steady since 2004-05. In 2008-09, on-time running performance was 98.1 per cent and 96 per cent respectively.



Over the last four years, CityRail's on-time running performance has improved to a high of 95.4 per cent in 2008-09. Contributing to this was the introduction of revised timetables and the change in performance measure from percentage of timetabled peak train services reaching their destination within 3 minutes 59 seconds of scheduled arrival time for suburban services (2004-05) to five minutes (2005-06 onwards).

In contrast to CityRail, which measures on-time running at the end of the destination, Sydney Buses and Sydney Ferries measure on-time running as a percentage of services departing from the terminus within five minutes of the scheduled timetable.

Transport Planning

The Government has in recent years developed a number of plans and strategies that collectively form the State's Transport Planning Framework. In addition to these plans, the New South Wales Premier has identified an immediate priority for a transport blueprint plan covering the next 25 years. NSWTI is currently drafting a plan titled 'Connecting NSW: The Transport Blueprint'. It anticipates releasing the plan before the end of 2009.

NSWTI has advised that the Transport Blueprint will set the Government's strategic transport agenda for the next 25 years, building on systems and initiatives already in place or underway. It will map out actions and strategies necessary to ensure the transport system can cater for: growth and changing travel needs, the achievement of better transport outcomes for passengers, the movement of goods and the wellbeing of the economy. The Government is also reviewing the Metropolitan Strategy to ensure transport and land use planning is linked. It is also developing transport strategies for a number of regional communities.

The existing plans of significance to the transport planning framework include:

- **Metropolitan Strategy, City of Cities – A Plan for Sydney's Future** (December 2005) - transport is a critical element of this strategy which aims to provide a broad framework for the sustainable growth and development of Sydney over the next 25 years.
- **The New South Wales State Infrastructure Strategy** (2006) – links the four year capital budget contained in the Infrastructure Statement (New South Wales Government Budget Paper Number 4) with longer term planning strategies. Infrastructure investment is a key driver to achieving transport outcomes within the State Plan.
- **Premier's Urban Transport Statement** (November 2006) - the Statement outlines the Government's response to Sydney's transport challenge, and includes initiatives to increase the availability and reliability of public transport across the Sydney region. The Urban Transport Statement facilitates the implementation of key transport priorities identified in the State Plan.
- **SydneyLink** (March 2008) – developed in the context of the Government's State Plan priorities, including the need to increase public transport journeys to work, via a number of metro lines. The first of which was the North West Metro and South West Rail Link with a possible future metro to the west and the south east.

  On 24 October 2008, the Premier announced construction would begin in 2010 on a Stage One (CBD Metro) to allow for future metro projects to western and north western Sydney. The proposed line from Central Station to Rozelle will cost $5.3 billion. The Minister for Transport announced that the $12.0 billion North West Metro project has been deferred indefinitely. Stage One of the South West rail link is expected to be completed by 2014. The Government plans to buy 300 buses with one third to be used in Sydney's North West.

  In November 2009, the Premier announced that the Government would invest $1.3 billion to build Stage Two of the South West rail link, with construction due to begin next year and completion due by 2016.
- **State Plan, Investing in a Better Future** (November 2009) - defines future strategies and priorities for the public sector. The State Plan includes priorities transport agencies will need to address. This State Plan replaced the inaugural state plan issued in November 2006 and titled 'State Plan, A New Direction for New South Wales'

Further details on the State Plan are included under 'Other Information'.

Coordination of a Multi-Modal Public Transport Network

The Report of the Special Commission of Inquiry into the Sydney Ferries Corporation released on 1 November 2007 found that bus, ferry and rail timetables do not always align well with each other. The report recommended establishing a coordinating body whose role is to ensure the transport network, in particular timetabling, is properly integrated. It also recommended that the body have the power to change timetables to improve integration.

The challenge of integrating multi-modal transport plans as a whole was also reported in my June 2007 Performance Audit titled 'Connecting with Public Transport: Ministry of Transport'.

The Government believes the newly created NSWTI will improve its ability to deliver a better integrated transport network as NSWTI will be responsible for all transport policy, planning and coordination. NSWTI advises it will enhance its focus on service delivery, timetable integration, passenger information and trip planning capabilities, and the management and performance of interchanges.

In 2008-09, MoT progressed the roll out of integrated bus networks, introducing new networks in seven metropolitan contract regions. These are aimed at ensuring services reflect community needs and provide direct links between key patronage generators and different transport modes.

In 2008-09 MoT established an interim services contract with Sydney Ferries and it undertook work with RailCorp in developing a rail services contract. As with bus contracts, these service contracts require operators to coordinate timetables and services.

During the year the 131 500 Transport information service continued to be the major source of coordinated transport information for bus, rail and ferry services across the greater Sydney region. More than 11 million contacts were received via phone, email and the website, representing a 22.3 per cent increase from the previous year.

In 2009, the Government established a Transport Coordination Group (TCG). The TCG oversees and coordinates the movement of people between their home and work and school each day. They do this by:

- monitoring traffic flows
- ensuring speedy responses to disruptions and dissemination of information to commuters
- identifying solutions to systemic problems.

The TCG comprises senior officers from NSWTI, the Roads and Traffic Authority, RailCorp, State Transit Authority, Sydney Ferries, NSW Police Force and the private bus industry.

The MoT was the lead agency in the New South Wales transport portfolio until July 2009. It provided policy oversight and strategic advice to the Minister on key issues as well as regulated the bus, taxi and hire car industries, and managed bus and ferry contracts. The MoT had a coordinating role for identified transport priorities, including interchanges and commuter car parks, and their delivery in collaboration with other government agencies. MoT was abolished in July and its functions were transferred to the newly created NSWTI.

For more information on the Sydney Ferries Corporation report, refer to www.nsw.gov.au/docs/Inquiry_SydneyFerries_311007.pdf and on the Performance Audit report, refer to www.audit.nsw.gov.au.

Electronic Ticketing System for the Greater Sydney region

The Public Transport Ticketing Corporation (PTTC) is charged with procuring a new electronic ticketing system to replace the terminated Tcard project. The new system will cover public transport users and operators in the greater Sydney metropolitan region. PTTC is currently evaluating the two proposals received in response to its request for tender. The Corporation expects to sign a contract with the successful proponent by the first quarter of 2010.

PTTC terminated the Tcard project with the private sector contractor on 23 January 2008 and commenced legal proceedings against the contractor. The contractor responded by lodging a cross claim. The Corporation is taking all necessary action to recover funds spent on the Tcard contract.

Overtime

Managing overtime expenditure continues to be a challenge for RailCorp and State Transit. As shown in the table below, total overtime expenditure for the three transport operators in 2008-09 was $168 million ($164 million).

Transport operator	Trend	Year ended 30 June 2009 $'000	2008 $'000	2007 $'000
RailCorp	↑	***127,747***	119,939	113,958
State Transit	~	***39,427***	40,210	38,697
Sydney Ferries	↓	***1,256***	3,745	3,628
Total		***168,430***	163,894	156,283

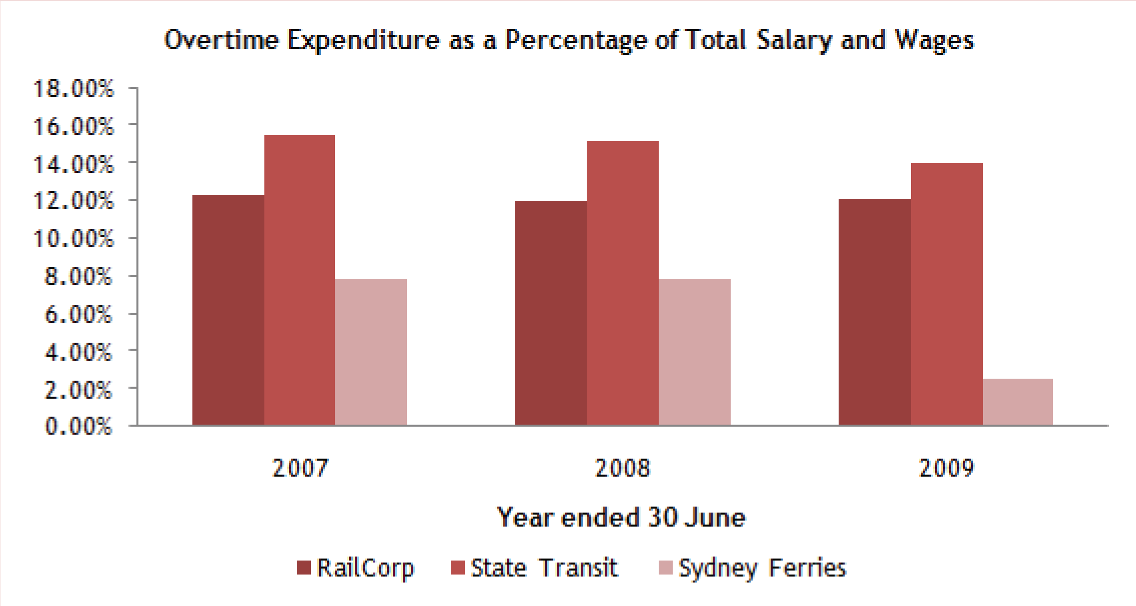
Key: ↑ Trend upwards, ↓ Trend downwards, ~ No trend

While overtime at Sydney Ferries declined significantly, and State Transit recorded a 1.9 per cent reduction, RailCorp's overtime expenditure in 2008-09 was 6.5 per cent higher than the prior year. RailCorp has implemented a number of initiatives to reduce overtime and it is working through a station staff and maintenance reform program, which should further reduce overtime.

The decline in overtime at Sydney Ferries resulted from specific overtime reduction strategies, which included changes to rostering arrangements. However, this reduction was somewhat offset by an increase in temporary staff costs.

The graph on page ten shows overtime expenditure as a percentage of total salary and wages expenditure for each of the operators over the last three years. State Transit has the highest percentage of overtime at 14 per cent (15.2 per cent). RailCorp's overtime percentage remained static at around 12 per cent and Sydney Ferries' overtime percentage decreased from 7.8 per cent to 2.5 per cent in 2008-09.

State Transit advises that under its award conditions all work on Sunday is paid as overtime. Bus operators work a six day roster. A majority of the overtime expenditure reported in the graph below relate to payments made for this reason rather than staff working excess hours. State Transit also monitors bus driver hours worked to ensure that all bus operators are working within the occupational health and safety guidelines.



High levels of overtime can adversely affect financial and operational performance. Financially, premiums paid for overtime can lead to higher than necessary payroll expenditure, while operationally, employees working high levels of overtime may result in health and safety issues.

For further information on overtime at RailCorp, refer to the comments on RailCorp in this volume.

OTHER INFORMATION

Epping to Chatswood Railway Line (ECRL)

Major construction and commissioning of the ECRL was completed during the year. The ECRL project was fully integrated into the CityRail network following the introduction of the new CityRail timetable in October 2009. RailCorp advises that patronage so far is consistent with its forecasts and it expects the ECRL will generate an additional 6.5 million passenger journeys per year.

The final forecast cost for the ECRL is $2.347 billion (excluding interest costs on borrowings). This is some $300 million more that the original approved budget.

For further information on the ECRL, refer to the comments on RailCorp and TIDC in this volume.

Commuter Car Parking Program (CCPP)

TIDC and RailCorp are managing the construction of 26 commuter car parks under the CCPP. Of this total, 23 are being delivered by TIDC and 3 by RailCorp. The revised budget for the program is $288 million, which is within the original budget. Apart from 3 of the 26 car parks, TIDC and RailCorp expect to complete the others within the original completion dates. NSWTI advises that all the car parks are expected to be completed by mid 2011, the overall CCPP completion target.

In addition to the car parks being managed by RailCorp and TIDC, a further three car parks are being constructed by local councils. The CCPP will deliver around 7,000 new car spaces for rail commuters.

For further information on the CCPP, refer to the comments on RailCorp and TIDC in this volume.

2009-10 Transport Funding Announcements

In June 2009, the Government announced the 2009-10 Budget which included $4.4 billion funding for rail, bus and ferry services.

The Transport Services sector's capital program is $3.2 billion in 2009-10 and includes:

- $581 million for the Sydney Metro project
- $350 million for the Rail Clearways Program
- $208 million for 424 new buses for both the State Transit Authority and private operators
- $186 million for the South West Rail Link
- $125 million for rolling stock acquisition.

Independent Transport Safety and Reliability Regulator (ITSRR) Customer Surveys

In September 2009, ITSRR released its sixth annual survey results on CityRail services. Overall the survey indicated CityRail had improved its services. The main area of dissatisfaction was crowding. In the same month, it also released its survey results on Sydney metropolitan bus services. This survey included services provided by Sydney Buses.

For more details on the survey results, refer to the comments on RailCorp and State Transit in this volume.

> I recommend ITSRR liaise with the Department of Transport and Infrastructure to secure funding for annual customer service surveys of Sydney metropolitan bus services and Sydney Ferries.

The cost for conducting the Sydney metropolitan bus services survey was jointly funded by ITSRR and the former MoT. ITSRR advises that conducting this survey in 2009-10 and thereafter will depend on whether they obtain additional funding.

ITSRR has yet to conduct a similar survey on Sydney Ferries. While Sydney Ferries conducts its own internal surveys, we believe it is appropriate for ITSRR to conduct annual surveys on Sydney Ferries customer service. Under the *Transport Administration Act 1998*, ITSRR's general functions include reviewing any matter related to funded transport services reliability.

NSW State Plan

In 2006 the Government released its first State Plan, which defined the future strategies and priorities that transport agencies will need to address over the next ten years. In late 2009, the Government reviewed the plan and released a revised plan titled 'Investing in a Better Future: NSW State Plan'.

The 2009 State Plan has changed a number of public transport related targets since many of the previous targets had already been met. Some of the new public transport targets include:

- increasing the share of commuter trips made by public transport to and from the Sydney CBD during peak hours to 80 per cent by 2016 (previous target 75 per cent)
- increasing the proportion of total journeys to work by public transport in the Sydney metropolitan region to 28 per cent by 2016 (previous target 25 per cent)
- consistently meeting public transport reliability targets of 92 per cent on-time running for CityRail services, 95 per cent for Sydney buses and 99.5 per cent for Sydney ferries.

The table below shows the performance against the first two targets. On-time running performance is reported on earlier in this comment under the heading 'On-time running'.

Transport related target	Target 2016	2007	2006	2005
Share of commuter trips made by public transport to and from Sydney CBD during peak hours (%)	80.0	**77.0**	74.4	71.4
Proportion of total journeys to work on public transport in Sydney metropolitan region (%)	28.0	**24.2**	22.0	21.8

Note: Patronage data is drawn from the annual Household Travel Survey, the results of which are published the year after the data is collected (unaudited).

Excessive Annual Leave

I recommend transport service operators review the effectiveness of their policies for managing excessive annual leave balances.

Managing excessive annual leave balances remains a challenge for the three transport operators. Over 1,400 staff have accrued more than 40 days (or 50 days for RailCorp shift workers) of annual leave at 30 June 2009. This represents 7.3 per cent (8.8 per cent) of all staff at that date.

Excess leave entitlements can have adverse effects. These include an ever increasing financial liability because of salary rate increases. The health and welfare of staff can also be adversely affected if they do not take sufficient breaks from work during the year.

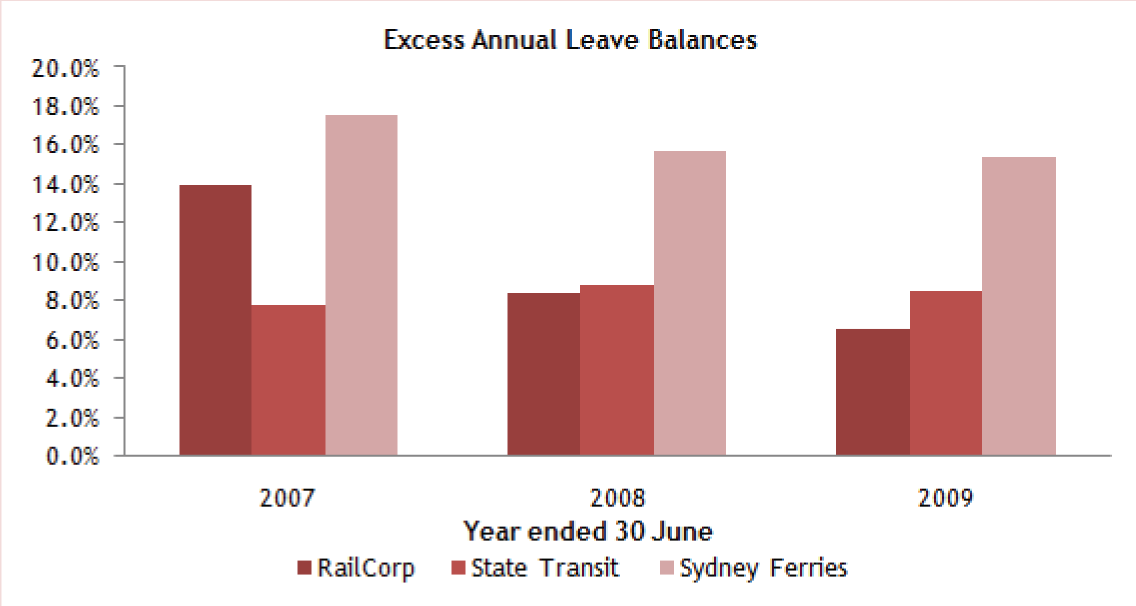
For the purpose of this Report, excessive annual leave has been calculated as an accrued balance of more than 40 days or 50 days (RailCorp shift workers) as at 30 June. The transport operators may calculate excessive annual leave differently.

The table below provides details on the number of staff with more than 40 days (or 50 days for RailCorp shift workers) accrued annual leave at 30 June.

	Year			
Transport operator	Trend	**2009**	**2008**	**2007**
RailCorp[1]	↓	***936***	1,185	1,927
State Transit	↑	***414***	408	358
Sydney Ferries	↓	***103***	108	120
Total		***1,453***	1,701	2,405

[1] Excessive leave based on 40 days for non shift workers and 50 days for shift workers
Key: ↑ Trend upwards, ↓ Trend downwards, ~ No trend

The table shows the number of staff with excessive annual leave balances at RailCorp and Sydney Ferries is trending downwards. At State Transit there is an upward trend. The next graph illustrates the percentage of staff with excessive annual leave balances over the last three years.



The graph shows the number of staff with excessive annual leave at RailCorp has dropped from 13.9 per cent in 2006-07 to 6.5 per cent in 2008-09 due to RailCorp adopting a more proactive approach to ensuring staff comply with policies and conditions of employment. While the number of employees with excessive annual leave balances at Sydney Ferries is much lower than the other two operators, 15.4 per cent of its staff (15.7 per cent) had accrued leave balances greater than 40 days at 30 June 2009.

Section Two

Commentary on Government Agencies

Minister for Mineral Resources

Mine Subsidence Board

Mine Subsidence Board

AUDIT OPINION

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

FINANCIAL INFORMATION

The following information relates to the Board's finances:

Year ended 30 June	2009 $'000	2008 $'000
Revenue	***22,458***	22,430
Expenditure	***12,068***	27,156
Net gains	***2,657***	476
Surplus/(deficit)	***13,047***	(4,250)
Net assets (at 30 June)	***51,877***	38,830

The decrease in expenditure was mainly due to reduced subsidence claims, $10.7 million, and a decrease of $6.8 million in subsidence prevention works. The increase in net gains was mainly due to movements in investment bonds.

BOARD ACTIVITIES

The Board's main objective is to provide compensation payments for damage caused by mine subsidence on land anywhere within the State following coal or shale prospecting, or extracting coal or shale.

The Board was established under the *Mine Subsidence Compensation Act 1961*. It is subject to the control and direction of the Minister for Mineral Resources.

For further information on the Board, refer to www.minesub.nsw.gov.au.

Minister for Planning

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

Corporation Sole 'Minister Administering the Heritage Act, 1977'

Department of Planning

Landcom

Refer to Appendix 1 for:

Building Professionals Board

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

AUDIT OPINION

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

KEY ISSUE

Assets write off

During the year, the Corporation identified assets valued at $112 million on its asset register that were either controlled by other agencies or had been recorded twice, effectively double counting the assets. The Corporation adjusted the asset register and its 2008-09 financial report for these items.

OTHER INFORMATION

We identified opportunities to improve the accounting and internal control procedures and reported them to management.

FINANCIAL INFORMATION

Abridged Operating Statement

Year ended 30 June	2009 $'000	2008 $'000
Personnel services & payroll expenses	***2,889***	2,221
Other operating expenses	***12,297***	7,544
Finance costs	***13,429***	14,835
Grants and Subsidies	***15,801***	9,033
OPERATING EXPENSES	***44,416***	33,633
OPERATING REVENUE	***54,570***	80,496
SURPLUS	***10,154***	46,863

The Corporation's revenue decreased compared with the prior year mainly due to a $30.0 million gain on property sold in the prior year compared with nil this year, and $19.0 million of assets recognised for the first time in the prior year. No like transaction occurred in the current year.

In the current year, the Corporation also earned $23.0 million (nil in 2007-08) from property development at Rouse Hill.

The increase in expenditure is attributable to higher grants and subsidies to local governments and NSW public sector agencies, and participation fee of $7.0 million paid to the developers of the Rouse Hill property.

Abridged Balance Sheet

As at 30 June	**2009 $'000**	**2008 $'000**
Current assets	***55,436***	87,189
Non-current assets	***1,312,603***	1,105,093
TOTAL ASSETS	***1,368,039***	1,192,282
Current Liabilities	***33,509***	61,850
Non-current liabilities	***273,650***	186,748
TOTAL LIABILITIES	***307,159***	248,598
NET ASSETS	***1,060,880***	943,684

The increase in total assets is attributable to asset revaluation of $106 million and property additions of $110 million in 2009.

The increase in total liabilities is due to an increase in borrowings of $80.3 million, mainly relating to New South Wales Treasury Corporation loans used to fund asset additions.

CORPORATION'S ACTIVITIES

The Minister for Planning is incorporated as the Corporation Sole 'Minister Administering the *Environmental Planning and Assessment Act, 1979*'. The Corporation's main activities are to acquire land, control and manage its vested lands and dispose of surplus land.

The Office of Strategic Lands of the Department of Planning administers the functions of the Corporation.

Corporation Sole 'Minister Administering the *Heritage Act, 1977*'

AUDIT OPINION

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

FINANCIAL INFORMATION

Year ended 30 June	2009 $'000	2008 $'000
Revenue	***551***	969
Expense	***422***	431
Other losses (conversion of loans to grants)	***1,738***	--
(Deficit)/surplus	***(1,609)***	538
Net assets (at 30 June)	***7,872***	9,156

In the prior year, the Commonwealth Minister for Environment and Water Resources approved the redirection of excess funds ($250,000) from the National Estate Grant Program to the Parramatta Heritage Precinct Project. These funds were recognised as income during 2007-08. No such funds were redirected in the current year, resulting in a reduction in revenue.

In January 2009, the Minister for Planning and Minister for Redfern Waterloo, approved the conversion of Heritage Conservation loans under Section 106 of the *Heritage Act 1977*. As a result, the Corporation recognised $1.7 million as other losses.

CORPORATION'S ACTIVITIES

The Corporation's main function is to acquire and conserve heritage items and provide financial assistance for these purposes.

Under the *Heritage Act 1977*, the Minister for Planning is incorporated as the Corporation Sole, 'Minister Administering the *Heritage Act 1977*'.

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

Department of Planning

AUDIT OPINION

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

KEY ISSUES

I recommend the Department review its accounting and control procedures over revenue as a matter of urgency.

The Department receives revenue predominately from development application fees, planning reform fees and development contributions. My review identified a number of issues with the recognition of these revenues that required adjustment to the financial report. The Department has advised me they will review revenue procedures and controls during 2009-10.

OTHER INFORMATION

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

FINANCIAL INFORMATION

Abridged Operating Statement

Year ended 30 June	2009 $'000	2008 $'000
Employee related	***67,757***	53,989
Other operating expenses	***19,290***	16,789
Grants and subsidies	***32,632***	35,636
Other expenses	***1,319***	899
TOTAL EXPENSES	***120,998***	107,313
Sale of goods and services	***39,369***	40,743
Other revenue	***14,359***	4,074
TOTAL REVENUE	***53,728***	44,817
Other losses	***13,644***	1,014
NET COST OF SERVICES	***80,914***	63,510
Government contributions	***69,111***	67,752
(DEFICIT)/SURPLUS	***(11,803)***	4,242

Employee related expenses have increased by $13.8 million mainly due to additional initiatives allocated to the Department in 2008-09. These included rezoning, planning reforms and affordable housing, which required increased numbers of employees and the use of contractors.

Other revenue increased by $10.3 million mainly due to the recognition of development contributions associated with two large developments and a $2.0 million grant from the Commonwealth Government for an electronic development assessment system.

Other losses increased due to $11.5 million of land being transferred to other government agencies.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***22,833***	17,108
Non-current assets	***18,836***	31,247
TOTAL ASSETS	***41,669***	48,355
Current liabilities	***11,822***	9,162
Non-current liabilities	***10,513***	46
TOTAL LIABILITIES	***22,335***	9,208
NET ASSETS	***19,334***	39,147

Non-current assets have decreased by $12.4 million largely due to land transfers.

Non-current liabilities are higher due to a $10.0 million increase in borrowings associated with the transfer of the former Growth Centres Commission.

Service Group Information

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget $'000	2009 Actual $'000	2008 Actual $'000	2009 Actual $'000	2008 Actual $'000
Strategies and land release	***10,451***	***22,641***	23,647	***(6,465)***	2,130
Plan making and urban renewal	***52,973***	***42,978***	29,153	***18,877***	31,655
Development assessment	***15,715***	***15,295***	10,710	***6,922***	5,362
Personnel Services	**--**	**--**	--		
Total all service groups	***79,139***	***80,914***	63,510	***19,334***	39,147

The actual net cost of services was $1.8 million higher than budget primarily due to a loss on the transfer of land of $11.5 million and increased expenditure on planning reform initiatives and the restructure of the Planning portfolio. The increase was partially offset by lower than expected grant expenditure and savings achieved as a result of the transfer of the former Growth Centres Commission.

DEPARTMENT ACTIVITIES

The Department oversees and implements Government policies on land use planning and development, and facilitates and manages sustainable growth.

It plays a critical role in key State investment decisions in its role as lead agency advising the Minister and Government on the approval of major development and infrastructure projects of significance to New South Wales' economy and employment.

The Department leads and coordinates State-wide planning strategies to guide growth and development, and to inform infrastructure planning, staging and delivery.

Key legislation includes the *Environmental Planning and Assessment Act 1979*, the *Heritage Act 1977* and the *Coastal Protection Act 1979*.

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

Landcom

AUDIT OPINION

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

PERFORMANCE INFORMATION

Financial Performance

The table below compares Landcom's financial results against targets set in its Statement of Corporate Intent (SCI).

Year ended 30 June	Target*	Actual				
	2009	2009	2008	2007	2006	2005
Earnings before interest and income tax ($m)	***50.1***	***51.6***	59.5	68.4	72.6	100.3
Dividend to Consolidated Fund ($m)	***43.6***	***42.9***	36.0	39.6	44.3	45.3
Income tax to Consolidated Fund ($m)	***12.9***	***15.3***	15.1	17.7	17.5	29.8
Return on equity (%)	***8.6***	***9.6***	9.8	11.6	12.3	16.6
Return on assets (%)	***4.9***	***4.9***	5.0	5.8	7.3	8.9
Debt to total equity (%)	***32.8***	***32.8***	48.3	56.5	48.6	55.0

* Performance indicators included in Landcom's 2008-09 SCI.

Landcom achieved most of its financial targets for 2008-09. The targets, however, were set higher than last year due to anticipated increase in first home owner demand for residential land and new housing.

Landcom's six-year performance against economic, social, environmental and governance targets have been published in its Annual Report for 2009.

OTHER INFORMATION

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

Nation Building Project

Landcom is working closely with Housing NSW in relation to social housing initiatives as part of the first tranche of the Commonwealth Government's nation building stimulus package. As at 30 June 2009, the related costs incurred by Landcom and recovered from the Commonwealth Government amounted to $2.5 million.

Distribution to the Treasury

Landcom's dividend payment is agreed with its shareholders annually as part of the SCI process. For 2008-09, it was agreed to pay 100 per cent of the net profit after tax, adjusted for certain non-cash items. The dividend of $42.9 million equated to 129 per cent of net profit after tax ($36.0 million or 103 per cent in 2007-08).

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2009 $'000	2008 $'000
Sales income	***277,376***	349,572
Cost of sales	***(186,086)***	(250,048)
GROSS PROFIT	***91,290***	99,524
Other income	***1,924***	5,435
Employee related expenses	***(13,205)***	(13,816)
Other expenses	***(28,392)***	(31,613)
PROFIT BEFORE INTEREST AND INCOME TAX	***51,617***	59,530
Finance income	***9,985***	4,744
Finance expense	***(13,060)***	(14,064)
Income tax equivalent expense	***(15,329)***	(15,124)
PROFIT	***33,213***	35,086
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY		
Superannuation actuarial losses (net of income tax)	***(3,608)***	(1,942)
Other	***11***	618
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***29,616***	33,762
Dividend provided	***42,912***	36,013

Sales income decreased by $72.2 million primarily due to the tight property market as a result of the global financial crisis.

Although Landcom's sales income declined, the gross sales margin improved from 28 per cent in 2007-08 to 33 per cent in 2008-09. This was mainly due to sales release of Mt Annan and Ponds Stage 2, which provided average margins of 33 per cent and 45 per cent, respectively.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Inventory	***481,035***	451,157
Other	***196,822***	245,414
TOTAL ASSETS	***677,857***	696,571
Borrowings	***113,519***	173,929
Other	***217,833***	162,841
TOTAL LIABILITIES	***331,352***	336,770
NET ASSETS	***346,505***	359,801

Total assets reduced primarily due to the repayment of a $60.0 million loan from New South Wales Treasury Corporation. This was offset by increased work-in-progress.

Total liabilities decreased mainly due to the repayment of the loan mentioned above. This was offset by a $20.0 million upfront payment received for the South Cecil Hills project, a $14.0 million provision to complete projects and a $13.2 million advance payment from the Department of Ageing, Disability and Home Care for the provision of group housing.

LANDCOM ACTIVITIES

Landcom is constituted under the *Landcom Corporation Act 2001*. Landcom develops and sells residential, commercial and industrial properties. As part of urban management, it develops land for residential purposes and redevelops inner city land for medium/high density housing. It also provides for the development of shopping centres, aged care and commercial facilities to complement its residential developments.

The principal objectives of Landcom are to:

- be a successful business, and to this end:
  - to operate at least as efficiently as any comparable business
  - to maximise the net worth of the State's investment in it
- exhibit a sense of social responsibility by having regard to the interests of the community in which it operates
- protect the environment by complying with the principles of ecologically sustainable development contained in section 6(2) of the *Protection of the Environment Administration Act 1991*
- approach regional development and decentralisation responsibly
- undertake, or assist the Government in undertaking, strategic or complex urban development projects
- assist the Government in achieving its urban management objectives
- be a responsible developer of residential, commercial and industrial land.

For further information on Landcom, refer to www.landcom.nsw.gov.au.

Minister for Primary Industries

Department of Primary Industries

Forestry Commission of New South Wales

New South Wales Rural Assistance Authority

NSW Food Authority

NSW Ovine Johne's Disease Transaction Based Contribution Scheme

Riverina Citrus

Refer to Appendix 1 for:

Agricultural Scientific Collections Trust

Banana Industry Committee

*Belgenny Farm Agricultural Heritage Centre Trust

C.B. Alexander Foundation

Game Council of New South Wales

Rice Marketing Board for the State of New South Wales

Veterinary Practitioners Board

* The audit was incomplete at the time of compiling this Volume.
The comment will be included in a later 2009 Volume.

Department of Primary Industries

AUDIT OPINION

The audit of the financial reports of the Department and its controlled entity, the Forestry Commission of New South Wales (the Commission), for the year ended 30 June 2009 resulted in qualified Independent Auditor's Reports. The qualification related to the uncertainty of the tax deductibility of $797 million of plantation establishment costs for the Commission's biological assets. Further comment on this matter is included under the Commission elsewhere in this Volume.

The successful implementation of the discounted cash flow (DCF) method to value the Commission's biological assets resulted in the removal of the 2008 qualification on native forests. Further comment on this matter is included under the Commission elsewhere in this Volume.

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

PERFORMANCE INFORMATION

Key Performance Indicator (KPI) Targets

Last year I recommended the Department's 2008-09 Annual Report clearly disclose actual performance against significant KPI targets. This recommendation was implemented.

The following tables show how the Department performed against key targets over the last three years.

Economic Performance of Primary Industries

Year ended 30 June	Target	Actual		
	2009 $m	2009# $m	2008 $m	2007 $m
Value of primary industries production	***26,261***	***35,861***	23,432	20,317
Mining royalties collected	***538***	***1,280***	573	513
Capital expenditure (mining)	***2,000***	***2,000***	2,200	1,700
Value of targeted primary industries exports:				
- Coal	***9,500***	***17,100***	8,200	6,200
- Agriculture	***5,975***	***5,523***	5,064	5,281

Source: Department of Primary Industries (unaudited).
\# Current estimates at 30 June 2009, based on latest available data from the Australian Bureau of Statistics and the Australian Bureau of Agriculture and Resource Economics.

The Department advises:

- the 2009 estimates forecast a significant increase on targets primarily due to the expected very strong value of minerals exports
- the 55.2 per cent increase in the collection of mining royalties was due to the exploration and mining boom and the rise in exported coal prices
- coal prices rose to unprecedented levels in 2008-09 due to the strong demand for coal from Asia and supply constraints from key exporter nations. This resulted in a sharp increase in the estimated value of coal exports for 2008-09.

Japan remains the most significant customer for New South Wales coal exports, accounting for nearly two thirds of exports. Growth in coal exports during 2008-09 was also underpinned by increased demand from China (320 per cent increase on 2007-08), South Korea (23 per cent) and India (19 per cent).

Management of natural resources

Year ended 30 June	Target	Actual		
	2009	2009#	2008	2007
Mines operating to agreed operation plans and management subsidence plans (%)	***97***	***97***	97	95
Primary/target and secondary fish species harvested at biologically sustainable levels (%)	***>90***	***>91***	>90	>90
Landholders/ fishers adopting at least one DPI sustainability innovation (%)	***30***	***30***	30	25
Cotton yield per megalitre of water supplied (Bales)	***1.11***	***1.11***	1.09	1.13
Reduction in net emissions from primary industries (%)	***3***	***2***	3	2

Source: Department of Primary Industries (unaudited).
Current estimates at 30 June 2009.

Safety, Health and Biosecurity

Year ended 30 June	Target	Actual		
	2009	2009#	2008	2007
Compliance with National Animal Health performance standards (%)	***97***	***97***	97	95
Major innovations in pest and disease control (No.)	***30***	***30***	30	26
Fatal injury frequency rate in the mining industry				
- Coal five year average	***0.01***	***0.04***	0.04	0.04
- Non- coal five year average	***0.04***	***0.04***	0.04	0.06

Source: Department of Primary Industries (unaudited).
Current estimates at 30 June 2009.

In 2008-09, the Department met or equalled its key targets in the above two tables except for the five year average for fatal injury frequency rate in the coal industry. To improve occupational, health and safety (OHS) performance, the Department is working with the industry on an OHS cultural change program through the Mine safety Advisory Council. The Department is also carrying out audits of mine sites to assess the level of implementation of the new legislation (*Health and Safety Act 2004*, the *Coal Mine Health and Safety Act 2002* and the associated regulations).

OTHER INFORMATION

Derelict Mines

Derelict mines in New South Wales are defined as abandoned sites of past mining activity for which no individual, company or organisation can be held responsible for the management or rehabilitation of the sites. Although the Department has no statutory or legislative responsibility for the rehabilitation of derelict mines, it is responsible for the Derelict Mines Program. The Program maintains a database of more than 570 derelict mines, which is regularly updated as new derelict mines are found and assessed.

To qualify for inclusion in the Derelict Mines Program, a derelict mine must meet the following criteria:

- mining must have been formerly authorised by a title that is now extinguished and mining permanently discontinued
- no person or company can be located who has direct responsibility for the rehabilitation of the site
- mining must have been for minerals that fall within the definition of the Mining (General) Regulation 1997 - Schedule 2.

The Derelict Mines Program received $1.9 million this year ($1.8 million in 2007-08). The Department advised these funds were allocated on a risk basis to manage the more critical environmental and safety issues at derelict mine sites.

Mine Safety Levy

The *Mine Safety (Cost Recovery) Act 2005* provides for the funding of regulatory activities relative to mine safety. Mine safety levy revenue totalled $21.1 million ($17.0 million). Expenditure totalled $24.1 million ($15.8 million), predominantly on employee related expenses $14.8 million ($13.4 million).

Improving Efficiency of Irrigation Water Use on Farms

The Department aims to foster profitable and sustainable development of primary industries. One way it works to achieve this is by assisting agricultural industries use water more efficiently and productively. In my November 2007 report 'Improving Efficiency of Irrigation Water Use on Farms' I made recommendations, which were acted upon by the Department as detailed below:

Recommendation	Department Comment
The Department (DPI) to work closely with agencies with which it shares responsibilities to ensure that its water use efficiency activities contribute to State Plan goals.	▪ DPI retains membership of the Natural Resources and Environment CEO Cluster where programs and policies to deliver State Plan goals are agreed. ▪ DPI is a member of inter-agency committees implementing the $77.0 million Hawkesbury Nepean water project including $20 million for farm water use efficiency programs, and the $708 million Sustaining the Basin Program to implement Murray-Darling Basin reforms. ▪ The Corporate Business Plan 2008-09 provides specific Key Deliverables, Targets/Milestones for specific water use efficiency activities consistent with the Corporate Plan 2008-2011 and the State Plan. The DPI Key Result Area No 2: Appropriate access to and wise management of natural resources requires at Key Deliverable 50 the completion of the DPI Sustaining the Basin Farm Modernisation Plan for improving water use efficiency on irrigated farms. This activity is in progress. ▪ Key Deliverable 83 requires completion of a DPI water priority statement. This task is completed and outlines 24 strategies to align Departmental activities to address water issues arising from the implementation of the National Water Initiative, the Commonwealth Water for the Future program and the NSW State Plan. There are three specific objectives including using water efficiently, establishing and maintaining efficient infrastructure and assisting primary industries adapt to changing environment and water availability.

Recommendation	Department Comment
DPI and its key stakeholders maintain close relationships to ensure they identify opportunities for new technologies and practices with the highest potential benefit. DPI to further develop the transparency of its Research and Development (R&D) selection principles to demonstrate that projects and activities are funded in accordance with the mix of industry and public benefits they will generate.	▪ DPI is formally engaging the Cooperative Research Centre for Irrigation Futures in both developing new technologies and in review of landholders' on-farm water efficiency plans in the delivery of major water projects in the Hawkesbury Nepean and the Murray Darling Basin. ▪ DPI has implemented a Project Approval Process including a Framework for Investment (efficiency, appropriateness and effectiveness), that assesses costs and beneficiaries. DPI has also invested in Clarity (project and portfolio management software) to improve the transparency of R&D investments and reporting. The investment in Clarity (about $750,000 to date) will also result in improved R&D selection by improving strategic decision making which will minimise Type I errors (i.e. investing in the wrong projects) and Type II errors (i.e. failing to invest in the right projects). This includes ensuring activities are funded in accordance with the mix of industry and public benefits they will generate. A business case to The Treasury has been prepared to continue the development and roll-out of Clarity.
DPI should negotiate with The Treasury regarding resources it will require to meet its commitments to the State Plan, the future demands of the Commonwealth (including the National Water Initiative) and the effects of climate change. In doing so it should review best practice models in other jurisdictions for assisting and encouraging growers to adopt improvements.	▪ DPI has participated with Departments of Water & Energy, Environment & Climate Change, Treasury and Premier and Cabinet in the development of the Cabinet endorsed NSW State Priority Project Sustaining the Basin (in principle funding of $300 million to NSW DPI) and the Hawkesbury-Nepean Water recovery project ($77.0 million) to attract Commonwealth funding in water use efficiency and water recovery projects that address key water use efficiency elements of the NSW State Plan. ▪ DPI is reviewing best practice adoption models with other jurisdictions (Victoria, Queensland and South Australia) as an element of the business planning required by and funded by the Commonwealth to secure funding for the Sustaining the Basin Project. While these projects are still in the planning phase, consultation with Queensland (which has the most similar project outcomes to NSW of the three basin states) indicates that the approach being developed by NSW is best practice.

Annual Report

The accounting and reporting process improvements made by the Department and the Commission contributed to the Department's 2008-09 Annual Report being tabled in Parliament on time.

Improving Internal Controls

We identified opportunities to improve internal controls, which have been discussed and reported to the Department. These include:

- validity of master file changes (customers and payroll)
- effectiveness of Accounts Receivable cycle (repeat issue).

Drought Relief

The following table shows a comparative analysis of drought transport claims paid.

Drought Transport Subsidies	Number of Claims			Claim Amounts Paid		
	2009	2008	2007	2009 $'000	2008 $'000	2007 $'000
Agistment	***2,226***	3,434	2,577	***3,731***	4,614	3,228
Bee food	***4***	--	14	***3***	--	35
Fodder	***5,035***	8,228	17,481	***6,669***	10,307	21,627
Slaughter/sale	***3,540***	5,029	6,193	***3,048***	3,250	3,413
Stock water	***511***	990	2,020	***378***	834	1,693
Domestic water	***726***	1,021	2,170	***164***	269	568
Total	***12,042***	18,702	30,455	***13,993***	19,274	30,564

Source: Department of Primary Industries (unaudited).

The significant reduction in claims is attributable to the general improvement in the drought situation and a small backlog of claims remaining to be processed at June 2009.

Transfer of functions to the Department of Industry and Investment

In July 2009, the Department of Primary Industries was abolished and its functions transferred to the Department of Industry and Investment.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Employee related	***357,165***	322,315	***308,946***	282,356
Grants and subsidies	***48,975***	55,856	***58,943***	65,665
Other expenses	***386,170***	384,757	***159,864***	180,341
OPERATING EXPENSES	***792,310***	762,928	***527,753***	528,362
Grants and contributions	***59,437***	108,980	***55,581***	102,341
Other revenue	***413,353***	378,575	***196,924***	127,673
OPERATING REVENUE	***472,790***	487,555	***252,505***	230,014
NET COST OF SERVICES	***319,520***	275,373	***275,248***	298,348
Government contributions	***320,488***	306,821	***320,487***	306,821
SURPLUS	***968***	31,448	***45,239***	8,473
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Revaluation of assets	***63,546***	(317)	***63,546***	(5,881)
Superannuation actuarial loss	***66,787***	30,133	**59,856**	25,714
Other	***(32,310)***	(3,617)	***(6,116)***	3
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***98,991***	57,647	***162,525***	28,309

Grants and contributions revenue decreased due to a decline in funding from the Commonwealth Government $3.0 million ($46.7 million). The 2007-08 grants included funds from the Commonwealth relating to the Equine Influenza outbreak. Other revenues include royalties from the sale of timber products of $138 million ($139 million) and sale of goods and services of $209 million ($186 million). The largest increase in this revenue during 2008-09 was for rendering of services.

Land, buildings and infrastructure assets were revalued upwards by $63.5 million. Superannuation actuarial losses significantly increased due to changes in actuarial assumptions arising from the global financial crisis.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***129,006***	157,999	***61,901***	82,973
Non-current assets	***2,131,908***	2,094,291	***399,219***	302,443
TOTAL ASSETS	***2,260,914***	2,252,290	***461,120***	385,416
Current liabilities	***151,214***	154,445	***76,834***	80,786
Non-current liabilities	***483,036***	457,248	***65,845***	29,332
TOTAL LIABILITIES	***634,250***	611,693	***142,679***	110,118
NET ASSETS	***1,626,664***	1,640,597	***318,441***	275,298

The decrease in current assets is predominately due to the $21.7 million decline in the value of other financial assets with the largest fall for defined benefit superannuation asset caused by the global financial crisis.

The significant increase in non-current assets is mainly due to the combination of change in the total net value of native forests and plantation assets from $631 million in 2008 to $676 million in 2009 and increase in land and buildings from $1.2 billion to $1.3 billion in 2009.

The net increase in non-current liabilities is predominately from a $51.5 million rise in defined benefit superannuation and a $15.7 million fall in the Commission's deferred tax liability.

Abridged Service Group Information (Department only)

The Department's net cost of services on a service group basis is detailed below:

Year end 30 June	Net Cost of Services			Net Assets	
	2009 Budget $'000	2009 Actual $'000	2008 Actual $'000	2009 Actual $'000	2008 Actual $'000
Agriculture, Biosecurity and Mine Safety	***108,038***	***143,394***	146,251	***83,460***	73,563
Mineral Resources	***24,167***	***41,878***	35,188	***50,620***	36,653
Fisheries and Compliance	***39,453***	***44,333***	42,953	***46,995***	42,333
Science and Research	***92,065***	***105,500***	99,670	***137,366***	122,749
Personnel services	--	***(59,857)***	(25,714)	--	--
Total	***263,723***	***275,248***	298,348	***318,441***	275,298

The Department advised the actual net cost of service for Agriculture, Biosecurity and Mine Safety was higher than budget because of supplementation for drought transport subsidies, Livestock Pest and Health Authority reform and voluntary redundancies.

Personnel services revenue is higher than last year because superannuation charges were higher as a result of the global financial crisis. The Department passed on all the costs resulting from the unfavourable valuation of superannuation schemes relating to officers working at the Commission.

ADMINISTERED ACTIVITIES

The Department administers certain activities on behalf of the Crown Entity, including the collection of royalties. Mineral royalties and fees collected in 2008-09 totalled $1.3 billion ($573 million).

DEPARTMENT ACTIVITIES

The Department of Primary Industries supports the development of profitable primary industries that enhance the New South Wales economy through the sustainable use of natural resources. The Department's vision is to build vibrant communities through:

- strong economic performance of primary industries
- appropriate access to and wise management of natural resources
- safe, healthy and biosecure industries
- a stronger voice for primary industries
- excellence in people, innovation and service delivery.

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

CONTROLLED ENTITY

The Forestry Commission of New South Wales is a controlled entity, but is reported separately within this Volume.

Forestry Commission of New South Wales (trading as Forests NSW)

AUDIT OPINION

The audit of the Commission's consolidated financial report for the year ended 30 June 2009 resulted in a qualified Independent Auditor's Report. The qualification related to the uncertainty of the tax deductibility of $797 million plantation establishment costs for biological assets. The Independent Auditor's Report for 2007-08 drew attention to this matter.

The successful implementation of the discounted cash flow (DCF) method to value its biological assets resulted in the removal of my 2007-08 qualification on the value of native forests.

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

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

KEY ISSUES

Deferred Tax Liability

> I recommend the Commission continues to pursue a decision on the deductibility of plantation establishment costs, incurred prior to 1 July 1994.

The Commission included an amount of $797 million of forest plantation establishment costs in its deferred tax liability calculation. It is uncertain whether the amount is actually deductible until a ruling from the relevant stakeholders is given.

During 2008-09, the Commission discussed the deductibility of plantation establishment costs (incurred prior to 1 July 1994) for biological assets with its stakeholders. The Commission is awaiting a written decision from The Treasury before further liaison with the Australian Taxation Office.

Valuation of Plantations and Forests

> I recommend the Commission continues to improve its new valuation method for its plantation and forests, especially for native and hardwood estates.

The adoption of a new valuation method for both native forests and hardwood plantations resulted in negative cash flow projections. As a result, the valuation of these estates was nil in the 30 June 2009 financial report. If the Commission improves the profitability of both native forests and hardwood plantations, a value for these estates will be recognised in the financial report.

During implementation and review of the new valuation method the Commission and the Audit Office noted where improvements could be made for the 2009-10 valuation process.

The new method of valuation replaced the previous method as management believes it reflects normal market practice and provides a more accurate value of its forest and plantation assets. The affect of this change resulted in writing down the value of both hardwood plantations and native forests to nil ($68.0 million for hardwoods and $333 million for natives in the 30 June 2008 financial report). In addition, the value of softwood plantations declined to $670 million ($1.1 billion).

Land Valuation

I recommend the Commission arrange a full revaluation of its land in 2009-10.

Each year, agencies must consider whether there are impairment indicators for their assets. In 2008-09, the global financial crisis required most agencies, including the Commission, to consider whether land values had been impaired. As the Commission has land assets in excess of $1.0 billion this was an important issue for 2008-09. The Commission did not have documentation from its valuer that allowed me to conclude that impairment had been adequately considered. In order to avoid an audit qualification we liaised with the valuer and obtained the required documentation.

OTHER INFORMATION

Financial Performance

The following table shows the Commission's performance incorporating the financial impact of the new method of valuing its estates. Targets have not been included in the table as these were prepared using the previous method of valuing its estates and any comparison of performance against those targets is not appropriate.

Year ended 30 June	Actual	
	2009 $'000	2008 $'000
(Loss)/profit before tax	***(46,673)***	33,855
Dividend provided	--	1,000
Income tax credit/(expense)	***2,402***	(10,880)

The Commission's financial performance was significantly affected by the change in the method of valuing its estates which resulted in no dividend being provided.

Annual Report

The accounting and reporting process improvements made by the Commission contributed to its 2008-09 Annual Report being tabled in Parliament on time.

Other Control Issues

We have identified areas where opportunities exist to improve internal controls. These have been discussed and reported to the Commission, and include:

- management of recreation leave balances in excess of forty days, and
- improved inventory stocktake procedures.

FINANCIAL INFORMATION

The introduction of the new method to value the Commission's estates resulted in an adjustment to decrease opening equity at 1 July 2007 by approximately $899 million. The following financial statements are prepared based on the new method for valuing estates.

Abridged Income Statements

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Sale of timber and related activities	***262,893***	252,848	***262,893***	252,848
Other Revenue	***23,366***	40,947	***23,366***	40,947
TOTAL REVENUE	***286,259***	293,795	***286,259***	293,795
Contract harvest and haulage	***123,203***	113,038	***123,203***	113,038
Employee related	***134,698***	79,106	***141,629***	83,525
Other	***120,051***	94,560	***120,051***	94,560
TOTAL EXPENSES	***377,952***	286,704	***384,883***	291,123
(LOSS)/PROFIT BEFORE FAIR VALUE ADJUSTMENT	***(91,693)***	7,091	***(98,624)***	2,672
Change in fair value of estates	***45,020***	26,764	***45,020***	26,764
(LOSS)/PROFIT BEFORE TAX	***(46,673)***	33,855	***(53,604)***	29,436
Income tax credit/(expense)	***2,402***	(10,880)	***2,402***	(10,880)
(LOSS)/PROFIT AFTER TAX	***(44,271)***	22,975	***(51,202)***	18,556

Other revenue decreased by $17.1 million due mainly to the losses incurred on the disposal of roads and bridges.

Employee related expenses increased by 70.3 per cent mainly due to movements in personnel services liabilities owing to the Department of Primary Industries. The Department passed on all the costs resulting from the unfavourable valuation of superannuation schemes relating to Department officers working at the Commission.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***117,643***	118,525	***117,643***	118,525
Non-current assets	***1,754,222***	1,773,298	***1,754,222***	1,773,298
TOTAL ASSETS	***1,871,865***	1,891,823	***1,871,865***	1,891,823
Current liabilities	***122,837***	73,660	***109,581***	61,963
Non-current liabilities	***440,806***	452,864	***454,062***	464,561
TOTAL LIABILITIES	***563,643***	526,524	***563,643***	526,524
NET ASSETS	***1,308,222***	1,365,299	***1,308,222***	1,365,299

Current liabilities increased mainly from the unfavourable valuation of the superannuation schemes, as mentioned earlier.

COMMISSION ACTIVITIES

The Commission is a corporation sole constituted by the *Forestry Act 1916*. Its objectives include:

- conserving and utilising the timber on Crown-timber lands and other land it controls
- supplying timber from these lands for building, commercial, industrial, agricultural, mining and domestic purposes
- preserving and improving, in accordance with good forestry practice, the soil resources and water catchment capabilities of these lands
- encourage the use of timber derived from trees grown in the State.

It manages approximately 2.4 million hectares of native forests across New South Wales of which one million hectares is mapped as harvestable. The largest areas concentrated on the coast and coastal escarpment. The Commission has established softwood and hardwood plantations to complement these native forests. These include approximately 192,000 hectares of stocked areas allocated to softwood plantations and approximately 26,000 hectares of hardwood plantations.

The Commission is a controlled entity of the Department of Primary Industries. It is subject to the control and direction of the Minister for Primary Industries, except in relation to the contents of a recommendation or report made by it to the Minister.

For further information on the Commission, refer to www.dpi.nsw.gov.au/forests.

CONTROLLED ENTITY

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

Entity Name
Forestry Commission Division

New South Wales Rural Assistance Authority

AUDIT OPINION

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

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

PERFORMANCE INFORMATION

Rural Adjustment Scheme

This Scheme assists farmers through the provision of grants to a maximum of 80 per cent of the interest payable on farm related loans. The Commonwealth Government contributes 90 per cent of this Scheme's funding and the New South Wales Government covers the remaining ten per cent. The amount of subsidy can be up to $100,000 per year, to approved applicants. Special assistance is provided under the Exceptional Circumstances (EC) provisions of the Scheme, which requires areas to be specifically declared an EC area.

Exceptional Circumstances Interest Rate Subsidy – Primary Producers

Year ended 30 June	2009	2008	2007	2006
Applications received	***10,504***	9,081	10,183	5,649
Applications withdrawn	***15***	91	61	25
Applications declined	***765***	931	899	813
Applications approved	***8,741***	9,604	7,614	4,825
Amount approved ($m)	***246.1***	385.0	241.5	155.1
Pending 30 June	***1,430***	447	1,992	383

Source: NSW Rural Assistance Authority (unaudited).

In November 2006, the Commonwealth Government introduced EC assistance for small businesses in recognition of the extreme hardship that small rural businesses (those with less than 100 employees) were facing due to the drought and their direct reliance on primary producers.

Exceptional Circumstances Interest Rate Subsidy – Small Business

Year ended 30 June	2009	2008	2007
Applications received	***1,068***	1,030	640
Applications withdrawn	***4***	23	3
Applications declined	***222***	269	121
Applications approved	***785***	795	351
Amount approved ($m)	***17.6***	24.5	11.1
Pending 30 June	***165***	108	165

Source: NSW Rural Assistance Authority (unaudited)
na: not applicable.

Natural Disaster Relief Assistance Scheme

This Scheme provides loan funds to farmers and small businesses in rural and regional New South Wales to allow them to continue operations following a natural disaster (e.g. bushfires, hailstorms and floods). Assistance is by way of a concessional, fixed interest rate loan, to a maximum of $130,000. There is an interest and repayment-free period of two years followed by a maximum repayment term of ten years. The interest rate for loans for disasters occurring in 2008-09 was 2.85 per cent (2.85 per cent at 30 June 2008).

Additional assistance measures have been available since June 2007 as part of the Community Recovery Package to provide immediate relief to eligible primary producers and small businesses for clean-up and restoration costs in the aftermath of extreme natural disasters.

These measures include recovery grants of up to $15,000 which are made available to assist with urgent clean-up costs such as hire of equipment to remove debris, essential repairs to fittings and other basic restoration tasks. In June 2007, devastating floods and storms hit the Hunter and Central Coast regions. Recovery grants of up to $15,000 were made available to eligible farmers and small businesses.

Year ended 30 June	2009	2008	2007	2006
Applications received	***505***	3,288	268	169
Applications withdrawn	***15***	61	5	7
Applications declined	***110***	399	19	68
Applications approved	***186***	2,848	139	98
Amount approved ($m)	***11.3***	31.2	3.4	7.1
Pending 30 June	***304***	110	130	25

Source: NSW Rural Assistance Authority (unaudited)

Special Conservation Scheme

This Scheme is an incentive based scheme aimed at promoting improved land management practices in rural New South Wales. These loans are for up to 90 per cent of the net cost of eligible works to a maximum of $150,000. A maximum repayment term of 15 years is available with half yearly repayments in line with the client's cash flow. The interest rate applicable to the Scheme at 30 June 2009 was five per cent (5.5 per cent).

Year ended 30 June	2009	2008	2007	2006
Applications received	***371***	371	556	240
Applications withdrawn	***115***	45	155	77
Applications declined	***28***	125	49	37
Applications approved	***270***	204	319	137
Amount approved ($m)	***18.6***	11.7	12.8	5.4
Pending 30 June	***39***	81	84	51

FINANCIAL INFORMATION

Abridged Operating Statements

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Employee related and other operating expenses	***6,692***	7,502	***6,692***	7,502
Finance costs	***5,410***	4,516	***5,410***	4,516
Grants and subsidies	***270,519***	430,263	***270,519***	430,263
TOTAL EXPENSES	***282,621***	442,281	***282,621***	442,281
TOTAL REVENUE	***12,041***	25,452	***12,041***	25,452
NET COST OF SERVICES	***270,580***	416,829	***270,580***	416,829
Less government contributions	***273,487***	421,677	***273,487***	421,677
SURPLUS	***2,907***	4,848	***2,907***	4,848

Grants and subsidies decreased by $160 million in 2008-09 due mainly to a decrease in expenditure for the Rural Adjustment Scheme. The fall in expenditure was a result of a reduction in geographical areas eligible for EC assistance and a higher number of 'pending' applications at 30 June 2009 compared to the previous year.

Total revenue decreased by $13.4 million from the Commonwealth Government as there were less natural disasters this year than the previous year.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***46,484***	42,685	***46,484***	42,685
Non-current assets	***81,638***	67,674	***81,638***	67,674
TOTAL ASSETS	***128,122***	110,359	***128,122***	110,359
Current liabilities	***23,149***	22,240	***23,149***	22,240
Non-current liabilities	***82,044***	68,097	***82,044***	68,097
TOTAL LIABILITIES	***105,193***	90,337	***105,193***	90,337
NET ASSETS	***22,929***	20,022	***22,929***	20,022

The increase in current assets was due to a rise in cash held at year-end from $9.3 million to $25.2 million. Non-current assets and liabilities increased due to the extent of new loans issued throughout 2008-09.

ADMINISTERED ACTIVITY

Ovine Johne's Disease Transaction Based Contribution Scheme

The Ovine Johne's Disease Transaction Based Contribution Scheme is administered by the Authority. Separate commentary on this Scheme is included elsewhere in this Volume.

AUTHORITY ACTIVITIES

The Authority was constituted under the *Rural Assistance Act 1989*. Its principal function is to assist and administer financial assistance schemes for farmers and other eligible borrowers. The Authority is subject to the control and direction of the Minister.

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

CONTROLLED ENTITY

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

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

Entity Name	Website
Office of the Rural Assistance Authority	www.raa.nsw.gov.au

NSW Food Authority

AUDIT OPINION

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

OTHER INFORMATION

The 'Name and Shame' Register

The Authority maintains a 'Name and Shame' register, which gives consumers access to important food safety information. The register publishes the names of food businesses around the State that received penalty notices or convictions for alleged food breaches. In 2009, there were 1,180 penalty notices issued and the names of 671 food premises were published on the register. For 2008-09, the website generated 2.9 million hits and more than 570,000 users went to the register.

Food Regulation Partnership

The Food Regulation Partnership became law on 1 July 2008. Each of the 152 local councils in New South Wales became food safety enforcement agencies from that date. Local councils help the Authority monitor and regulate more than 36,000 food retail and food service businesses across the State. The new legislation defines the role of local councils and the Authority and allows both to work in a more strategic and structured way.

Compliance and Enforcement

The Authority investigates food businesses across the State for breaches of the *Food Act 2003*. It has enforcement strategies in place to ensure food sold in New South Wales is safe and correctly labelled.

The Authority issued 876 improvement notices in 2008-09 (1,245 in 2007-08). There were ten prohibition orders issued in 2008-09 compared to 17 in the previous year, indicating that most offenders correct their mistake. In 2008-09, there was a 98.9 per cent compliance rate following the Authority issuing a statutory improvement notice, a similar figure, 98.6 per cent, was recorded in 2007-08.

Activity	2009	2008
Improvement notices issued (a)	***876***	1,245
Prohibition orders issued (b)	***10***	17

Source: NSW Food Authority (unaudited).
(a) Issued where cleaning, repair, replacement, revision of a food safety program, implementation of a food safety program or implementation of the Food Safety Standards is required.
(b) Issued to control certain activities where there is failure to comply with an Improvement Notice or to prevent or mitigate a serious danger to public health.

Review of License Fee Structure

The Authority conducted a review of its licence fee structure in 2008-09. It plans to move towards a more equitable fee structure, based on the type of activity conducted and the size of the food business. The proposed changes are intended to make the system more transparent and simpler in terms of compliance and enforcement. Licence fees in New South Wales currently reflect arrangements of earlier commodity-based primary production regulators resulting in inconsistent licence fees between industries.

Vulnerable Persons Food Safety Scheme

In 2009, the Authority launched the 'Vulnerable Persons Food Safety Scheme'. The Scheme attempts to improve safety controls in food businesses serving vulnerable persons such as aged care facilities, hospitals and organisations that deliver meals. These groups are more susceptible to the debilitating effects of food poisoning. The new law requires hospitals and aged care facilities to be licensed with the Authority, undergo regular safety audits and have mandatory food safety programs that govern food handling, preparation, storage and transportation. In 2009, 242 safety audits were completed as a result of which 25 food businesses were issued improvement notices because of unsatisfactory matters identified during the audit.

FINANCIAL INFORMATION

Year ended 30 June	2009 $'000	2008 $'000
Grants and contributions	***11,747***	11,462
Industry levies and licence fees	***6,142***	5,602
Other revenue	***4,331***	4,089
Expenditure	***21,529***	20,804
Surplus	***691***	349
Net assets (at 30 June)	***7,407***	18,391

Grants and contributions are received from Government through the Department of Primary Industries.

Net assets fell due to the actuarial movement in valuation of superannuation liabilities.

AUTHORITY ACTIVITIES

The Authority monitors and regulates the safe production, processing, wholesale and distribution of all primary produce and seafood for human consumption from the paddock or ocean to the point-of-sale.

The Authority is under the control and direction of the Minister for Primary Industries. It was established under the *Food Act 2003* and also has certain legislative responsibilities under the *Dairy Industry Act 2000* and the *Meat Industry Act 1978*.

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

CONTROLLED ENTITIES

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

Entity Name
Milk Marketing (NSW) Pty Limited
Office of the NSW Food Authority
Pacific Industry Services Corporation Pty Limited

Milk Marketing (NSW) Pty Ltd

I recommended in this year's Client Service and Statutory Audit Reports that the Board of Milk Marketing (NSW) Pty Ltd review the company's constitution, the relevance of its stated objectives, and clarify the company's role in the current environment. The Board has agreed with our recommendation and will review its constitution in 2010.

Pacific Industry Services Corporation Pty Limited

The company has not been operating for a number of years. It will be wound up in 2010.

NSW Ovine Johne's Disease Transaction Based Contribution Scheme

AUDIT OPINION

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

The qualification related to a prior year's uncertainty regarding the Scheme's prime source of revenue – contributions paid by sheep producers (contributions). The Scheme did not have systems in place to ensure that all such transactions were accounted for. Accordingly, our audit of the contributions was limited to the amounts entered into the accounting records. This year no such contributions were required to be collected so the uncertainty did not exist.

FINANCIAL INFORMATION

Year ended 30 June	2009 $'000	2008 $'000
Expenses	***39***	326
Revenues	***47***	1,229
Surplus	***8***	903
Net assets (at 30 June)	***1,026***	1,018

The only income generated by the Scheme during 2008-09 was bank interest ($52,000 of interest in 2007-08). Last year $1.2 million of contributions were collected.

The main expenses incurred by the Scheme in 2008-09 were operating expenses of $29,000 ($146,000). Operating expenses mainly consisted of $20,000 for impairment of receivables. In 2007-08, $177,000 of contribution refunds was paid.

SCHEME ACTIVITIES

The Scheme, which commenced on 1 October 2005, was established under the *Agricultural Livestock (Disease Control Funding) Act 1998*, and provides for the collection of contributions of $0.20 per sheep and $0.10 per lamb sold (when the price paid per animal is equal to or greater than $10.00), to fund payments owed to producers under the OJD Industry Assistance Program and associated costs. Payments owed to producers were fully extinguished early in the 2007-08 financial year. As a result, the Scheme was suspended effective 31 October 2007, having fulfilled its purpose. An assessment of the Scheme has taken place and a Ministerial decision has been made to wind up the Scheme.

The Scheme is administered by the New South Wales Rural Assistance Authority.

Riverina Citrus

AUDIT OPINION

The audit of Riverina Citrus' financial report for the year ended 30 April 2009 resulted in a qualified Independent Auditor's Report in relation to the comparatives included therein.

Riverina Citrus previously relied on industry data to raise levies as it did not collect individual farm production data. This created a risk that Riverina Citrus did not raise levies for all rateable production. The Independent Auditor's Report on the financial report for the year ended 30 April 2008 was qualified because evidence that this risk might not have a material effect on the determination of "Grower Levies" could not be obtained.

Amendments to the *Agricultural Industry Services Act 1998* in December 2007 eliminated this risk as they allow Riverina Citrus to collect levies from wholesalers rather than growers.

FINANCIAL INFORMATION

Year ended 30 April	2009 $'000	2008 $'000
Revenue	***1,238***	1,204
Expenses	***983***	865
Surplus	***255***	339
Net assets (at 30 April)	***1,532***	1,278

The levy remained at $4.50 per tonne.

COMMITTEE ACTIVITIES

The Riverina Citrus Committee was established under the *Agricultural Industry Services Act 1998*. Its purpose is to promote the best interests of the citrus industry in the Murrumbidgee Irrigation Area (MIA) through pest and disease control; improved orchard management; product promotion and market development; and improved relationships among citrus fruit industry participants.

The Committee is funded by levies on producers of all citrus fruit in the MIA.

For further information on the Committee, refer to www.riverinacitrus.com.au.

Minister for Small Business

Refer to Appendix 1 for:

Small Business Development Corporation of New South Wales

Minister for State Development

Department of State and Regional Development

Refer to Appendix 1 for:

Ministerial Corporation for Industry

Department of State and Regional Development

AUDIT OPINION

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

PERFORMANCE INFORMATION

The table below shows some of the activities of the Department:

	Target*	Actual		
Year ended 30 June	**2009**	**2009**	**2008**	**2007**
Metropolitan projects assisted				
Investment committed ($m)	***420***	***1,184***	311	1,109
Forecast employment impact	***2,100***	***3,911***	2,900	2,312
Regional projects assisted				
Investment committed ($m)	***850***	***1,010***	792	1,612
Forecast employment impact	***4,000***	***4,181***	5,281	4,125
Total New South Wales tourism visitor nights				
Domestic numbers (million)	***81***	***77.5***	82.2	84.9
International numbers (million)	***57***	***60.5***	56.9	58.7
Science and medical research projects				
Number of projects	***53***	***98***	78	30
Funding to assist science and medical research projects ($m)	***34***	***35***	36	44

Source: Department (unaudited).
* Target per the 2008-09 Budget Papers.

In 2008-09, the Department secured or facilitated projects representing $2.2 billion ($1.1 billion) of capital investment, which are forecast to employ 8,092 (8,181) people. The level of investment committed and the employment impact will vary according to the nature of each project assisted.

Funding for science and medical research projects varies between financial years partly due to the timing of awarding financial assistance.

OTHER INFORMATION

Administration of Retail Tenancy Bonds

The Department administers a trust account with a balance of $99.8 million ($92.7 million in 2007-08) for retail tenancy bonds under the *Retail Leases Act 1994*.

The majority of the bonds held in trust are invested in the New South Wales Treasury Corporation Hour-Glass cash facility and earned $5.1 million in interest during the year. Amounts reimbursed to Bond Holders include an amount equivalent to interest, currently at the rate 0.01 per cent per annum. During the year, $4.0 million was paid from the trust account to the Consolidated Fund and $1.7 million was paid to the Department as a reimbursement of the cost of administering the *Retail Leases Act 1994*.

FINANCIAL INFORMATION

Abridged Operating Statement

Year ended 30 June	2009 $'000	2008 $'000
Employee related	***47,323***	44,672
Grants and subsidies	***62,254***	54,687
Other operating expenses	***25,145***	24,847
Other expenses	***59,838***	50,250
TOTAL EXPENSES	***194,560***	174,456
TOTAL REVENUE	***10,828***	12,560
NET COST OF SERVICES	***183,732***	161,896
Government contributions	***179,564***	162,692
(DEFICIT)/SURPLUS	***(4,168)***	796

Grants and subsidies increased by $7.6 million mainly due to increased participants in the payroll tax incentive scheme. This scheme provides a rebate for businesses investing in areas in New South Wales that have a higher than average unemployment rate. The scheme commenced in 1 July 2006, and operates over a five year period. A further four regional areas were added to the list of eligible locations in 2008-09 resulting in the increase in participants.

Other expenses increased mainly from funding to facilitate the V8 supercar racing event at Homebush Bay. The Government agreed to provide support of up to $35.0 million, which includes the cost of Government services over five years to facilitate the event. Funding of $7.3 million was allocated to meet 2008-09 commitments.

The increase in Government contributions of $16.9 million was largely to fund the additional expenditures referred to above.

Abridged Balance Sheet

As at 30 June	2009 $'000	2008 $'000
Current assets	***30,046***	34,984
Non-current assets	***5,560***	6,309
TOTAL ASSETS	***35,606***	41,293
Current liabilities	***11,163***	12,527
Non-current liabilities	***1,273***	1,428
TOTAL LIABILITIES	***12,436***	13,955
NET ASSETS	***23,170***	27,338

Abridged Service Group Information

The Department's net cost of services on a service group basis is detailed below:

	Net Cost of Services			Net Assets	
Year ended 30 June	**2009 Budget $'000**	**2009 Actual $'000**	**2008 Actual $'000**	**2009 Actual $'000**	**2008 Actual $'000**
State Development	***37,845***	***44,806***	37,435	***371***	918
Regional Development	***44,242***	***43,887***	30,912	***(3,441)***	(3,520)
Small Business	***19,908***	***14,729***	13,968	***720***	550
Science and Medical Research	***36,795***	***39,478***	40,683	***(639)***	(1,129)
Tourism	***36,893***	***40,832***	38,898	***(601)***	(322)
Not Attributable	-	-	-	***26,760***	30,841
Total of all service groups	***175,683***	***183,732***	161,896	***23,170***	27,338

* Target per the 2008-09 Budget Papers.

The main reasons for the net cost of services exceeding budget were the new funding for the V8 Supercar racing event referred to earlier, and an increase in tourism funding following the implementation of the NSW Tourism Strategy.

DEPARTMENT ACTIVITIES

The Department's objective is to win new business for New South Wales and develop the capacity and productivity of the State's economy by:

- promoting increased investment and economic growth for metropolitan and regional New South Wales
- sustaining growth of the tourism economy
- optimising the effectiveness of the New South Wales Government's investment in science and medical research.

The Department provides administrative support to the Ministerial Corporation for Industry and the Small Business Development Corporation.

On 27 July 2009, the 'Public Sector Employment and Management (Departmental Amalgamations) Order 2009' abolished the Department of State and Regional Development, and transferred its operations to the newly created the Department of Industry and Investment.

For further information regarding the Department, refer to www.business.nsw.gov.au.

Minister for Tourism

Refer to Appendix 1 for:

Luna Park Reserve Trust

Minister for Transport

Ministry of Transport

Public Transport Ticketing Corporation

Rail Corporation New South Wales

Rail Infrastructure Corporation

Roads and Traffic Authority of New South Wales

State Transit Authority of New South Wales

Sydney Ferries

Sydney Metro

Transport Infrastructure Development Corporation

Refer to Appendix 1 for:

Chief Investigator of the Office of Transport Safety Investigations

Independent Transport Safety and Reliability Regulator

Ministry of Transport

AUDIT OPINION

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

OTHER INFORMATION

Transfer of functions to the Department of Transport and Infrastructure

On 27 July 2009, the 'Public Sector Employment and Management (Departmental Amalgamations) Order 2009' transferred the functions of the former Ministry of Transport to the Department of Transport and Infrastructure. The Ministry of Transport was abolished.

Transport Concessions for University Students

I have previously referred to a review by the Ministry of processes and procedures for issuing transport concession cards to tertiary students. The review was undertaken following my enquiries into these arrangements and identified that procedures for removing cards from ineligible students were inconsistent.

The Ministry advised that it had improved its website information regarding concession arrangements and Tertiary Issuance Guidelines during 2008. Institutions are now required to recall the cards from ineligible students or remove the sticker/bitmap indicating eligibility from the student's identification card. The Ministry also indicated it would assess the impact of the improved guidance and changed requirements.

The Ministry is currently preparing a survey to gauge the effectiveness of the changed requirements across the full 2009 academic year. The survey will be distributed to tertiary institutions in December 2009 and will focus on the processes for cancelling concession entitlements, where appropriate.

Broadacre Agreement

In recent years, Reports to Parliament have provided background and progress on what is known as the 'Broadacre Agreement'. Under the agreement, Pacific National was obligated to construct grain consolidation facilities, to purchase 315 new grain wagons and to upgrade 800 existing grain wagons (under a 'Works Deed'). Other obligations included servicing silos and capping price increases ('Grain Haulage Services Deed').

The ‘Grain Haulage Services Deed’ expired on 14 November 2007. The ‘Works Deed’ has been subject to significant negotiations in the past few years after concerns from some stakeholders in the grain industry who believed investment in other assets may be more beneficial to the grain supply chain. As a result, the ‘Works Deed’ was replaced with a ‘New Works Deed’ effective from 30 June 2008 with the following alternative obligations:

- upgrading ‘81 Class’ locomotives tied to grain operations (to a value of $40.0 million)
- continuing to make available, until 30 June 2009, four train sets (comprising 180 wagons and 18 ‘48 Class’ locomotives with crew) to be billed on a marginal cost basis to users to a value of $30.0 million
- disposing of the restricted line train fleet at the direction of the Government and by accounting to the Government for the net proceeds (if any) after 30 June 2009.

During 2008-09, the Ministry selected GrainCorp Operations Limited as the New South Wales branch-line network operator. In accordance with the ‘New Works Deed’, the ownership of four light train sets (comprising 180 wagons and 18 ’48 Class’ locomotives) was transferred from Pacific National to GrainCorp. GrainCorp is now undertaking its own investment program on these assets.

The Ministry has entered into a five year Grain Rail Haulage Operating Agreement with GrainCorp to ensure the future of grain haulage services by securing a long term, sustainable operator for the New South Wales grain industry. The agreement requires GrainCorp to use these trains to consolidate grain from over 40 silos to the Werris Creek, Parkes, Temora and Junee sub-terminals for subsequent transfer on main lines to the Newcastle and Port Kembla port terminals.

The transfer of assets to GrainCorp completed the obligations relating to grain haulage services under the ‘New Works Deed’. The Ministry holds a security deposit of $40.0 million pending completion of the upgrade of the ‘81 Class’ locomotives.

NEXUS Taxi Licences

I have been reporting on the administration of the Nexus taxi licences since 2005.

As a result of a recent review into the administration of the Nexus scheme, the Government has signalled its intention to standardise Nexus arrangement through the issue of fresh licences which codify and make clear the Nexus conditions, including that:

- the Nexus licence can only operate while the accessible taxi is kept in operation
- Nexus licences can continue to be traded but only with their accessible pair
- licence pairs can only be traded to an authorised taxi network.

The Government has also indicated that no further Nexus licences will be issued. This approach requires legislative amendments which are currently before Parliament.

FINANCIAL INFORMATION

The following information relates to the Ministry's finances.

Abridged Income Statement

Year ended 30 June	2009 $'000	2008 $'000
Employee related	***38,747***	33,461
Grants and subsidies	***3,234,224***	2,545,907
Other expenses	***1,008,623***	889,161
OPERATING EXPENSES	***4,281,594***	3,468,529
OPERATING REVENUE	***80,075***	64,227
Loss on disposal of non-current assets	--	2,915
NET COST OF SERVICES	***4,201,519***	3,407,217
Government contributions	***4,169,459***	3,418,900
(DEFICIT)/SURPLUS	***(32,060)***	11,683

The increase in grants and subsidies reflects additional capital grants of $378 million paid to RailCorp compared to the previous year and new grants provided for the first time to Sydney Metro of $172 million. Other expenses have increased mainly due to additional costs related to the new Rural and Regional bus contracts.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***43,403***	84,895
Non-current assets	***459,999***	299,182
TOTAL ASSETS	***503,402***	384,077
Current liabilities	***52,832***	49,046
Non-current liabilities	***398,839***	251,240
TOTAL LIABILITIES	***451,671***	300,286
NET ASSETS	***51,731***	83,791

The increase in non-current assets and liabilities reflects bus acquisitions and financing arrangements under Metropolitan and Outer Metropolitan Bus System Contracts.

Overall, net assets decreased due to additional spending of $45.0 million on commuter car parks using Parking Space Levy funds.

Abridged Service Group Information

The Ministry's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget* $'000	2009 Actual $'000	2008 Actual $'000	2009 Actual $'000	2008 Actual $'000
Transport Planning, Policy and Infrastructure Programs and Initiatives	***862,201***	***1,483,813***	812,138	***38,725***	78,796
Targeted Transport Services	***597,208***	***648,368***	566,843	***(2,607)***	(2,724)
Transport Regulation, Service Provision and Contract Management	***2,217,186***	***2,069,338***	2,028,236	***15,613***	7,719
Total all service groups	***3,676,595***	***4,201,519***	3,407,217	***51,731***	83,791

Note: * Per the New South Wales 2008-09 Budget Papers.

The variance between budgeted and actual amounts is due to additional appropriations totalling $500 million that were received by the Ministry during the year that were not included in the original budget. The additional appropriations were mainly paid out as grants and subsidies to various agencies, including:

- Rail Corporation New South Wales
- Rail Infrastructure Corporation
- Sydney Metro
- Transport Infrastructure Development Corporation.

MINISTRY ACTIVITIES

The Ministry of Transport was established on 1 July 2003. Its role is to assist the Government in its objectives by:

- providing independent policy advice to the Minister for Transport
- providing financial, budgetary and strategic coordination within the transport portfolio
- managing regulation and contracting of transport services
- contracting for the provision of bus services in New South Wales
- administering a range of community transport programs.

For further information on the Ministry, refer to www.transport.nsw.gov.au.

Public Transport Ticketing Corporation

AUDIT OPINION

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

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

KEY ISSUES

Financial Viability

The Corporation recorded a deficit of $10.2 million for 2008-09 ($68.9 million in 2007-08). At 30 June 2009, current liabilities of $85.3 million significantly exceeded current assets of $10.7 million.

The Board determined that preparation of the financial report on a going concern basis was appropriate as continued Government financial support is guaranteed.

Tcard Project

The Corporation terminated its Tcard project on 23 January 2008 and commenced legal proceedings against the private sector contractor in the Supreme Court. The contractor responded by lodging a cross claim against the Corporation. The Corporation is taking all necessary action to recover funds spent on the Tcard contract.

Electronic Ticketing System for the Greater Sydney Region

On request from the Government, an Interagency Steering Group (the Group) was established in January 2008 to develop the scope for a new Electronic Ticketing System (ETS) for the greater Sydney Region. The Group completed its work in June 2008, with the Government giving in-principle approval to proceed to an Expression of Interest (EOI).

The Corporation released an EOI to the market for the new ETS in August 2008 and received fifteen responses. In March 2009, The Minister for Transport announced that three entities had been invited to participate in the Request for Proposal (RFP) stage. Two proposals were received and are being evaluated. The Corporation expects to sign a contract with the successful proponent by the first quarter of 2010.

FINANCIAL INFORMATION

Abridged Income Statements

Year ended 30 June	Consolidated		Corporation	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Government contributions	***11,834***	2,522	***11,834***	2,522
Other revenue	***1,361***	5,678	***1,361***	5,678
TOTAL REVENUE	***13,195***	8,200	***13,195***	8,200
Employee related expenses	***1,321***	1,429		--
Personnel services		--	***1,321***	1,429
Impairment of Assets	**-**	61,190		61,190
Other expenses	***22,107***	14,437	***22,107***	14,437
TOTAL EXPENSES	***23,428***	77,056	***23,428***	77,056
DEFICIT	***10,233***	68,856	***10,233***	68,856

The rise in other expenses is the result of increases in finance costs of $1.9 million, legal expenses of $3.7 million and consultants' fees of $2.2 million. The preparatory work on the new ETS and the litigation against the Tcard contractor contributed to the increased legal expenses and consultants' fees.

Abridged Balance Sheets

At 30 June	Consolidated		Corporation	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***10,693***	12,884	***10,693***	12,875
Non-current assets	***475***	191	***475***	191
TOTAL ASSETS	***11,168***	13,075	***11,168***	13,066
Current liabilities	***85,274***	76,948	***85,274***	76,939
Non-current liabilities	**--**	--	**--**	--
TOTAL LIABILITIES	***85,274***	76,948	***85,274***	76,939
NET LIABILITIES	***74,106***	63,873	***74,106***	63,873

Current liabilities have risen primarily as a result of an increase in borrowings from $71.2 million to $82.9 million at 30 June 2009.

CORPORATION ACTIVITIES

The Corporation's functions are to: provide ticketing and fare payment services to public transport in the State; and promote and facilitate the integration of ticketing products and fare payment systems for public transport.

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

CONTROLLED ENTITY

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

Entity Name
Public Transport Ticketing Corporation Division

Rail Corporation New South Wales

AUDIT OPINION

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

KEY ISSUES

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

Governance

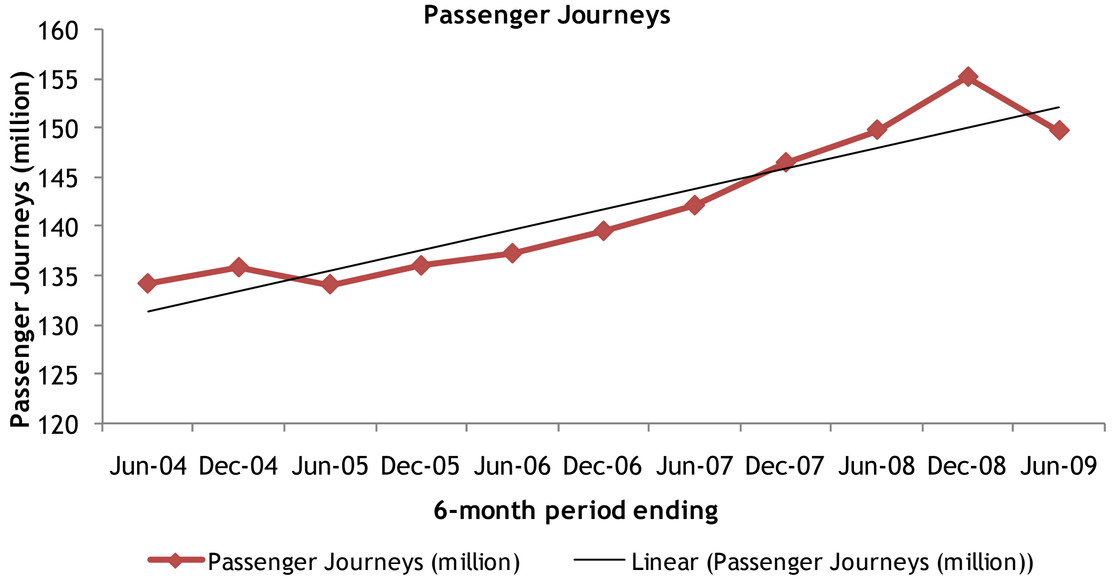
RailCorp became a statutory authority on 1 January 2009 by amendments made to the *Transport Administration Act 1988*. The change in its governance structure means RailCorp reports directly to, and takes directions from, the Minister for Transport. Previously RailCorp was a State owned corporation. In October 2008, the New South Wales Premier announced that the change in RailCorp's governance structure would result in increased accountability, enable greater Ministerial control of RailCorp's activities and ultimately improve service levels.

As part of the governance restructure, RailCorp will enter into a rail service contract with the Government (via the Department of Transport and Infrastructure). RailCorp is currently negotiating the rail services contract with the Department of Transport and Infrastructure. It expects the contract to be finalised in early 2010 and implemented before 31 December 2010. The service contract will include the terms and conditions RailCorp must adhere to for its CityRail services, performance standards, service alterations, community consultation and handling of complaints.

The introduction of a service contract is largely consistent with the findings by the Independent Pricing and Regulatory Tribunal (IPART) in its 'Improving CityRail's Accountability and Incentives' review. IPART found that the previous framework did not create incentives for RailCorp to provide its services at efficient cost levels while maintaining or improving service standards. IPART noted that the previous framework was not adequately specific, detailed or transparent.

Crowding on Trains

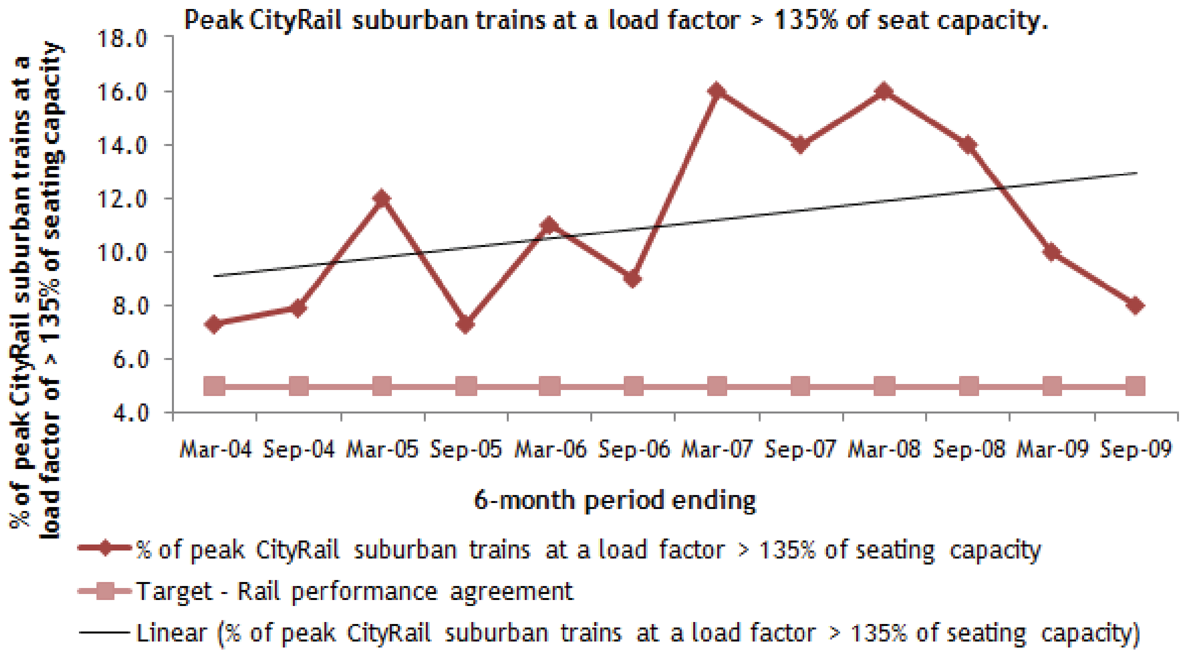
CityRail passenger journeys have increased by approximately 2.9 per cent, from 296 million in 2007-08 to 305 million in 2008-09. Whilst this exceeds the 2.5 per cent forecast growth, it is below the 5.2 per cent growth achieved in 2007-08. RailCorp advises that the current downturn in the economy, resulting in adverse effects on CBD employment, was the main reason for the reduction in patronage growth.



Source: RailCorp (unaudited)

Across the entire CityRail network, only the Blue Mountains (0.6 per cent) and South Coast lines (0.9 per cent) recorded a reduction in patronage from the prior year. Except for the East Hills (1.4 per cent) and South lines (1.9 per cent), all Sydney suburban lines recorded patronage growth of at least 2.0 per cent. The Sydney suburban lines that recorded the highest growth in percentage terms were the North Shore (6.1 per cent) and Northern line (3.4 per cent). RailCorp reports that the above average growth is largely due to the introduction of the Epping to Chatswood Rail Link (ECRL) plus significant improvements at Chatswood and North Sydney.

CityRail measures passenger loads on its peak services twice yearly. While loads on trains have recently been trending downwards, crowding on trains continues to be a major cause of passenger dissatisfaction, with over half of passengers dissatisfied with crowding at peak commute times. Refer to the section ‘Independent Survey of CityRail Customers’ for more details on customer satisfaction.



Source: RailCorp (unaudited).

The percentage of peak hour trains carrying more passengers than 135 per cent of seat capacity has consistently exceeded the target of five per cent set by the Minister in the Rail Performance Agreement. However, this is trending downwards with the percentage falling to eight per cent, or 21 trains in the September 2009 load factor survey which was mostly on the Western line (nine trains) and the Illawarra line (five trains). The maximum load observed on any train during the September 2009 survey was 180 per cent.

The September 2009 survey also showed that about 44 morning trains and 16 evening trains have passengers standing for more than 20 minutes. The Bankstown and Inner West lines had the highest percentages in the mornings while the Illawarra, Bankstown, Main North and Inner West lines had the highest percentages in the evenings.

To deal with increased crowding, RailCorp commenced some initiatives to boost capacity and expand the reach of the network including:

- implementing the Everyday Service Essentials Program. The program includes timetable optimisation to flatten intensity of the peaks, passenger education about less crowded service alternatives and active management of passengers on platforms at busy stations
- new Outer Suburban cars for the inter city lines, which frees up other cars to service other parts of the network and results in more six and eight car trains
- timetable changes in October 2009, which resulted in 8,000 additional seats in the morning and evening peaks
- the new Epping to Chatswood line, which frees up capacity on the Western Line.

Independent Commission Against Corruption (ICAC) Investigations

In December 2008, the ICAC completed Operation Monto, which investigated allegations that RailCorp employees and contractors acted fraudulently and/or engaged in bribery when procuring goods and services for maintenance purposes and track construction.

ICAC made 40 recommendations to help RailCorp address the systemic causes of corruption. They focused on improving deficiencies in procurement processes, management, policies and procedures, and executive and board oversight.

RailCorp has established a comprehensive program to implement the 40 recommendations and bring about a cultural change within the organisation. The 'everyday.integrity' program has been established at the executive level and includes time-frames and strict governance arrangements, including regular progress reporting to the RailCorp board, the Minister for Transport and ICAC.

I will shortly commence a review of actions taken by RailCorp to implement ICAC's recommendations. My review will focus on validating whether RailCorp has implemented its responses to ICAC's recommendations. I will report my findings to Parliament in 2010.

RailCorp's status in implementing the 40 recommendations at 30 September 2009 is listed in the table below. RailCorp advises that it has fully implemented 26 recommendations and has started implementing the rest, which it expects to have completed by 30 June 2010.

Focus of Recommendations		**Implementation Status**		
	Number of Recommendations made	**Fully Implemented**	**Partly Implemented**	**Not yet Started**
1- Deficiencies in Procurement Processes	15	9	6	--
2- Management Deficiencies	11	7	4	--
3- Deficiencies in Policies and Procedures	9	7	2	--
4- Deficiencies in Executive and Board Oversight	5	4	1	--

Source: RailCorp (unaudited).

Operation Monto found 31 individuals, including 14 RailCorp employees, had engaged in corrupt conduct. When considered as a whole, ICAC believed the findings indicated the organisational structure fostered endemic and enduring corruption, particularly in relation to procurement activities. ICAC found that since 2000, contracts with a value of approximately $19.0 million were awarded inappropriately in return for corrupt payments totalling over $2.5 million. ICAC is seeking advice from the NSW Director of Public Prosecutions with respect to over 650 offences that could result in possible future criminal prosecutions.

Additional Investigations conducted during the year

ICAC completed a separate investigation into the alleged corrupt conduct of a RailCorp contractor. The investigation found that in return for a plan to solicit $200,000 in corrupt payments over four years, the contractor improperly arranged for a contract to be awarded to a company for security guard auditing services.

In its report, ICAC made five recommendations which largely focused on improving training and awareness, and implementing additional audit procedures.

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

Shortage of Signal Engineers for Testing and Commissioning

RailCorp has implemented a number of initiatives to address the shortage of signal engineers who can test and commission new infrastructure assets, but a shortage still remains. This has led to increased project costs and delays in commissioning projects, such as the Rail Clearways Program.

Over the last 12 months, RailCorp increased its commissioning engineers from five to twelve staff and advises that it needs a further nine commissioning engineers to meet its projected workload. RailCorp advised that the twelve staff covers immediate needs, and it will need to carefully prioritise work until more staff are recruited.

Apart from recruiting locally and overseas, other initiatives implemented by RailCorp include:

- entering into an alliance with the private sector to gain access to more specialised skills and increase its signalling and electrical engineering capabilities. This alliance commenced in December 2008 and involves RailCorp and private sector staff working together in a long-term arrangement to deliver a defined program of signalling, electrical and related works within the CityRail network, over and above the current workload
- graduate programs to develop a pool of professional engineering staff with high level technical skills and managerial capabilities
- a range of reforms to train, develop and retain critical electrical and signalling engineers on an ongoing basis
- succession planning to identify potential successors and managers.

Rolling Stock Acquisitions and Replacement

RailCorp has commenced the following projects to improve and expand its rail fleet. Apart from the acquisition of 72 new Outer Suburban rail cars (Stage 3), all rolling stock acquisitions are late or running behind schedule.

As previously reported, with CityRail patronage growth in recent years being above the forecast of 2.5 per cent, the existing rolling stock acquisition replacement program appeared insufficient to deliver the required capacity. RailCorp advises that the Department of Transport and Infrastructure's long term rail plan addresses its fleet needs to the year 2036. The key initiatives of the plan will be reviewed and incorporated within the Government's 'Transport Blueprint' plan, which should be released by the end of the year. Refer to the Transport Services Overview comment earlier in this Report for more information on the 'Transport Blueprint' plan.

	Original Target Date	**Forecast Completion Date**	**Months late**	**Project Approval $m**	**Forecast Final Cost $m**	**Number of cars delivered at 30 June 2009**
14 new Hunter Valley rail cars	31/12/2005	10/09/2007[1]	21	102.0	109.0	14
41 new Outer Suburban rail cars – Stage 1	31/12/2006	31/12/2009[2]	36	171.5	171.5	40
81 new Outer Suburban rail cars – Stage 2	30/06/2008	31/12/2009[2]	18	267.9	279.0[3]	80
72 new Outer Suburban rail cars – Stage 3	30/06/2012	30/06/2012	--	370.0	370.0	--
626 new carriages via Public Private Partnership	05/09/2013	19/02/2014	5	--[4]	--[4]	--

1 Interim Practical Completion.
2 Interim Practical Completion of remaining 2 cars.
3 Increase also relates to Stage 1.
4 See comments below on PPP.
Source: RailCorp (unaudited).

Hunter Valley rail cars

Although all 14 cars had commenced passenger services by September 2007, practical completion will not be achieved until all remaining issues related to the cars are closed out, and the arbitration proceedings are finalised (see below). The increase in the forecast final cost is largely due to legal costs incurred on resolving a number of contractual disputes.

Outer Suburban rail cars - Stage 1 and Stage 2

During the year, a further four Outer Suburban rail cars achieved interim practical completion under Stage 1, bringing the total to 40 cars at 30 June 2009. The remaining car is the spare car and RailCorp expects to receive this by December 2009. RailCorp reports that manufacturing and testing delays experienced by the contractor were the main reasons for the forecast completion date being 36 months behind the original schedule. RailCorp will not grant practical completion until remaining issues arising from the interim practical completion are addressed.

The final four-car set of the Stage 2 Outer Suburban rail cars was delivered on 28 May 2009, a delay of eleven months from the original schedule. The remaining car is the spare car and RailCorp expects to receive this by December 2009. The increase in the forecast final cost is largely due to legal costs incurred on resolving a number of contractual disputes. RailCorp will not grant practical completion until remaining issues arising from the interim practical completion are addressed.

Outer Suburban rail cars - Stage 3

In March 2009, RailCorp signed a contract for the manufacture of another 72 new Outer Suburban cars. The total cost for this project is $370 million, which includes works for associated stabling facilities. RailCorp advises that the project is proceeding on schedule and on budget. Practical completion should be achieved by June 2012. RailCorp decided to acquire a further 72 cars so it could replace the older ‘V’ set cars which are nearing the end of their economic lives.

Acquisition of 626 new cars via Public Private Partnership

RailCorp entered into the Rolling Stock Public Private Partnership contract with Reliance Rail on 7 December 2006 to:

- finance, design, manufacture and commission 626 new double deck cars
- finance, design, construct, manufacture and commission a new maintenance facility for these trains in Auburn
- build new train simulators for training of RailCorp drivers and guards
- ensure 72 eight car trains are available for service every day over a period of about 30 years
- maintain the new trains, the maintenance facility and train simulators, to meet specified contractual performance standards, throughout their operational periods.

The 626 new cars will be progressively introduced into service from late 2010, with all cars expected to be in operation by February 2014, some five months late. Initially these new cars will operate on selected corridors, which have had their electrical infrastructure upgraded. Refer to the section ‘Electrical Infrastructure’ that appears later in this comment for more information.

Reliance Rail is investigating a faster manufacturing delivery rate so it can overcome the current five month delay. However, RailCorp advises it will not agree to a faster delivery rate until Reliance Rail can demonstrate it can deliver trains at a faster rate without compromising safety and reliability testing.

Two milestones payments, totalling $13.0 million, were made to Reliance Rail in 2008-09 following successful completion of the preliminary and critical design reviews. Milestone payments to date total $31.0 million. In addition to the milestone payments, RailCorp spent $81.6 million on ancillary works during the year.

Total payments by RailCorp to Reliance Rail, including finance costs, over the period of the contracts are estimated to be $9.7 billion in nominal dollars. The latest cost estimate is within the original approved budget. Estimated total cost over the term of the project, including contract costs, risks not transferred to the private sector, and ancillary RailCorp costs required for the delivery of the project, was $3.6 billion in net present value as at 30 June 2006. RailCorp reports that aside from a shift in cash flows to later in the project, there is no net change to the overall project budget.

RailCorp provides quarterly reports to the Minister for Transport, the Department of Transport and Infrastructure (formerly the Ministry of Transport), The Treasury and Cabinet Standing Committee on the progress of this project, including Reliance Rail's deliverables and RailCorp's commitments against the planned program, budget and proposed material variations.

Customer Service Improvement Program

RailCorp advises that it is implementing 30 of the 32 recommendations made by the Boston Consulting Group (BCG) in relation to customer service improvements. The two recommendations not to be fully implemented relate to operating a different train staff model, which involves the removal of train guards from trains, and the security model. BCG was engaged by the Government and RailCorp in 2007 to support the design and implementation of a major program to improve CityRail's customer service.

The implementation of the recommendations made by BCG is embedded in RailCorp's 'Everyday Service Essentials Program'. Since the commencement of the program and release of the Customer Charter, RailCorp advises that it has seen continued improvement in customer satisfaction. At the end of November 2009, RailCorp had implemented 19 of the 30 recommendations. RailCorp anticipates that the remaining 11 initiatives will be completed by 2012-13.

CityRail's Customer Charter

In December 2008, the Minister for Transport launched CityRail's first Customer Charter. The Charter outlines specific goals for improving customer service over the next three years, along with short term benefits expected to be achieved over the next 12 months.

The Customer Charter aims to improve the quality and consistency of CityRail's day-to-day service in seven areas of customers' basic needs, namely:

- on-time trains
- manage crowding
- fast, accurate, useful information
- secure and safe travel
- clean trains and stations
- fast ticket sales
- quick and fair complaint handling.

Within each of these areas in the Charter, RailCorp made a total of 20 specific improvement commitments that would be delivered in 2009. Like the 'Everyday Service Essentials Program', a large proportion relates to the delivery of recommendations made by BCG along with other major service enhancement commitments such as the opening of ECRL and the delivery of 40 Outer Suburban cars as part of Stage 2.

The Charter has clear and measurable customer service improvement targets in each area. RailCorp advises that at the end of November 2009, 19 out of the 20 improvement commitments had been delivered, with the remaining commitment on track for delivery in 2009. Some of its achievements included:

- completing work on City Circle signalling circuits to help reduce train delays in the peak periods
- beginning rolling stock maintenance reform to help ensure on time running
- improving train cleaning activities leading to more rubbish removals
- introducing 38 of the 40 Out Suburban cars into service to help manage crowding
- introducing faster EFTPOS facilities at Central Station and other hotspot ticket queuing stations to help faster ticket sales.

For more information on this program, refer to www.cityrail.info/about/customer_charter.

New timetable

A new CityRail timetable was introduced on 11 October 2009. RailCorp advises the timetable has reduced crowding while integrating the new Epping to Chatswood rail link into the network. Many bus timetables were also changed to facilitate connections with CityRail services.

RailCorp advises that the new timetable has provided a number of benefits for customers including:

- additional peak services on the South, Western and East Hills lines
- direct rail access to the Macquarie Park employment and education precinct through the new rail link from the Sydney CBD
- increase seating capacity by building up six-car trains to eight-car trains
- improve journey time for customer travelling between the upper Northern line stations and the north shore via the new link
- crowd relief at CBD stations
- more even spread of patronage across peak hour trains.

RailCorp advises that the new timetable delivered over 8,000 additional seats for the morning and afternoon peak periods. Most of these seats come from additional services, with three additional morning peak services and five additional afternoon peak services. Of the extra eight services, six are on the Western line, one on the South line and one on the Airport/East Hills line.

The extra 8,000 seats also came from building up existing six-car trains into eight-car trains. The South and Inner West lines received the most additional cars. However, the increase was offset by a reduction in seat capacity on other lines. The Airport/East Hills line had its morning peak capacity reduced by 484 seats, whilst the Bankstown line had its morning peak capacity reduced by 726 seats.

Overtime

Overtime payments by RailCorp represent a significant employee related expense. Total overtime paid to employees in 2008-09 was $126 million ($119 million), or 12.0 per cent (12.0 per cent) of RailCorp's salaries and wages for the year. A total of 366 employees (488 employees) were paid 50 per cent or more of their annual salary in overtime.

The table below shows the number of employees who were paid overtime, split by overtime paid as a percentage of annual salary.

Year ended 30 June	2009		2008	
Overtime paid as a percentage of annual salary	**Number of employees**	**Overtime paid $'000**	**Number of employees**	**Overtime paid $'000**
> 100%	--	--	5	288
90% - 100%	***4***	***232***	5	290
80% - 89%	***5***	***258***	12	503
70% - 79%	***27***	***1,053***	30	1,174
60% - 69%	***89***	***3,249***	106	3,593
50% - 59%	***241***	***7,739***	330	9,679
40% - 49%	***651***	***16,755***	692	16,578
30% - 39%	***1,394***	***27,040***	1,234	22,559
20% - 29%	***2,398***	***33,159***	2,287	29,422
10% - 19%	***3,114***	***26,391***	3,272	25,379
>0% - 9%	***4,159***	***10,251***	4,087	9,733
Nil overtime	***3,078***	--	2,985	--
Total	***15,160****	***126,127*****	15,045*	119,198**

* Number of employees includes all staff who received payments processed through the Payroll System during the year. It does not represent the RailCorp headcount as at 30 June.

** Overtime paid represents the total overtime earned by employees during the year. It does not equal the overtime expense recorded in the Financial Statements due to the effects of accrual accounting. The overtime expense per the financial statements was $128 million in 2009 ($120 million).

The table shows that 79.7 per cent (80.2 per cent) of employees at RailCorp received an overtime payment in 2008-09. The highest amount of overtime paid to any individual employee during the year was $67,000 ($75,000).

For 2009-10, RailCorp has set a target of overtime hours not exceeding nine per cent of ordinary hours worked in the year. Based on hours worked in 2008-09, meeting this target would result in overtime hours reducing by 15.8 per cent or nearly 400,000 hours. RailCorp has implemented a number of initiatives to achieve this, including:

- better control over overtime approval
- greater accountability for budgets
- improved relief arrangements
- review of rostering procedures
- new work procedures for drivers
- maintaining appropriate staff levels at depots
- recruitment of train controllers and signallers
- station staff reform.

PERFORMANCE INFORMATION

Performance Reporting

I recommend RailCorp leads discussions within the benchmarking communities on allowing participants to publicly measure and report performance against industry averages.

RailCorp's external performance reporting is primarily against internal targets. I 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.

RailCorp continued to compare its performance with other domestic and overseas organisations in 2008-09. Under the conditions of the confidentiality agreement signed with the Australasian Railway Association (national) and CoMET/Nova (international) benchmarking communities, RailCorp advises that it cannot report against the international benchmarks publicly. Whilst it is unable to publicly disclose the results, RailCorp advises that information obtained from the benchmarking exercises is considered when putting together its strategies and performance management.

I recommend RailCorp leads discussions within the benchmarking communities on allowing participants to publicly measure and report performance against industry averages. I note other benchmarking communities allow participants to publicly report performance against industry averages.

Fleet Failures

This year electric fleet failures impacting on peak period services decreased from an average of 56.6 to 44.6 incidents per month (i.e. 2.7 per cent of all carriages will suffer a failure during peak period services per month).

The table below provides an analysis of fleet reported faults for each train type monitored on a 24 hours basis.

Train Type**	No. of Carriages at 30 June 2009	Average Age (Years)	Average Monthly Carriage Reported Faults				
			Trend	Actual 2009	Rate* 2009	Rate* 2008	Rate* 2007
'R, S, L' Sets	***498***	32.0	~	***100***	***20***	19	23
'K' Sets	***160***	26.0	↓	***26***	***16***	16	22
'V' Sets	***224***	24.4	↑	***72***	***32***	31	29
'C' Sets	***56***	22.4	↑	***18***	***32***	29	23
Tangara – 'T' Sets	***378***	17.8	~	***88***	***23***	25	22
Tangara – 'G' Sets	***68***	14.4	↑	***17***	***25***	20	20
Millennium – 'M' Sets	***141***	5.6	~	***32***	***23***	24	17
OSCAR – 'H' Sets	***120***	1.2	↓	***21***	***18***	19	na
Total electric fleet	***1,645***	21.5	~	***374***	***23***	23	23

* Rates are measured as a percentage of total electric fleet
** See www.cityrail.info for more information.
na not applicable
Key: ↑ Trend upwards, ↓ Trend downwards, ~ No trend
Source: RailCorp (unaudited).

In 2008-09, 23 per cent of all carriages had a reported fault every month on average on a 24 hour basis. In 2008-09, the train sets 'R, S, L', 'V', 'C' and 'G' experienced more reported faults than the previous year.

At 30 September 2009, about 84 per cent (86 per cent) of RailCorp's electric fleet was more than ten years old, 63 per cent (59 per cent) more than 20 years old, and 26 per cent (31 per cent) more than 30 years old. Generally, the older trains experience more reported faults. Although 'R, S, L' and 'K' trains are older than other trains, they are less prone to reported faults than newer trains. Millennium trains are relatively new, yet their reported fault rate is higher than the 'K' and 'R, S, L' trains.

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

Fleet Maintenance

Maintenance expenditure on the electric fleet during the year exceeded the budget of $252 million by $13.6 million, while expenditure for the diesel fleet was $3.9 million above the budget of $55.6 million.

Fleet type	2009			2008		
	Actual $m	Budget $m	Variance $m	Actual $m	Budget $m	Variance $m
Electric Fleet	***265.6***	***252.0***	***13.6***	255.3	237.0	18.3
Diesel Fleet	***59.5***	***55.6***	***3.9***	53.2	54.5	(1.3)

The electric fleet maintenance expenditure was over budget mainly due to the completion of 254 component change-outs compared to the budget of 246. At present, RailCorp does not have data which splits maintenance costs by train set type. However, through its maintenance reform program it will establish standard maintenance times for all inspections and associated work orders. RailCorp will have maintenance costing data by individual car from December 2011.

At 30 June 2009, 63 cars' (98 cars') scheduled component change-outs were overdue, 35 less than the previous year. On average, the 63 cars are overdue by 133 days, with the longest overdue period for a car being 417 days. RailCorp advises that the backlog of component change-out does not affect the safety and reliability of the fleet and it believes it will clear the backlog by March 2011. The cost of this backlog in fleet maintenance is around $18.9 million ($25.0 million).

RailCorp advises that about 24 per cent (30 per cent) of incidents causing delays in peak periods are attributable to train failures. The reduction is largely due to the following initiatives:

- replacement of door motors
- revision of Technical Maintenance Plans for suburban and intercity electric train sets
- the performance of 'double-check' procedures by qualified trade and non-trade staff
- improving the productivity of the Flemington Maintenance Centre Wheel Mill
- working to reduce data logger servicing time.

As part of the 2008 Mini Budget, the Government committed RailCorp to implementing a maintenance reform program to achieve greater efficiencies in rolling stock maintenance. This followed findings from the Keith Clark review in 2007 and findings in the BCG report, which both concluded RailCorp's maintenance practices were not as good as the NSW private sector. The BCG report noted fleet maintenance performance was three times worse than the CoMET/Nova average.

During the year, RailCorp commenced its rolling stock reform program after its employees accepted, in principle, the outcomes from a further two independent reviews completed in late 2008. While significant changes to work practices should be implemented by March 2010, the reform program will not be completed until December 2012. Once fully implemented, the reform will result in improved efficiencies and savings of $10.0 million per year from 2012-13.

The reform program is likely to cost $25.0 million to implement, with the biggest component being information technology solutions for rostering and work order processes. Apart from efficiencies, the reform program should also lead to improved train availability and sustained reliability, higher customer amenity standards, and the establishment of a multi-skilled workforce. The key elements of the rolling stock reform program include:

- establishing a new workforce classification that will enable cross skilling of the workforce
- revising the technical maintenance plans and associated processes and procedures
- implementing new maintenance management systems and processes
- implementing new management structures.

Infrastructure Assets Maintenance

RailCorp advises that the safety and reliability performance of its infrastructure has improved significantly over recent years. This is reflected by a downward trend in the average number of monthly peak incidents attributable to infrastructure from 26.3 in 2005-06 to 19.2 in 2008-09. The average number of delays per month also decreased from 194.6 in 2005-06 to 87.7 in 2008-09.

Year ended 30 June	Trend	2009	2008	2007	2006
Number of incidents (Monthly Average)	↓	***19.2***	22.8	24.6	26.3
Number of delays (Monthly Average)	↓	***87.7***	136.3	152.5	194.6

Key: ↓ Trend downwards
Source: RailCorp (unaudited).

RailCorp advises that around 20 per cent (20 per cent) of incidents causing delays in peak period are due to infrastructure failures, of which 58 per cent (59 per cent) of these are signalling failures.

The 'Financial Gap' indicator is the difference between the actual funding level on the assets and the estimated 'steady state' funding level. This replaces the previous term 'maintenance backlog'. RailCorp advises that the financial gap for infrastructure assets at 30 June 2009 was $26.3 million ($28.6 million) and that, subject to funding, it will eliminate this gap by 2011-12.

The 'steady state' level for routine and major periodic maintenance on infrastructure assets will be maintained in 2009-10 via funding of $490 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.

Reliability Indicators

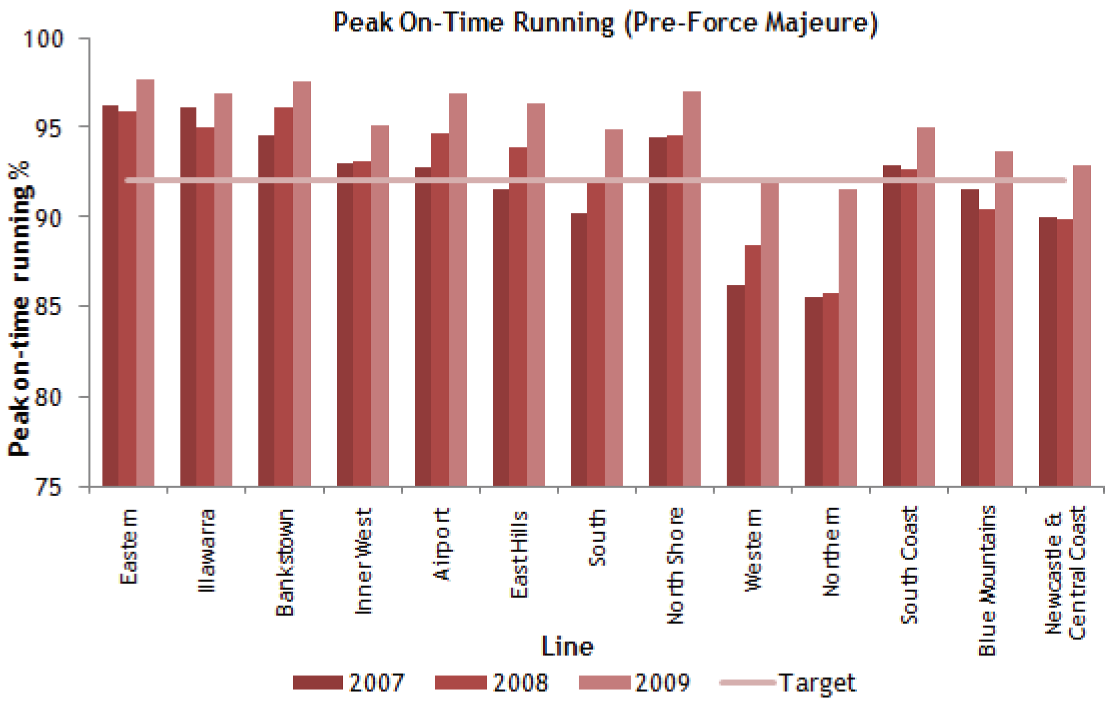
CityRail's on-time running performance during the year exceeded the target of 92 per cent, with 95.4 per cent of peak services arriving at their destination on-time.

While CountryLink on-time running performance improved significantly from 2007-08, it did not meet the target of 78 per cent. The last time CountryLink met its on-time running performance target was during 2002-03, when 79.3 per cent of services ran on-time. RailCorp advises that around 69 per cent of delays are caused by factors outside its control. External factors beyond its control include track possessions by the Australian Rail Track Corporation (ARTC), infrastructure failures, speed restrictions, sleeper replacement programmes and third party service failures.

Year Ended 30 June	Target	Actual*		
	2009	2009	2008	2007
Percentage On-time Running				
CityRail - suburban	***92.0***	***95.6***	93.0	92.3
CityRail - intercity	***92.0***	***93.7***	90.8	91.2
CityRail - total	***92.0***	***95.4***	92.7	92.2
CountryLink	***78.0***	***76.6***	70.5	73.7

* Before adjustment for force majeure.
Source: RailCorp (unaudited).

Apart from the Northern line, all lines on the CityRail network met or exceeded the target of 92 per cent. While the Northern line only achieved 91.5 per cent on-time running, this was a significant improvement on the 2007-08 result of 85.7 per cent. All lines achieved higher on-time running percentages than the previous year. The on-time running by line over the last three years is shown in the table below.



Source: RailCorp (unaudited).

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

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

Force majeure refers to incidents that are beyond the control of either CityRail or the customers. They come into effect when a single external event impacts on ten or more peak services and include those which do not reach their final destination, for example cancelled services.

Causes for cancellations of peak services are similar to those for on-time running. Trains may skip one or more scheduled stations to support on-time running. Performance indicators in 2008-09 for both cancellation of peak services and skipped stops were 0.4 per cent and 0.3 per cent respectively, which compare favourably to the target of one per cent.

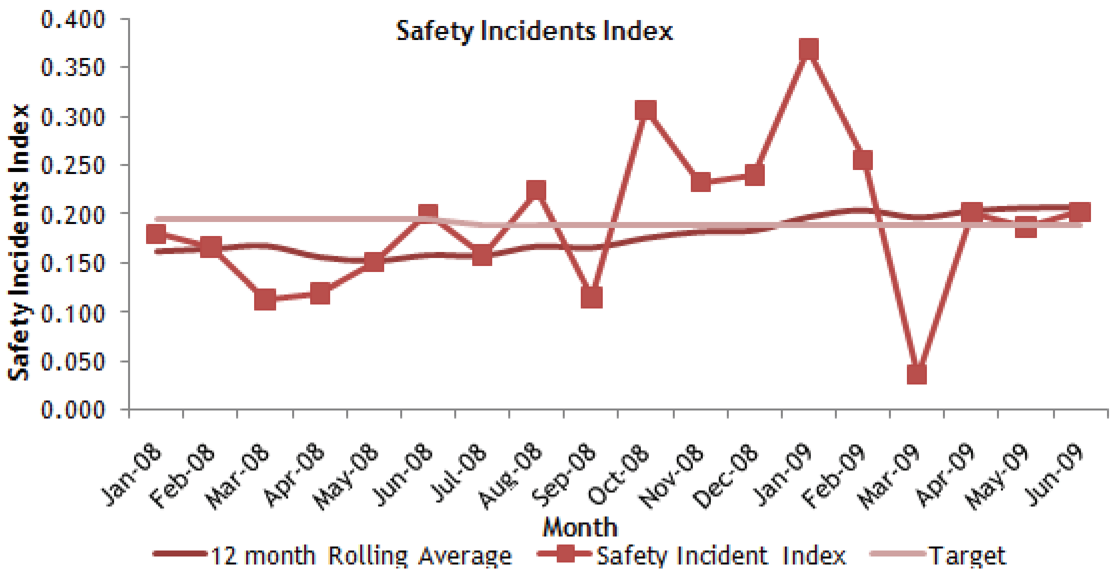
Safety Performance

RailCorp's key safety performance indicator, the Safety Incident Indicator, has trended unfavourably for most of the last 12 months. Within this measure there were 63 (47) defined safety incidents in 2008-09. The increase was largely due to rail problems, with 49 incidents (40 incidents) recorded during the year. RailCorp has implemented a number of initiatives to reduce the number of incidents.

Year Ended 30 June	Target*	Actual		
	2009	2009	2008	2007
Safety Incident Index (total number of defined safety incidents per million passenger journeys) based on 12 month rolling average	***0.188***	***0.207***	0.159	0.188

* This is the progressive target based on the target of 0.175 for 2010-11.
Source: RailCorp (unaudited).

The safety incident index by month, for the last 18 months, is shown in the graph below. The graph shows that RailCorp exceeded its target in eight of the twelve months during 2008-09. This has led to an unfavourable trend in the rolling average safety incident index.



Source: RailCorp (unaudited).

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

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

Capital Expenditure Program

Asset replacement through its capital expenditure program is a key focus for RailCorp in improving its safety and reliability performance. Capital expenditure was 24 per cent below the budget largely due to delays in a number of key projects and the timing of required expenditure. RailCorp's capital spend for the year is shown in the table below.

Year ended 30 June	**2009**		
	Actual $m	**Budget* $m**	**Below/(Over) $m**
Rail Clearways project	***296.1***	***343.0***	***46.9***
PPP rolling stock replacement	***94.6***	***106.3***	***11.7***
Traction supply upgrade	***16.0***	***33.4***	***17.4***
Easy access	***20.6***	***29.6***	***9.0***
North Sydney Station upgrade	***21.2***	***28.6***	***7.4***
South Sydney Freight Line	***8.8***	***25.0***	***16.2***
Digital train radio	***4.9***	***11.0***	***6.1***
Procurement transformation	***15.4***	***16.6***	***1.2***
Major plant	***15.8***	***18.5***	***2.7***
Communication system improvement	***10.1***	***15.1***	***5.0***
Stations upgrade	***8.4***	***21.6***	***13.2***
Heritage	***9.0***	***15.5***	***6.5***
Outer Suburban cars Stages 1 & 2	***21.5***	***15.9***	***(5.6)***
Outer Suburban cars Stage 3	***14.9***	***15.0***	***0.1***
All other capital projects	***176.6***	***272.0***	***95.4***
Total Capital Expenditure	***733.9***	***967.1***	***233.2***

* Revised budget.
Source: RailCorp (unaudited).

RailCorp advises insufficient resourcing was the main reason for RailCorp spending $46.9 million less than budgeted on the Rail Clearways project, with a significant focus in the year on successfully delivering the ECRL. The Transport Infrastructure Development Corporation (TIDC) is responsible for delivering this project. The lack of resources has resulted in design and construction delays on the project. Further information on the Rail Clearways Program can be found later in this comment.

The PPP Rolling Stock replacement program was $11.7 million below budget primarily due to changes in cash flows linked to the initial planned progress. RailCorp has now aligned its budget and program to Reliance Rail's activities so it can better manage cash flow. The underspend in 2008-09 is attributable to milestone payment claims not made during the year, a slower ramp up in project management cost, information technology costs and enabling works expenditure.

A delay in completing power studies was the main reason for the traction supply upgrade being $17.4 million below budget for the year. The lower than budgeted spend on the South Sydney freight line was largely due to delays encountered by ARTC and delays in compulsorily acquiring land. The South Sydney freight line is a joint project between RailCorp and ARTC to develop a dedicated freight line.

The $95.4 million underspend on 'All other capital projects' relates to a large range of projects. Major underspends include $20.5 million on Business Communication and Technology Upgrades; $9.6 million on Fixed Infrastructure Improvement; and $9.8 million on Property.

Customer Feedback

The total number of complaints made in 2008-09 decreased by 14.4 per cent or 3,581 to 21,236. The table below shows that apart from timetable related complaints, the number of complaints by KPI decreased from last year. Compliments increased by 6.4 per cent on the prior year.

Complaints by KPI	2009	2008	Favourable/ (Unfavourable)	Favourable/ (Unfavourable) (%)
Service	***3,170***	3,648	478	13.1
Staff	***2,957***	3,197	240	7.5
Ticketing	***2,510***	2,824	314	11.1
On-time running	***2,467***	3,795	1,328	35.0
Information	***1,938***	2,181	243	11.1
Safety	***1,645***	2,004	359	17.9
Cleanliness	***1,402***	1,656	254	15.3
Security	***1,391***	1,520	129	8.3
Environment	***1,370***	1,472	102	6.9
Facilities	***1,227***	1,340	113	8.4
Timetable	***579***	533	(46)	(8.6)
Claim	***294***	327	33	10.1
Internal matters	***286***	320	34	10.6
Total Complaints	***21,236***	24,817	3,581	14.4
Total Compliments	***2,173***	2,042	131	6.4

Source: RailCorp (unaudited).

Service replaced on-time running as the major area of complaint, representing 14.9 per cent of all complaints during 2008-09. Service relates to comfort and convenience of trains and stations, which includes the level of overcrowding and air-conditioning. The number of on-time running complaints reduced by 35.0 per cent to 2,467 complaints.

RailCorp advises that the increase in timetable complaints was largely due to feedback on the new timetable and the Christmas holiday timetable.

During the year, RailCorp implemented a new customer feedback process in response to the recommendations made in the BCG report. RailCorp advises that results from its quarterly customer feedback surveys show customer satisfaction with the complaints handling process is improving.

RailCorp has set itself a target of resolving phone and email customer complaints within five working days. For the period January 2009 to June 2009, the average days taken to resolve complaints was less than five days for all months except January. Phone complaints in January took an average of 7.9 days to resolve.

OTHER INFORMATION

Property Leases

> I recommend RailCorp review its capability and approach to managing its property lease portfolio.

At 30 June 2009, RailCorp was the landlord for over 1,100 property leases, of which, 696 (or 62 per cent) had expired. About 300 of the expired leases relate to sites being used for either retail, commercial or industrial sites and generate some $8.0 million of revenue each year. The remaining expired leases relate to sites of low value or limited alternative use. These sites are generally leased to community and government organisations who occupy adjoining properties and generate some $500,000 of revenue each year.

The number of expired leases suggests RailCorp needs to improve its management of its property lease portfolio.

RailCorp has commenced a review of the 300 expired leases to determine whether the rental charges on these properties reflect current market rent. It expects to complete this review by March 2010. RailCorp advises that whilst some of the leases expired as far back as the 1990's, the leases do contain annual holdover clauses. The holdover clauses include an annual adjustment (usually three per cent) to the rental charge.

Contractors

> I recommend RailCorp periodically review the roles and responsibilities of all its contractors to ensure:
>
> - its reliance on contractors is not excessive
> - using a contractor instead of a permanent employee is appropriate
> - contractors do not become de facto employees by virtue of being with RailCorp for an extended period of time
> - using a contractor continues to represent good value for money.

Around 690 contractors worked for RailCorp at 31 October 2009, filling vacant positions, working on projects or completing short term work assignments. RailCorp has only recently implemented a centralised contractors register, which may identify the number of contractors being more than 690 once it has been completed. RailCorp advised that the information included in this Report is the most accurate available as at 31 October 2009.

RailCorp advised that of the 690 identified contractors, 49 had been working for RailCorp for 1-2 years, whilst a further 19 had been working for more than two years. Two contractors working on the roll out of Outer Suburban cars have been with RailCorp for over six years.

RailCorp records also show that 164 of these contractors cost RailCorp at least $1,000 per day. If these contractors are employed for 12 months they would earn more than some of RailCorp's General Managers.

While the use of contractors has its benefits, particularly on projects, extensive reliance on this employment source generally results in higher employment costs to an organisation and less ownership and commitment to organisational goals and objectives.

Station Staff Reform

RailCorp is currently implementing its station staff reform program. The program will result in reduction of around 200 positions and a further six stations have become unmanned. At 30 June 2009, there were 63 unmanned stations across the CityRail network.

RailCorp is still implementing the changes from the program. It plans to complete all changes by the end of 2009. The changes should result in savings of $21.0 million per annum.

The station staff reform program was part of the 2008 RailCorp Union Collective Agreement. The program looked at identifying appropriate station staffing levels that would result in a balance between the requirements of safety, customer service and efficiency.

Electrical Infrastructure

In the latest annual review, RailCorp's Chief Engineer concluded that RailCorp's electrical infrastructure is safe and in good condition. However, the Chief Engineer did note that the network's capacity to meet future demand continues to be an issue.

The upgrade to electrical infrastructure is largely due to the introduction of the 626 air conditioned Waratah cars into the fleet to replace the 498 non-air conditioned 'R, S, L' sets. The Waratahs will also have significantly better acceleration characteristic and require more power to operate effectively. Other reasons include increasing the number of eight car sets, new infrastructure associated with the Clearways project and proposed new timetables to increase capacity.

RailCorp estimates it will need to spend $870 million over eight years upgrading its electrical infrastructure assets so it can operate future services without compromising reliability. At August 2009, RailCorp had received Government approval to proceed with upgrades totalling $511 million. While RailCorp has identified this upgrade program as high risk because of the short timeframes and resource constraints, it is confident the scheduled introduction of the new Waratah cars will not be affected. If critical upgrades are not completed before the scheduled introduction of the Waratah cars, RailCorp will use strategies to maintain service reliability, which could include revised operating procedures for trains and electricity substations.

Commuter Car Parking Program (CCPP)

RailCorp is managing the construction of three commuter car parks under the CCPP. The CCPP is made up of 28 commuter car parks, most of which are being delivered by TIDC. The CCPP will deliver around 7,000 new car spaces for rail commuters.

Details of the three car parks RailCorp is managing are listed in the table below. It appears that RailCorp will deliver the car parks within the original completion date and budget.

Location		Original completion date	Current forecast completion date	Original Budget ($m)	Revised Budget ($m)
1	Holsworthy	Dec-09	Dec-09	15.5	12.5
2	Morriset	Dec-09	Dec-09	4.5	4.2
3	Windsor	Jan-10	Jan-10	8.2	6.5
Total budget				28.2	23.2

Source: RailCorp (unaudited).

Information technology projects

RailCorp's capital works program at 30 June 2009 includes ten information technology projects whose revised budget is at least $5.0 million. The details of the ten projects are listed in the table below.

	Original Target Date	Forecast Completion Date	Months Late	Original Budget $m	Forecast Final Cost $m	Variation $m
Ellipse Upgrade*	May 2008	June 2010	25	4.9	5.3	0.4
Enterprise Content Management Technology Solution Implementation	April 2009	May 2009	1	4.9	5.7	0.8
Procurement Transformation	July 2009	Nov 2009	4	20.4	26.9	6.5
Timetable Distribution Management System Stage 2**	Dec 2009	April 2010	4	10.6	10.6	-
Virtual Plan Room - Stage 2&3	April 2010	Nov 2010	7	5.8	7.9	2.1
Station Passenger Improvement Rollout	June 2010	June 2010	--	8.7	8.7	--
Business Finance Improvement Build and Implementation	April 2011	April 2011	--	9.7	9.7	--
Central Station Emergency Warning & Preliminary Intercommunications system	June 2011	June 2011	--	8.4	8.4	--
Expansion & Support for the Automatic Ticketing Machine 08/09 - 10/11	June 2013	June 2013	--	21.4	21.4	--
Common Telemetry Infrastructure Program	Sept 2013	Sept 2013	--	22.7	21.8	(0.9)
Total Major ICT Projects				117.5	126.4	8.9

* Main upgrade completed in November 2008, except for Employee Self Service (ESS).
** RailCorp advised project currently under review in conjunction with associated projects.

Issues identified during tendering and roll out of the Procurement Transformation project have resulted in additional expenditure. The issues have also resulted in a phased delivery of the final stage, which has caused the four month delay in completing the project.

The seven month delay in the virtual plan room is due to RailCorp being unable to negotiate a contract with the preferred tenderer.

Commencing in May 2008, the Ellipse upgrade project includes introducing the employee self service (ESS) modules of Ellipse. It was expected that the ESS modules would operate within the RailCorp environment without significant changes. Subsequent analysis identified that the modules do not meet all RailCorp business requirements and further work is required before implementing the modules. This is the main reason for the 25 month delay in completing this project. RailCorp has completed and implemented all other aspects of the upgrade.

Independent Pricing and Regulatory Tribunal (IPART) Review of CityRail's fares

IPART applied a new method of determining fares to better reflect the different costs of providing services over different distances, to promote more equity and to make it easier when electronic ticketing is introduced in the future. Fares are now based on a fixed flag fall and a distance based charge.

In conducting its review of CityRail fares, IPART concluded that RailCorp could provide the same quality and quantity of service at a lower cost by improving its cost efficiency. It indicated that RailCorp could save around $1.0 billion cumulative in real terms over the four year price period. However, some of this saving relates to reducing the number of staffed stations (by lifting the patronage threshold, which determines whether a station should be staffed) and removing train guards. At this stage the Government has decided that it will not implement these cost saving initiatives.

One of the larger potential efficiency savings identified by IPART was in the number of head office staff. It identified that comparable passenger rail service providers' overhead costs are around 50 per cent lower than CityRail's. RailCorp has initiated a number of initiatives to reduce overhead costs.

Another efficiency saving identified by IPART was driver productivity. It found that RailCorp's CityRail train drivers spend less than 40 per cent of their shift driving trains. In other interstate jurisdictions drivers spend 60 to 75 per cent of their shift driving trains. RailCorp has acknowledged that they can increase productivity and it aims from 2011-12 to achieve cost savings.

In determining CityRail's revenue requirements, IPART excluded costs it deemed as inefficient. IPART concluded that around 70 per cent of RailCorp's annual revenue requirement should come from government subsidies, which reflects the value of CityRail's external benefits such as reduced road congestion, air pollution and greenhouse gas emissions. This means that average contribution by users of CityRail services is set at 28.5 per cent of efficient costs over the four year price period.

IPART determined the fares for CityRail services in December 2008. Its determination is for the period 1 January 2009 to 31 December 2012. Further information on the price determination can be found at www.ipart.nsw.gov.au.

Independent Survey of CityRail Customers

The Independent Transport Safety and Reliability Regulator (ITSRR) released its sixth annual survey of CityRail in September 2009. The survey found CityRail customers gave positive marks in a number of areas including train punctuality, the frequency of delays and cancellations, staff effectiveness dealing with security problems and communication with passengers.

The table below lists the five aspects of service that scored the highest percentage of satisfied customers. All of the 37 aspects of service rated in both the 2009 and 2008 surveys either remained stable or improved.

Aspect of service	Percentage of train users satisfied		
	2009 (%)	2008 (%)	2007 (%)
CityRail web site information service	***91***	91	90
Knowledge and helpfulness of staff	***89***	85	85
Politeness and friendliness of station staff	***88***	84	85
Station information on arrival and departure times	***88***	84	79
Signs to help find your way around the network	***87***	86	85

Similar improvements were also noted in the percentage of dissatisfied train users, with only one aspect of service recording a statistically significant deterioration from the prior year. The 2009 survey found that the percentage of train users dissatisfied with staff visibility on platforms outside peak commuter times (daytime) increased from 18 per cent in 2008 to 21 per cent in 2009.

Like the 2008 survey, crowding continues to be the area of greatest concern for CityRail customers. Over half of the customers surveyed were dissatisfied with the level of crowding in trains in peak times. The other areas of greatest dissatisfaction are listed in the table below.

Aspect of service	Percentage of train users dissatisfied		
	2009 (%)	2008 (%)	2007 (%)
Crowding in trains at peak commuter times	***51***	55	55
Availability of secure car parking	***42***	42	42
Staff visibility on platforms in the evenings	***41***	38	43
Personal safety in train carriages in the evenings	***37***	36	36
Clean and available toilets at stations and on trains	***35***	na	na

na: not applicable

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

Rail Clearways Program

The Rail Clearways program will separate the existing 14 metropolitan rail routes into five mainly independent clearways to reduce the sharing of critical infrastructure and train paths. This in turn will improve capacity and reliability on the CityRail network. The program now involves 13 key projects (previously 15 key projects before the 2008 Mini Budget) to build additional platforms, turnbacks and train crossing loops.

As part of the 2008 Mini Budget, the Government reviewed the priorities of the rail capital program to ensure new investments meet the growing demand needs on the CityRail network. As a result, two key projects of the Rail Clearways Program were cancelled. The revised Rail Clearways program is expected to be completed by 2015, some five years after the original completion date.

For further information on the Rail Clearways Program, refer to the comments on TIDC in this volume.

Epping to Chatswood Rail Line (ECRL)

Major construction and commissioning of the ECRL was completed during the year. The ECRL was handed to RailCorp on 19 December 2008 and passenger services commenced on 23 February 2009. The final forecast cost for the ECRL is $2.347 billion (excluding interest costs on borrowings).

The ECRL project was fully integrated into the CityRail network following the introduction of the new timetable in October 2009. Its integration has increased the overall network capacity by allowing additional services on the Western line.

RailCorp advises that approximately 11,500 passenger trips per day to the ECRL stations were observed in the first month following its opening. A 100 day fare free period was provided for potential users and visitors to try out the new line and view the new stations. After the fare free period was withdrawn, daily patronage reduced to approximately 8,000 passenger trips. RailCorp anticipates that the ECRL will generate additional patronage following its integration into the network as it now provides a new link to parts of Sydney which were previously not accessible by rail.

For further information on the ECRL, refer to the comments on TIDC in this volume.

Excess Annual Leave Balances

I recommend RailCorp continuously review the effectiveness of its policies and procedures for managing excessive annual leave balances.

Managing excessive annual leave balances remains a challenge for RailCorp. Over 900 employees have accrued either more than 40 days (non shift workers) or 50 days (shift workers) of annual leave at 30 June 2009 (over 1,100 employees at 30 June 2008). This represents 6.5 per cent (8.4 per cent) of all employees. At 30 June 2009, 13 employees (19 employees) have annual leave balances exceeding 100 days.

Excess leave entitlements can adversely affect an organisation. The impacts include an ever increasing financial liability because of salary rate increases, and pressure on cash flows when large payouts are made to departing employees. The health and welfare of staff can also be adversely affected if they do not take sufficient breaks from work.

RailCorp is improving its reporting systems so it can better manage excessive leave balances. Its Human Resources Group is also adopting a more proactive approach to ensure business groups are complying with RailCorp policies and the conditions of the employment award.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

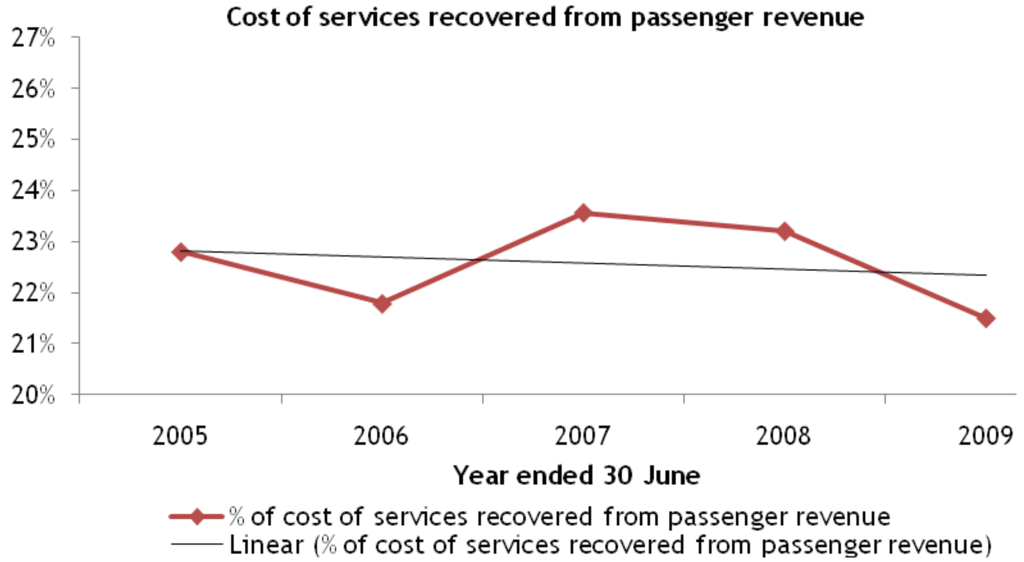
Year ended 30 June	2009 $'000	2008 $'000
Government reimbursement for services and concessions	***1,465,905***	1,495,901
Capital and other Government contributions	***932,880***	573,481
Passenger revenue	***660,814***	622,979
Other revenue	***277,232***	286,007
TOTAL REVENUE	***3,336,831***	2,978,368
Employee related	***1,308,774***	1,207,761
Depreciation	***703,262***	465,484
Other expenses	***1,060,637***	1,011,110
TOTAL EXPENSES	***3,072,673***	2,684,355
SURPLUS	***264,158***	294,013
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY		
Revaluation of property, plant and equipment	***165,627***	3,473,438
Unrealised foreign currency gains/(losses)	***(22,048)***	7,093
Superannuation actuarial loss	***(278,411)***	(99,743)
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***129,326***	3,674,801

The increase in capital and other Government contributions was due to a larger capital works program and a reclassification of funding for major periodic maintenance. This funding was previously provided to RailCorp as a reimbursement for services and concessions.

The increase in employee related expenses was mainly due to increases in rates of pay, whilst the increase in depreciation expense was primarily due to RailCorp revaluing its assets at 30 June 2008. The revaluation resulted in assets increasing in value by $3.5 billion.

The increase in passenger revenue was due to increased fares and patronage. The average increase in fares effective from 4 January 2009 was 7.5 per cent, whilst the number of passenger journeys on CityRail services increased by 2.9 per cent from the prior year.

In 2008-09, RailCorp's passenger revenue covered approximately 22 per cent of the cost of services provided. The cost of services recovered from passenger revenue has declined over the last two years, as shown in the graph below.



Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***380,234***	484,058
Non-current assets	***18,949,956***	16,634,258
TOTAL ASSETS	***19,330,190***	17,118,316
Current liabilities	***889,691***	896,265
Non-current liabilities	***374,451***	170,641
TOTAL LIABILITIES	***1,264,142***	1,066,906
NET ASSETS	***18,066,048***	16,051,410

The reduction in current assets was largely due to RailCorp using its cash reserves to pay off loans vested to it as part of the ECRL. The increase in non-current assets was also due to the ECRL vesting. TIDC vested physical assets with a value of $2.1 billion during the year.

The increase in non-current liabilities was largely due to the movement in defined superannuation liabilities. RailCorp had a liability of $182 million at 30 June 2009 (asset of $94.1 million at 30 June 2008).

CORPORATION ACTIVITIES

RailCorp became a statutory authority on 1 January 2009 by amendments made to the *Transport Administration Act 1988*. Previous to this RailCorp was constituted as a state owned corporation under the *State Owned Corporations Act 1989* and the *Transport Administration Act 1988*.

RailCorp provides passenger rail transport 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.

Rail Infrastructure Corporation

AUDIT OPINION

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

KEY ISSUES

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

Country Regional Network (CRN)

The Corporation has sought Expressions of Interest for the management and maintenance of the CRN. At present the CRN is managed and maintained by the Australian Rail Track Corporation (ARTC) under a 60 year management agreement. This agreement commenced in 2004.

The Corporation has advised that if it chose to terminate the 60 year management agreement it would not be liable for any penalties. However, it would be liable for disengagement costs. The actual disengagement costs will not be known until ARTC develops a disengagement plan.

The decision to enter into a new arrangement was made by the Government in the 2008-09 Mini Budget to achieve greater efficiencies and increased innovation. The Corporation expects to award a contract in mid 2010.

The Corporation paid $185 million to ARTC in 2008-09 to manage and maintain the CRN ($165 million in 2007-08).

Gap to Narrabri improvements

During the year the Corporation completed substantial work on the Gap to Narrabri capacity improvements project. The project has resulted in increased track capacity for freight services in the north west of the State.

The Corporation and two mining companies executed a project deed in February 2009, which contractually requires the companies to pay for the improvements. The mining companies have also provided bank guarantees to the Corporation to minimise the risk of any costs being borne by the Government.

Under the project deed, the mining companies will repay costs incurred over a 15 year period. In return the Corporation will provide specified access capacity to the mining companies to enable the transport of coal to the Newcastle port. The payments by the mining companies for access paths will cover the Corporation's repayments to New South Wales Treasury Corporation for loans it has taken out to finance the project.

At 30 June 2009 the Corporation had spent $51.9 million on the project. It expects to complete the project by February 2010 at a total direct cost of $59.4 million.

OTHER INFORMATION

Major Capital Projects

The Corporation spent $125 million on capital works in 2008-09 ($70.7 million). The original and current direct cost estimates and service delivery dates for major capital projects are listed in the table below.

Project	Original Completion Date	Forecast Completion Date	Months late	Original Budget April 2008	Forecast Final Cost	Total Costs to 30 June 2009
				$m	$m	$m
Steel resleepering program	June 2009	June 2009	--	41.7 [1]	47.0	***47.0***
Gap to Narrabri improvements	June 2009	February 2010	7	50.0 [2]	59.4	***51.9***
Signalling & train control systems	June 2009	July 2010	13	32.0 [3]	28.8	***21.3***

Source: Rail Infrastructure Corporation (unaudited)
1 The budget was revised to $52.4 million during 2008-09.
2 The budget was revised to $59.4 million during 2008-09.
3 The budget was revised to $28.8 million during 2008-09.

During the year the Corporation installed 297,338 sleepers under the annual resleepering program at a cost of $47.0 million. This was slightly above its target of 297,106 sleepers.

The increase in the cost to complete the Gap to Narrabri improvements project is largely due to tender prices being higher than original estimates for the last stage of the project. The two mining companies have agreed to fund the forecast final cost. The seven month delay in the project is mainly due to a local council requesting replacement of a road bridge. As a result the Corporation had to alter the bridge design and go out to tender for its construction. Despite this delay, the rail capacity improvement component of the project was completed and commissioned prior to 30 June 2009.

Whilst the signalling and train control systems project has been delayed by 13 months, the Corporation expects to complete the project within the original budget of $32.0 million. The Corporation advises that the delay was due to the contractor requiring more time to develop the required computer software.

Maintenance activities

The table below shows the Corporation increased its maintenance spend to $135 million in 2008-09 ($105 million) excluding major capital projects. This contributed to a reduction in backlog maintenance and improved the CRN's condition. However, the Corporation still has a significant amount of backlog maintenance. At 30 June 2009, backlog maintenance totalled $698 million ($815 million).

Year ended 30 June	2009 $m	2008 $m
Actual maintenance expenditure*	***134.8***	104.7
Backlog maintenance:		
- Timber sleepers	***555.0***	665.0
- Timber under bridges	***86.0***	90.0
- Timber over bridges	***57.0***	60.0

Source: Rail Infrastructure Corporation (unaudited).
* Excludes major capital projects

The Corporation's maintenance spend in 2008-09 was $30.1 million (or 28.7 per cent) higher than the previous year. This was consistent with budget, with only $1.4 million of infrastructure maintenance work being carried forward to 2009-10.

Despite the existence of backlog maintenance, the Corporation advises that the safety of the network is never compromised. It also advises that based on its asset management plan, current funding allocations and appropriate indexation of funding allocations, it should clear the backlog over the next 15 years.

As a result of the Corporation's maintenance activities and investment in capital works, the condition of the CRN has marginally improved based on the Corporation's track quality measure.

Australian Rail Track Corporation Lease

ARTC has provided the Corporation with the 2008-09 Annual Asset Condition Report for the Leased Network. The Corporation has reviewed the report and advised that ARTC met all key performance indicators under the lease agreement.

The Leased Network is made up of the Hunter Valley and Interstate network. It was leased to ARTC for a period of 60 years from September 2004.

Career Transition Centre

The Corporation continued to maintain responsibility for the management of displaced staff during the year. The staff became displaced following the transition of functions to RailCorp and ARTC. The staff are managed through the Career Transition Centre (CTC).

Since inception of the CTC in September 2004, 633 staff members have been permanently redeployed and 2,198 have accepted voluntary redundancy. Redeployed staff comprise 282 redeployments to other government agencies and 351 transfers to ARTC.

The Corporation has advised that as at 13 November 2009 all displaced staff have been either redeployed or have exited the Corporation's employment and the CTC was closed.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	2009 $'000	2008 $'000
Government contributions	***263,889***	202,500
Access fees	***16,182***	16,987
Other revenue	***15,912***	14,581
OPERATING REVENUE	***295,983***	234,068
Employee costs	***5,483***	16,808
Superannuation	***6,446***	8,756
Depreciation	***128,324***	131,844
Maintenance and materials	***99,071***	98,471
Tripartite agreement payment	***23,239***	50,000
Finance costs	***1,882***	447
Other expenses	***22,963***	9,797
OPERATING EXPENSES	***287,408***	316,123
SURPLUS/(DEFICIT)	***8,575***	(82,055)
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY		
Revaluation of property, plant and equipment	**--**	7,112
Transfer to accumulated losses	**--**	(6,825)
Superannuation actuarial (loss)/gain	***(14,557)***	34,894
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***(5,982)***	(46,874)

The increase in government contributions was largely due to a $74.2 million contribution to pay for the Corporation's redundancy and transition costs.

The reduction in employee costs was due to a reduction in staff. At 30 June 2009, the Corporation had 44 staff (108 staff). The increase in other expenses was largely due to a one-off non cash adjustment associated with the transfer of the Corporation's workers' compensation liabilities. The Corporation's net liability of $35.2 million was transferred to the Crown effective 1 October 2008.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***68,394***	67,496
Non-current assets	***2,133,922***	2,144,851
TOTAL ASSETS	***2,202,316***	2,212,347
Current liabilities	***55,601***	146,928
Non-current liabilities	***163,666***	111,605
TOTAL LIABILITIES	***219,267***	258,533
NET ASSETS	***1,983,049***	1,953,814

Non-current assets include $2.0 billion of trackwork and infrastructure assets (mainly the residual CRN).

The decrease in current liabilities was largely due to the Corporation settling its severance liabilities during 2008-09. The increase in non-current liabilities was mainly due to Corporation taking out borrowings of $54.5 million to fund the Gap to Narrabri improvements project.

CORPORATION ACTIVITIES

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

The two shareholders of the Corporation at 30 June 2009 were the Treasurer and the Minister for Transport.

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

Roads and Traffic Authority of New South Wales

AUDIT OPINION

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

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

KEY ISSUES

Handback of M4 Motorway

I recommend the Authority's valuation of the M4 motorway in its financial report include an assessment of the physical condition of the motorway.

In 1989, the Authority contracted with a private entity to build, own and operate sections of the M4 for 20 years. The entity operated the motorway for the contract period and collected about $970 million in tolls. It will handback the M4 to the Authority on 15 February 2010.The Authority estimated and recorded the value of the M4 at $207 million in its 30 June 2009 financial report. However, this valuation was not supported by an assessment of the physical condition of the motorway. The Authority has advised that an engineering assessment is currently being performed to assess the physical conditions of the M4 assets.

In October 2009, our Performance Audit Branch reported on the handback arrangements of the M4.

PERFORMANCE INFORMATION

The Authority provided the following information regarding its performance:

Maintenance of State Roads

I recommend the Authority develop strategies to achieve its annual target of rebuilding two per cent of its road pavements to ensure the long term sustainability of its roads.

The pavement rebuilding represents the percentage of the road surface area repaired for structural damages to the total area of road surfaces. The Authority achieved its short term target of one point one per cent, but not its long term target of two per cent. The Authority advised that this target is unlikely to be achieved under the existing funding arrangements.

Year ended 30 June	Target	Actual			
	2009	2009	2008	2007	2006
Road maintenance expense ($m)	***674***	***695***	671	688	680
Pavement rebuilding rate (%)	***1.1***	***1.2***	1.1	1.1	na

Source: Roads and Traffic Authority of New South Wales (unaudited).
na: not applicable

For 2009, the Authority determined a short term pavement rebuilding rate of 1.1 per cent whilst retaining its long term target at two per cent.

Ride Quality and Pavement Durability

Ride quality measures the 'roughness' of travel over road surfaces (including national highways) and is a primary indicator of road condition. Pavement durability measures road surface cracking on sealed state roads. These measures, as a percentage of total roads, over the last four years have been:

Year ended 30 June	Target	Actual			
	2009 %	2009 %	2008 %	2007 %	2006 %
Ride quality					
Good	***88.6***	***89.1***	88.6	87.9	87.5
Fair	***7.2***	***7.0***	7.2	7.7	7.9
Poor	***4.2***	***3.9***	4.2	4.4	4.6
Pavement durability					
Good	***78.0***	***76.3***	78.0	76.5	78.1
Fair	***13.5***	***15.0***	13.5	14.0	12.4
Poor	***8.5***	***8.7***	8.5	9.5	9.5

Source: Roads and Traffic Authority of New South Wales (unaudited)

Road Safety Performance Outcomes

The New South Wales Government State Plan issued in November 2006 (State Plan) included safer roads as one of the priorities. The State Plan target is to achieve 0.7 road fatalities per 100 million vehicle kilometres travelled by 2016.

The Authority has achieved the State Plan target in recent years through strategies implemented by the 'Executive Road Safety Management Committee'. However, in spite of the efforts of the Authority, total fatalities in absolute numbers increased by 68 in 2009, which the Authority mainly attributes to speed related factors.

Statistics on fatalities and injuries from road traffic crashes were:

Year ended 30 June	**Actual**				
	2009	**2008**	**2007**	**2006**	**2005**
Road fatalities per 100 million vehicle kilometres travelled*	***0.70***	0.61	0.71	0.86	0.82
Total Fatalities	***454***	386	442	536	503
Key Factors include**					
Speed related	***180***	134	163	205	197
Fatigue related	***71***	67	84	103	82
Illegal level of alcohol***	***89***	78	92	109	88
Seat belt fitted but not worn	***57***	41	51	59	67
Total Injuries***	***21,855***	24,778	26,065	25,125	25,732
Key Factors include**					
Speed related	***3,557***	4,041	4,221	4,298	4,381
Fatigue related	***1,938***	2,037	2,018	1,939	1,890
Illegal level of alcohol	***1,254***	1,487	1,470	1,429	1,389
Seat belt fitted but not worn	***308***	326	335	340	365

Source: Roads and Traffic Authority of New South Wales (unaudited).

* Fatality and population figures for 2007-08 and 2008-09 are provisional and subject to change. Fatality rates for 2007-08 and 2008-09 have been calculated using projected estimated travel growth since 2007

** Factors are not mutually exclusive. For example, a speed related fatality may also involve illegal levels of alcohol. In this case the fatality would be counted in both the speed related and the illegal level of alcohol categories

*** Injuries and illegal level of alcohol for 2008-09 are as at August 2009

Average Travel Speed on Seven Major Routes to and from Sydney

The State Plan also charges the Authority with improving the efficiency, as measured by travel speeds, of Sydney's major roads during peak times.

Average speed trend for seven major routes to and from Sydney:

Year ended 30 June	Actual Speed (km/h)				
	2009	2008	2007	2006	2005
Morning Peak Speeds					
F3/Pacific Highway/F1	***35***	35	35	38	35
M2/Lane Cove Tunnel/Gore Hill Freeway**	***36***	31	38	36	34
M4/Parramatta Road/City West Link	***29***	28	25	31	32
M5/Eastern Distributor	***41***	34	40	44	39
Pittwater Road/Military Road/F1	***26***	26	27	25	27
Princes Highway	***30***	28	28	28	28
Victoria Road	***21***	23	22	23	22
Combines seven routes*	***31***	30	30	32	31
Afternoon Peak Speeds					
F3/Pacific Highway/F1	***50***	52	45	52	50
M2/Lane Cove Tunnel/Gore Hill Freeway**	***66***	61	47	40	39
M4/Parramatta Road/City West Link	***39***	40	38	43	41
M5/Eastern Distributor	***56***	48	50	50	52
Pittwater Road/Military Road/F1	***38***	39	38	40	39
Princes Highway	***32***	36	35	36	33
Victoria Road	***33***	32	31	32	32
Combines seven routes*	***43***	43	41	42	41

Source: Roads and Traffic Authority of New South Wales (unaudited).
* Combined seven routes average speed was calculated by the total travel distance over total travel time of the seven routes
** From 2007-08, the Lane Cove Tunnel is part of the M2 corridor (formerly parallel sections including Epping Road)

Management has provided us with the following analysis of the above data:

- the morning peak speed increase on the M2/Epping Road/Gore Hill Freeway was due to improved speeds west of Pennant Hills Road
- Victoria Road was the only route with a decrease since 2008 in travel speeds in the morning peak. The Authority is currently implementing measures to improve the inner sections of the route with a focus on bus priority
- the Authority could not identify specific reasons for the increase in the afternoon peak for the M5/Eastern Distributor corridors
- the increase of the M2/Lane Cove Tunnel/Gore Hill Freeway followed general improvements in traffic patterns adjusted to the opening of Lane Cove Tunnel and widening of the Gore Hill Freeway and sections of the M2 westbound in 2007-08.
- the travel speed on the Princes Highway in the afternoon peak decreased notably due to road works.

OTHER INFORMATION

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

Engagement of Legal Contractors

I recommend the Authority ensures it adequately documents its decisions relating to engagement of contractors as required by the Guidelines for Engagement and Use of Consultants issued by the Department of Premier and Cabinet.

In compliance with recommendations of the NSW Ombudsman, the Authority asked me to review certain matters which arose in the context of the Ombudsman's investigation of the Authority's handling of two applications made under the *Freedom of Information Act 1989*.

The review identified departures from the Guidelines in the documenting of the Authority's decision making relating to the engagement of a legal contractor.

Skill Hire Employees

I recommend the Authority review its skill hire practices to ensure it does not contravene established policies, income tax legislation and industrial relation matters relating to employment arrangements.

Skill hire (contract employees) is a short term employment option used by the Authority for a period of generally not more than one year. The cost of skill hire for the year amounted to $64.2 million ($55.2 million in 2008).

The Authority continues to employ a number of contractors for longer than one year. Some contract staff have been engaged for over 20 years.

The number of contract employees and the duration since the current skill hire contract start date is shown below:

Year end 30 June	**Number of contract employees**	
	2009	**2008**
Duration since current skill hire contract start date		
Over 6 years	***61***	71
5 - 6 years	***11***	14
4 - 5 years	***16***	17
3 - 4 years	***30***	26
2 - 3 years	***73***	64
1 - 2 years	***241***	124
less than 1 year	***372***	285
Total	***804***	601

Source: Roads and Traffic Authority of New South Wales (unaudited).

Retention of contract employees for long periods of time may result in additional costs. This practice may also give rise to industrial relation issues. The Authority needs to review its practices relating to contract employees to ensure it is achieving the desired outcomes from these practices and is complying with all applicable laws and regulations.

Overtime (Repeat Issue)

I have previously recommended the Authority review its overtime approval procedures and monitor overtime levels to ensure overtime is effectively managed and achieves desired outcomes.

Top 10 overtime earners:

Employee	2009			2008		
	Percentage of Overtime to salary	Annual Salary $'000	Overtime $'000	Percentage of Overtime to salary	Annual Salary $'000	Overtime $'000
A	***139***	***47,488***	***66,221***	119	45,661	54,332
B	***138***	***74,074***	***101,921***	124	71,225	88,573
C	***135***	***71,155***	***95,799***	143	68,418	97,662
D	***127***	***89,383***	***113,886***	50	85,945	42,693
E	***118***	***54,433***	***64,315***	88	50,692	44,787
F	***117***	***46,324***	***54,076***	77	48,996	37,875
G	***116***	***46,324***	***53,623***	97	44,545	43,043
H	***107***	***54,433***	***58,225***	78	52,340	40,571
I	***101***	***49,799***	***50,055***	104	47,884	49,901
J	***99***	***79,488***	***78,684***	98	76,431	74,731

The most overtime earned by an employee was $114,000 ($98,000). The highest amount of overtime earned as a percentage of the employee salary was 139 percent (143 per cent).

Generally, overtime has increased for those earning more than $50,000 in overtime when compared to last year.

This indicates that overtime needs to be more effectively managed especially for those earning such high levels of overtime.

The Authority advises that it is implementing a number of changes to address the issue. These include night shift for Traffic Signals Staff, ability to restrict overtime when high levels of uncertified sick leave are taken and closely monitoring overtime incurred.

Annual Leave Entitlements

I recommend the Authority continue to monitor and manage annual leave entitlements to minimise the impact on the Authority's financial position.

Some employees have high annual leave balances. Annual leave entitlements are paid at rates applicable at the time the leave is taken. Therefore, the annual leave liability increases in line with increases in pay rates, placing additional financial pressures on the Authority. The risk of occupational health and safety issues may also increase when employees do not take their annual leave regularly.

Entitlement (days)	2009			2008		
	No of Personnel	Total Days	Amount $'000	No of Personnel	Total Days	Amount $'000
Annual Leave						
> 100	***1***	***117***	***40***	2	216	67
81 – 100	***7***	***625***	***344***	10	881	253
61 – 80	***58***	***3,950***	***1,209***	42	2,851	948
41 – 60	***610***	***28,334***	***8,590***	650	30,048	8,562
Total	***676***	***33,026***	***10,183***	704	33,996	9,830

Corporate Office Lease Arrangements

With effect from 1 August 2008 the Authority leased a property in North Sydney for its corporate office operations. To prepare for the relocation the Authority continued its existing lease at the Surrey Hills premises up until 20 March 2009.

Management advised that it required the leases to overlap for seven months to enable:

- the installation of fit outs costing $23.1 million and
- the staggered transfer of office equipment and staff.

The Authority incurred lease costs of $4.1 million on its former lease for the seven month overlap period with a corresponding rent free period on the new premises.

Accounting for Sydney Harbour Tunnel

In response to my recommendation, the Authority reviewed the accounting treatment of the Sydney Harbour Tunnel assets and liabilities. As a result, the Authority recognised the tunnel as a finance lease, which increased the Authority's liabilities by $386 million and assets by $32.0 million.

The Authority expects to pay the tunnel operator about $1.0 billion (present value $712 million) over the next thirteen years of the contract under the existing arrangements.

Major Projects

The table below provides the completion dates and costs for the Authority's top ten projects.

Year ended 30 June 2009	Year of Budget Paper with Initial Estimates	Initial Estimated Completion Date per Budget Paper	Forecast/ Actual Completion Date	Initial Project Estimate* $m	Cost to 30 June 2009 $m	Forecast/ Actual Final Cost $m	Variation $m
Southern Hume Duplication	2006-2007	2009	Nov 2009	941	750	924	(17)
Pacific Highway, Ballina Bypass	1997-1998	2002	Jun 2012	118	288	640	522
Pacific Highway, Coopernook to Herons Creek	2001-2002	na**	Apr 2010	286	400	555	269
Pacific Highway, Karuah to Bulahdelah Section 2 and 3	1997-1998	2005	Oct 2009	150	218	253	103
Pacific Highway, Bonville Bypass	1999-2000	2003	Sept 2008	121	228	233	112
Hume Highway, Coolac Bypass	2006-2007	2008	Aug 2009	145	160	170	25
Princes Highway, Oak Flats to Dunmore	2001-2002	na**	Oct 2009	114	97	120	6
Great Western Highway, Leura to Katoomba	2001-2002	2006	Mar 2009	74	114	116	42
Princes Highway, Northern Distributor Extension	1999-2000	na**	Dec 2009	30	106	110	80
Sydney Newcastle Freeway Widening, Mount Colah to Cowan	2006-2007	2008	Dec 2009	132	76	104	(28)

Source: Roads and Traffic Authority of New South Wales (unaudited).

* The initial project estimates represented the initial strategic or concept estimates prior to any detailed planning or project development

** The initial estimated completion dates for these projects were not reported in the respective Budget Paper because the projects were at the early stage of planning

The delays between the initial estimated completion date and the forecast/actual completion date were due to:

- construction funds not being committed at the time of the initial estimate; or
- prolonged development phase to address technical and design issues

The large variations between the initial project estimate and the forecast/actual project cost were due to:

- changes in scope between the time of the initial estimate and the time of project approval; or
- cost escalation over the period between the initial estimate and the time of actual construction.

The initial estimates for the Pacific Highway projects were based on using the existing carriageway. The project design was reevaluated and it was determined that construction of new carriage ways would be more appropriate. This led to significant delays in completion of the projects and increases in related costs.

Administered Revenue

Revenue collected on behalf of the State and remitted to the Consolidated Fund was:

Year ended 30 June	Actual				
	2009 $m	2008 $m	2007 $m	2006 $m	2005 $m
Vehicle registration fees	***249***	243	232	223	209
Drivers licences fees	***116***	91	96	141	135
Vehicle transfer fees	***36***	38	35	35	35
Stamp duty	***538***	605	555	548	570
Other	***70***	58	58	53	--
Total	***1,009***	1,035	976	1,000	949

The decrease in stamp duty in 2009 was largely due to decreased values and a fall in the number of vehicle transfers.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 $m	2008 $m	2009 $m	2008 $m
Employee related	***533***	504	***886***	639
Maintenance	***695***	671	***695***	671
Depreciation and amortisation	***853***	836	***853***	836
Grants and subsidies	***345***	281	***345***	281
Finance costs	***103***	112	***103***	112
Other expenses	***404***	287	***404***	287
OPERATING EXPENSES	***2,933***	2,691	***3,286***	2,826
Sale of goods and services	***386***	390	***386***	390
Other revenues	***172***	325	***172***	325
OPERATING REVENUE	***558***	715	***558***	715
Loss on disposal of non current assets	***34***	158	***34***	158
NET COST OF SERVICES	***2,409***	2,134	***2,762***	2,269
Government Contributions	***3,723***	3,202	***3,723***	3,202
SURPLUS	***1,314***	1,068	***961***	933
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Net increase in asset revaluation reserve	***6,932***	4,766	***6,932***	4,766
Superannuation actuarial losses	***(353)***	(135)	**--**	--
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***7,893***	5,699	***7,893***	5,699

Other expenses increased largely due to hiring of additional contractors at a cost of $30.0 million for information technology projects, including the Traffic Management Control program and License, Registration and Freight projects.

The decrease in other revenues was due to the contribution in 2007-08 of an infrastructure asset by the Queensland Government valued at $144 million.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $m	2008 $m	2009 $m	2008 $m
Current assets	***385***	391	***385***	391
Non-current assets	***89,560***	81,324	***89,560***	81,324
TOTAL ASSETS	***89,945***	81,715	***89,945***	81,715
Current liabilities	***1,132***	1,044	***1,666***	1,232
Non-current liabilities	***2,138***	1,866	***1,604***	1,678
TOTAL LIABILITIES	***3,270***	2,910	***3,270***	2,910
NET ASSETS	***86,675***	78,805	***86,675***	78,805

The Authority's non-current assets increased $8.2 billion mainly due to net revaluation increments to infrastructure assets of $6.8 billion and additions to infrastructure systems of $2.1 billion.

Abridged Service Group Information

The Authority's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget* $m	2009 Actual $m	2008 Actual $m	2009 Actual $m	2008 Actual $m
Road development	***740***	***(2)***	(3)	***2,603***	1,640
Road management	***911***	***2,077***	1,899	***84,054***	76,978
Road user	***361***	***226***	137	***20***	189
M4/M5 cash back scheme	***102***	***108***	101	***(2)***	(2)
Total all service groups	***2,114***	***2,409***	2,134	***86,675***	78,805

* Source: New South Wales 2008-09 Budget Papers (unaudited)

The Authority changed the methodology of preparing the service group information for the financial report from that which appeared in the Budget Papers. One of the major changes was the reclassification of budgeted infrastructure depreciation expenses from road development to road management.

The increase in the actual total net cost of services over the budget was mainly due to a transfer of roads and bridges to councils and maintenance due to natural disasters and unexpected heavy weather.

AUTHORITY ACTIVITIES

The Authority is responsible for improving road and traffic safety management, enhancing road network efficiency, maintaining and renewing the existing road system and constructing new roads and bridges throughout New South Wales. Other major responsibilities include road safety education, assessing and collecting tax on the registration of motor vehicles, licensing drivers and collecting stamp duty on motor vehicle related transactions for the Office of State Revenue.

The Authority was constituted under the *Transport Administration Act 1988*.

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

CONTROLLED ENTITY

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

Entity Name
Roads and Traffic Authority Division

State Transit Authority of New South Wales

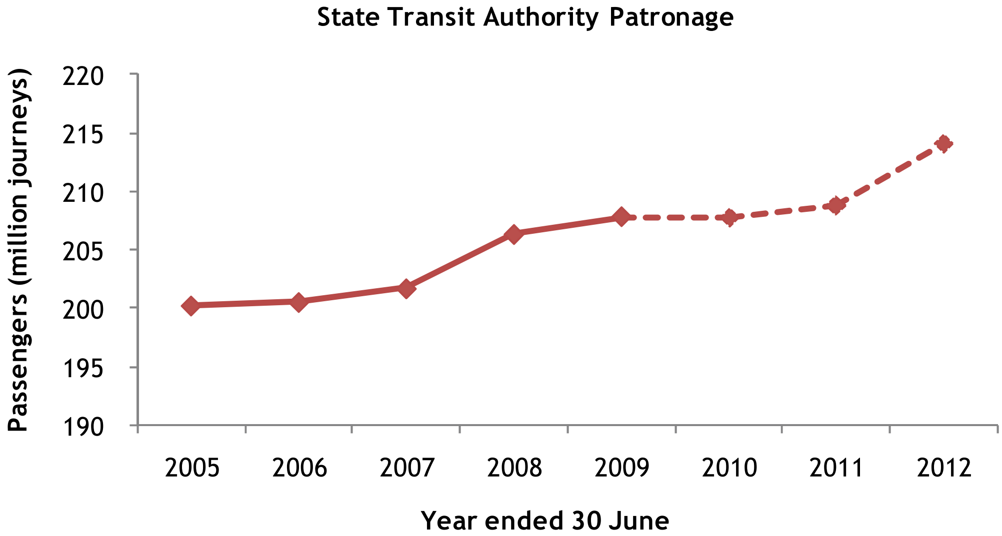
AUDIT OPINION

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

KEY ISSUES

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

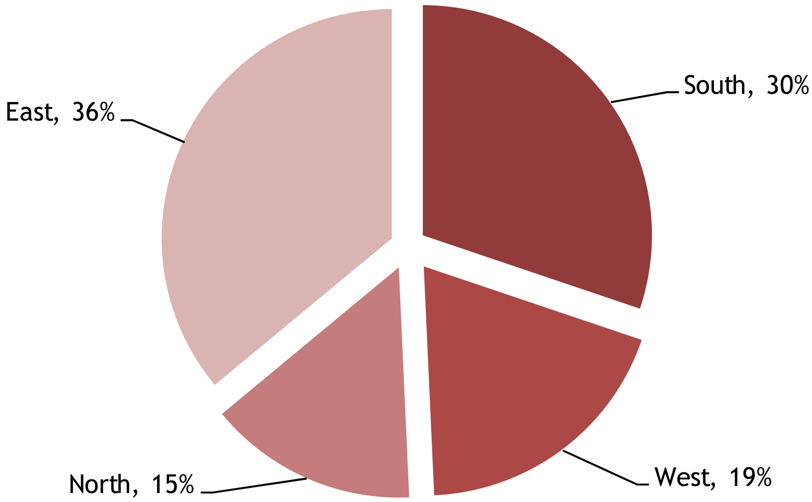
Growth in Patronage and Bus Services



Source: Actual passengers from 2008/09 unaudited STA Annual Report. Projections provided by STA (unaudited).

State Transit's patronage increased by 0.7 per cent over the prior year (2.3 per cent in 2007-08) to 207.9 million passenger journeys (206.3 million). Sydney Buses carried 192.8 million passengers (191.3 million), an increase of 1.5 million passengers over the prior year. Newcastle Buses and Ferry Service patronage remained relatively stable at 12.4 million passengers (12.5 million) and patronage on the Liverpool to Parramatta Transitway reached 2.6 million (2.5 million).

Sydney Buses Total Passenger Journeys in 2008-09 by Region



Source: Passenger journey information provided by STA (unaudited).

The East and South regions accounted for a significant portion of the total journeys.

Over the past two and a half years, Sydney Buses has increased its services by nearly 2,000 weekly trips. State Transit played a significant role in the transportation of participants in World Youth Day celebrations, by running more than 16,500 additional services. In March 2009, Sydney Buses added 350 trips to its regular timetabled services to meet expected demand during the busy March period mainly due to students commencing the University semester.

The opening of the Epping to Chatswood Rail Line reduced patronage on some routes. The New South Wales Government granted a fare free period from 22 February to 8 June 2009 to encourage use of the new line. This resulted in patronage falling by around 54,000 per week as bus passengers transferred to rail. Since the end of the fare free period, the fall in weekly patronage has stabilised at 40,000 less bus passengers. The Authority advised that other factors impacting growth in patronage in 2009 included the downturn in employment and general closures of retail outlets in Sydney Central due to re-construction work and the global financial crisis.

Patronage is expected to increase by an average of two per cent over the next three years. State Transit plans to accommodate for this growth by adding additional Metrobus services and expanding its bus fleet.

Kilometres travelled is a measure of the extent of services delivered. During 2008-09, State Transit buses travelled 91.1 million kilometres. Sydney Buses accounted for a majority of this with all four Sydney metropolitan regions travelling a combined total of 81 million kilometres.

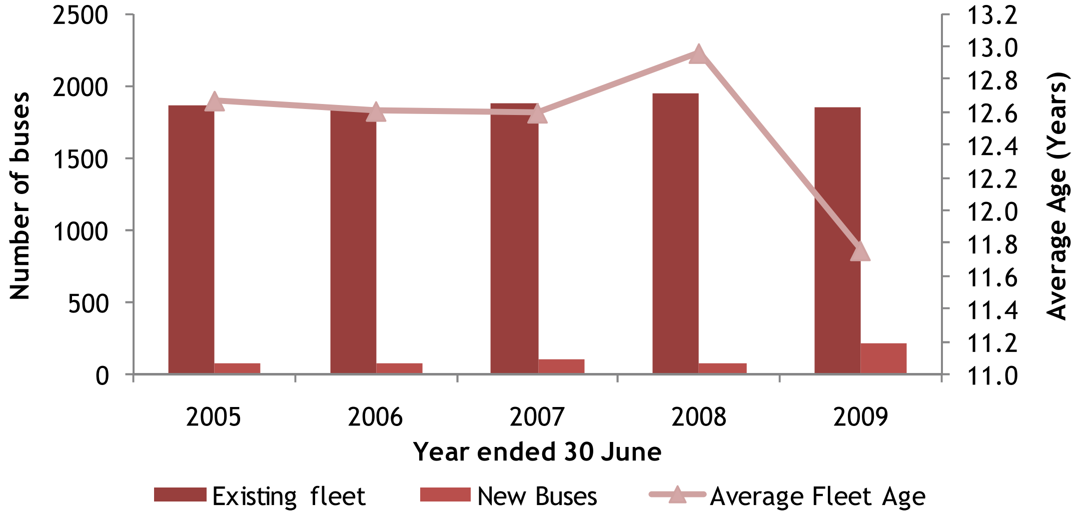
An additional 1 million service kilometres provided across the four Sydney Buses regions contributed to approximately $5.6 million in additional revenue.

To resource the increased service levels, 180 new bus drivers were employed across Sydney depots and 17 new bus drivers were employed in Newcastle. At the end of June 2009, staffing across Sydney and Newcastle depots was at full establishment.

Bus Fleet

As at 30 June 2009, the Authority's bus fleet totalled 2,065 buses (2,027). The Authority acquired 210 new buses (73) during the year and 190 new buses are planned for 2009-10. Under the Metropolitan Bus System Contract, the average age of the fleet is to remain within 12 years. The acquisition of new buses and retirement of older buses during the year resulted in a sharp decline in the average age of the fleet from 13.2 to 11.7 years. The last time State Transit's average fleet age was below the statutory requirement of 12 years was in 2002.

Fleet replacement, Size and Age

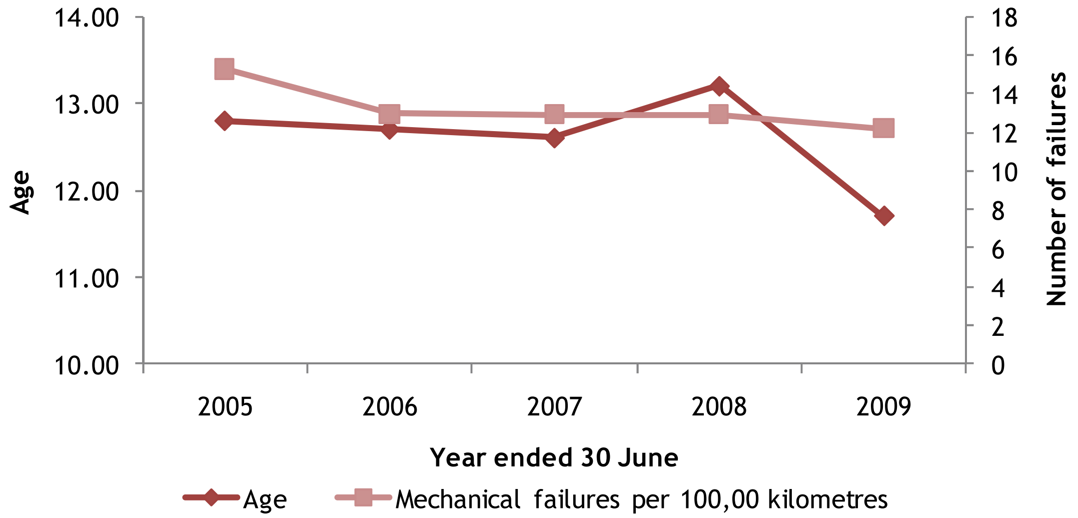


Source: Fleet replacement, size and age data from 2008/09 STA Annual Report (unaudited).

The planned acquisition and replacement of the bus fleet is expected to further reduce the average age to less than 10.5 years by 2012.

As older buses are retired and replaced with new buses the incidence of mechanical fleet failures is decreasing. As can be seen in the graph below, the number of Sydney buses mechanical failures has steadily decreased in line with the delivery of new buses.

Sydney Buses Fleet Age vs Mechanical Failures per 100,000 kilometres



Source: Fleet age and mechanical failure data from 2008/09 STA Annual Report (unaudited).

Loss of Federal Training Grants due to Employment Arrangements (Repeat Issue)

Last year I recommended the New South Wales Government reconsider the appropriateness of Employment arrangements for the Authority to avoid further losses of Commonwealth Government grants.

Under current arrangements staff are employed by Government Departments known as Employment Divisions rather than directly by the Authority. This results in the Authority losing an entitlement to Commonwealth Government training grants. Grant funding lost in the current year totalled $3.1 million and it is projected that a further $1.5 million will be lost in 2009-10.

The Commonwealth Government announced a change to the Australian Apprenticeships Incentives Program (AAIP) in its 2008-09 budget. Where an employer is a Department of State, a Department of Parliament, or an Agency within the state or territory executive arm of government, they cease to be eligible for employer incentives under AAIP. Where the employer is a statutory authority, statutory body or body corporate, they will continue to be eligible for employer incentives. This change was effective after 1 July 2008.

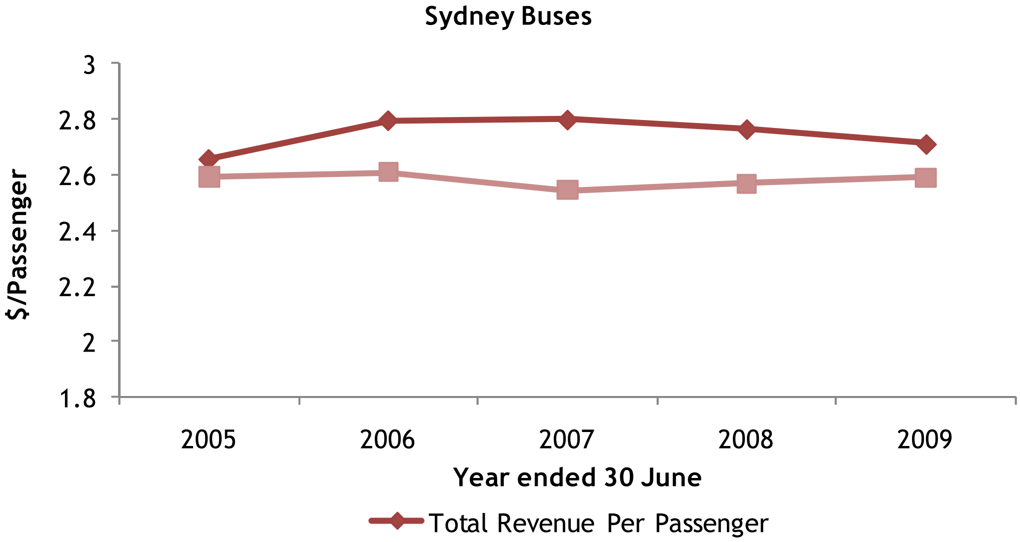
In 2006, I reported on how the New South Wales Government, as a response to the then Commonwealth Government's 'Workchoices' workplace relations reforms, created approximately 60 special purpose entities, referred to as Employment Divisions. This resulted in the transfer of statutory authority employees to the newly created Divisions.

Following workplace relations reform at the Commonwealth level, the New South Wales Government should consider whether the employee Divisions created in 2006 are still relevant.

PERFORMANCE INFORMATION

The Authority provided the following information regarding its performance.

Revenue versus Cost (per passenger) in 2008-09



Source: Revenue and patronage data from 2008/09 unaudited STA Annual Report. Total costs sourced from management accounts (unaudited).
Note:

- Revenue from 2004-05 includes revenue received from passengers and payments from Government for providing free and concessional travel and Community Service Obligations. Revenue for 2005-06 onwards includes payments received under the provisions of the Metropolitan and Outer Metropolitan Bus System Contracts.
- Due to volatility in the actuarial gains/(losses) relating to defined benefit superannuation schemes, this has been excluded from the total cost per passenger.

Total Revenue per passenger has marginally declined to $2.71 ($2.76). This is primarily due to the increase in patronage growth rates. Under the Metropolitan Bus Contracts, the Authority receives revenue to operate the services. Part of the Revenue represents a recovery of fixed costs which remains constant in real terms over the term of the contract. Therefore, as patronage increases revenue per passenger decreases.

On-time running

On-time running performance is measured as the percentage of monitored buses departing from the terminus within five minutes of the scheduled timetable. A minimum of one per cent of total bus trips are monitored. On-time running performance for Sydney Buses has remained relatively stable over the last five years.

In determining this performance measure, State Transit is working with the Roads and Traffic Authority to implement the Public Transport Information and Priority System (PTIPS) on all buses, which uses GPS technology to provide real time tracking of buses. This tracking will allow the Authority to measure the on-time running performance of all its bus services at all points of the journey. The system can provide priority through traffic lights to help keep bus services to timetable. The Authority is progressively fitting all State Transit buses with PTIPS and as at November 2009, only 62 units were yet to be fitted.

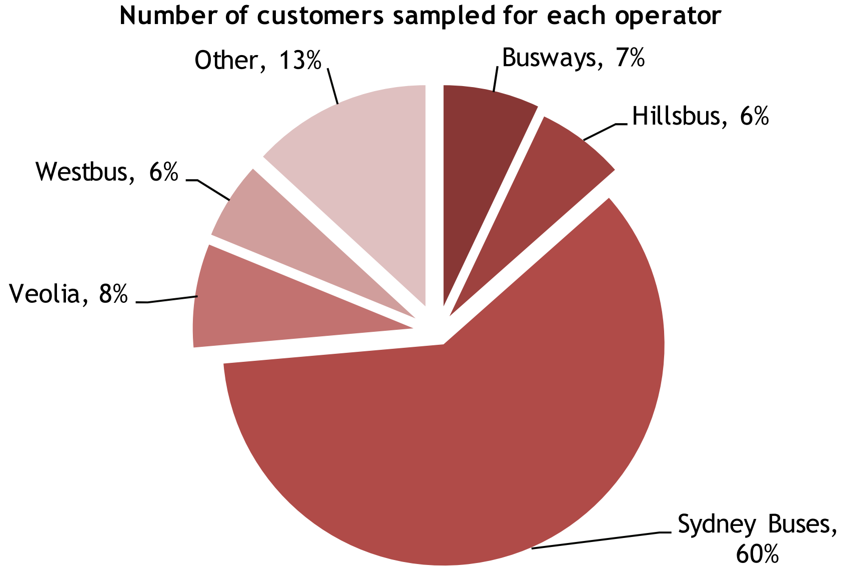
The Authority has various strategies to maintain and improve on time running. These include the expansion of prepay services to minimise boarding times and the trial of three door buses to facilitate quicker unloading times. The Authority is also consulting with the Roads and Traffic Authority regarding the extension of the bus lanes and their hours of operations and the introduction of clearways on busy corridors.

OTHER INFORMATION

Independent Survey of Sydney Metropolitan Users

> I recommend the Independent Transport Safety and Reliability Regulator conduct annual independent surveys of bus customers so changes in customer satisfaction can be monitored.

In September 2009, the Independent Transport Safety and Reliability Regulator (ITSRR) released its survey on reliability of bus services. ITSRR surveyed 2,304 customers from 15 bus contract regions across metropolitan Sydney. Analysis of the survey was limited to five key bus operators; Busways, Hillsbus, Sydney Buses, Veolia and Westbus. As State Transit operates the largest and busiest contract regions in Sydney, the proportion of Sydney Buses customers surveyed represented 60 per cent of the total population surveyed.



Source: Independent Transport Safety and Reliability Regulator (ITSRR) Survey of Sydney Metropolitan Bus Users 2009 (unaudited).

The survey found that customers gave Sydney Buses more positive marks in regard to timetable information displayed at bus stops than they did for other operators. However, compared to other bus operators, Sydney Buses had lower levels of customer satisfaction in relation to buses keeping to timetable and crowding in the peak periods of travel.

Source: Independent Transport Safety and Reliability Regulator (ITSRR) Survey of Sydney Metropolitan Bus Users 2009 (unaudited).

Customers of Sydney Buses were at a minimum nine per cent less satisfied than customers using other key bus operators.

Sydney Buses operates 4 of the largest and busiest contract regions across Sydney.

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

PrePay Services

In 2008-09, State Transit rolled out the largest PrePay conversion to date when the Sydney CBD became cashless between 7am and 7pm on weekdays. This is aimed at reducing boarding and overall travel times along major corridors. Bondi Junction, Randwick, Chatswood and Epping interchanges and the city bound stops at Cremorne and Military Bay Junctions have also become cashless.

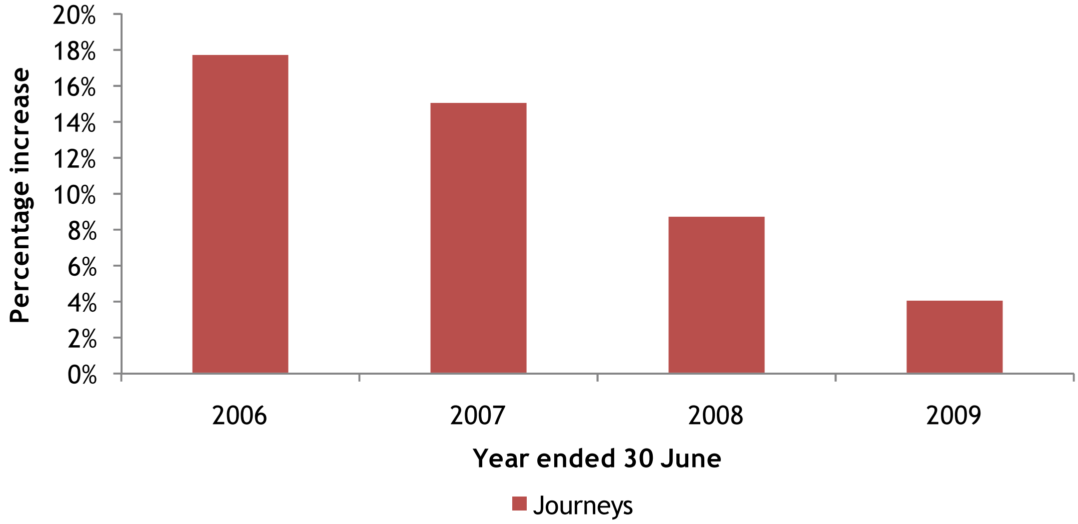
The continuing success of the PrePay campaign has contributed to the increase in ticket resellers. As at 30 June 2009, there were 981 authorised State Transit Ticket Resellers across metropolitan Sydney. This has increased by 12 per cent since the previous year. Total revenue from ticket sales to resellers in 2008-09 exceeded $169 million, an increase of 15 per cent on the previous year ($147 million). The number of resellers is forecasted to grow between 10 per cent and 15 per cent in 2009-10 and this is expected to meet increase in demand from the planned expansion of PrePay bus services.

The Authority advised the increase in PrePay services has resulted in an annual reduction of 13.4 million on-board transactions, faster boarding times, less delays and discount travel for bus passengers. A follow up initiative is being developed to extend the PrePay program to other interchanges, bus stops and corridors over the next 12 months.

Western Sydney Buses

The Liverpool to Parramatta Transitway is a public infrastructure, built and owned by the New South Wales Government. The Authority has operated on the Transitway since February 2003 and 12.7 million passengers have used this service since it opened. Transitway patronage increased by four per cent over the previous year to 2.6 million journeys (2.5 million). Whilst growth has not been as significant in 2008 and 2009 as it was in earlier years, patronage for the Transitway has continued to increase. A new timetable was introduced in 2009 and eight new bus services were added to meet the growing demand for this service.

Growth in Transitway Patronage



Source: State Transit(unaudited).

Since opening, the Transitway has recorded net losses for each financial year, with another loss of $1.4 million in 2008-09 ($1.5 million). The Authority's contract to operate this route extends to February 2011. The Transitway contract lies outside the Metropolitan Bus System Contracts.

Metrobus Network

The Metrobus is a high-frequency, cashless service aimed at increasing capacity along busy corridors. In March 2009, a new Metrobus network was announced for Sydney following the successful trial of the first Metrobus service (introduced in October 2008). The Authority advised that patronage on the service has increased by 40 per cent since the first month of operation and more than 1.1 million people have used the service.

Four extra Metrobus routes are planned within the next twelve months to establish a Metrobus network throughout Sydney that services the most densely populated areas located within a ten kilometre radius of the CBD.

It is anticipated that the Metrobus network will provide capacity for nearly a quarter of a million additional passengers every week.

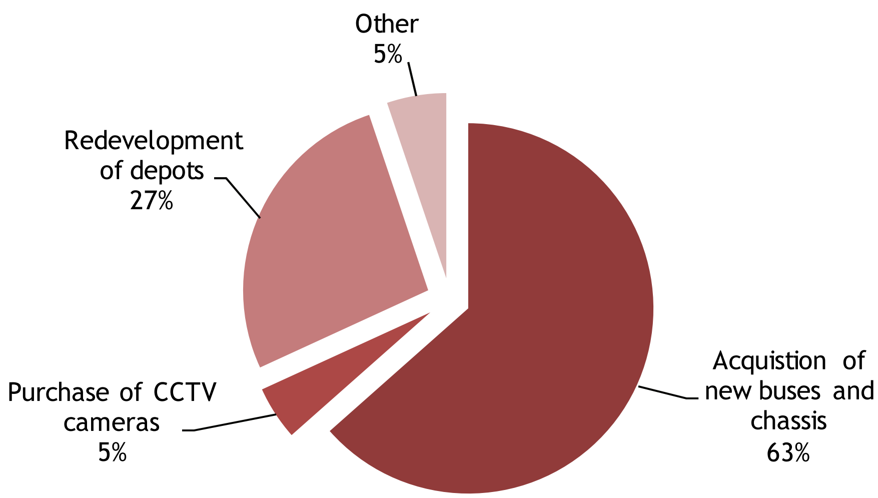
Free CBD Shuttle Bus

In December 2008, a free shuttle bus service was launched in the Sydney CBD. The Authority advised that in the seven months to June 2009, over 580,000 passengers have travelled on the service. The shuttle service carries approximately 25,000 passengers each week and operates across 32 bus stops located around the CBD.

Capital Expenditure Program

State Transit Authority's capital expenditure program increased by 78.8 per cent ($63.0 million) to $143 million in 2008-09. The majority of expenditure focussed on acquisition of new buses to support fleet growth, the fleet replacement program and the redevelopment of depots to accommodate the expansion of the fleet in the future.

Capital Expenditure Program 2008-09



Source: Capital expenditure data from 2008/09 STA Annual Report (unaudited).

State Transit commenced a number of projects and strategies in 2008-09 and is making significant investments in future depot capacity primarily due to patronage growth, the replacement of existing fleet vehicles with longer buses and future growth in the size of the fleet.

Integrated Network Reviews and Improved Networks

The NSW Transport and Infrastructure program of bus reform and the Metropolitan and Outer Metropolitan Bus System Contracts require State Transit to conduct reviews of networks to ensure they reflect the current needs of the public. The reviews involve extensive community consultation and aim to put into operation new and improved networks in Newcastle, the Northern Beaches, the Lower North Shore and the Eastern Region.

The new networks primarily aim to improve services through better co-ordination and linking of services with major hubs, additional services and simplification of stopping patterns.

As at 30 June 2009, network reviews for the Newcastle and the Eastern Regions have been implemented. Reviews for the Northern and Western regions have been subsequently implemented. The review for the Southern Region is in progress.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Authority	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Operational revenue*	***546,069***	537,647	***546,069***	537,647
Other income	***41,109***	30,872	***41,109***	30,872
OPERATING REVENUE	***587,178***	568,519	***587,178***	568,519
Employee benefits	***341,942***	318,446	**--**	--
Personnel services	**--**	--	***415,235***	365,237
Fleet running expenses	***93,793***	89,916	***93,793***	89,916
Depreciation and amortisation	***33,121***	32,984	***33,121***	32,984
Finance costs	***8,551***	5,652	***8,551***	5,652
General operating expenses	***97,566***	96,786	***69,455***	72,211
OPREATING EXPENSES	***574,973***	543,784	***620,155***	566,000
PROFIT/(LOSS)	***12,205***	24,735	***(32,977)***	2,519
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Revaluation of property, plant and equipment	***183***	--	***183***	--
Superannuation actuarial losses**	***(31,627)***	(15,551)	**--**	--
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***(19,239)***	9,184	***(32,794)***	2,519

* Operational revenue includes farebox receipts and contract revenue from the Metropolitan and Outer Metropolitan Bus System Contracts.

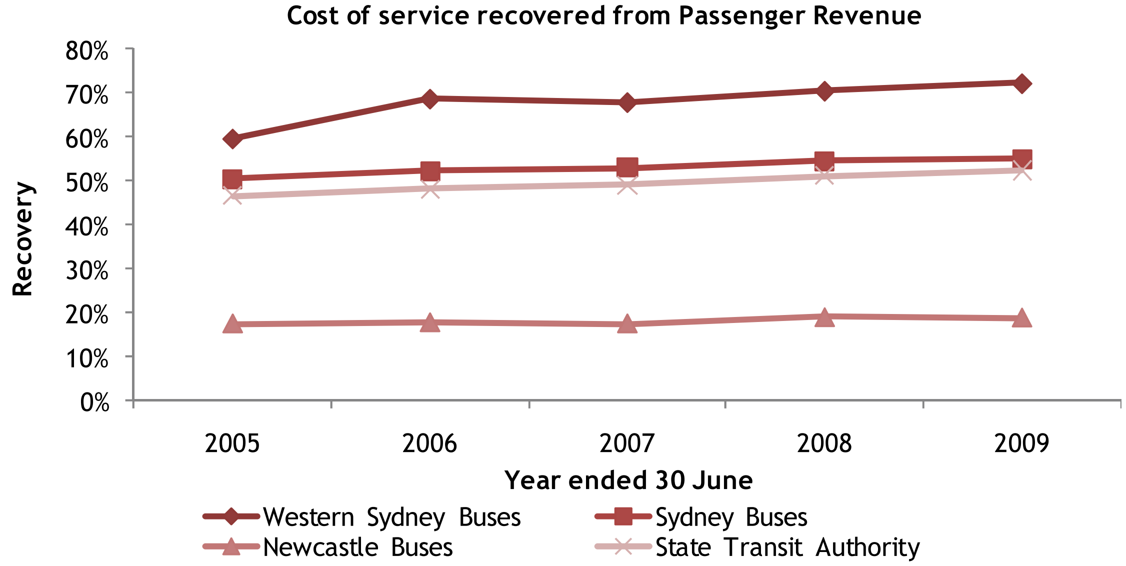
** Superannuation actuarial gains/(losses) were recognised outside of profit and loss this year due to a mandatory change in accounting policy in accordance with Treasury Circular 09/01 Accounting for Superannuation.

Operational revenue increased primarily due to the increase in Metropolitan and Outer Metropolitan Bus system contracts income. The increase in other income mainly resulted from extra bus services provided for World Youth Day and further interest income earned from additional buses leased to the Ministry.

Total expenses increased mainly due to the increase in employee benefits and fleet running expenses. Higher labour costs were primarily due to an increase in pay rates for bus operators and the hiring of more bus operators to provide additional services. Higher maintenance costs to accommodate the increasing bus fleet numbers were the main reasons for the increase in fleet running expenses.

Cost Recovery

In 2008-09, the Authority's passenger farebox revenue covered approximately 50.4 per cent of the cost of services provided. This has increased by 0.2 per cent from the previous year primarily due to the growth in patronage.



Source: Information derived from STA management accounts as at 30 June 2009 (Unaudited.)
Note: Cost of operations includes interest and excludes superannuation losses

The lower recovery rate of 18.9 per cent in 2009 for Newcastle buses is due to lower patronage levels in comparison to Sydney services. Western Sydney Buses have the highest recovery rate of 72.3 per cent, partly due to growth in patronage and lower operating costs due to the less complex nature of providing a bus service that runs on a dedicated Transitway.

A new four-year pricing path prepared by the Independent Pricing and Regulatory Tribunal will be introduced on 3 January 2010. Fares will rise by an average of 14.8 per cent over the four-year period 2009-13. These fare increases would allow the government to continue to recover around half of the total cost it incurs in providing these services.

Abridged Balance Sheets

At 30 June	Consolidated		Authority	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***45,456***	31,338	***45,456***	31,035
Non-current assets	***726,324***	621,626	***726,324***	621,626
TOTAL ASSETS	***771,780***	652,964	***771,780***	652,661
Current liabilities	***154,015***	152,541	***154,015***	152,238
Non-current liabilities	***364,169***	223,602	***364,169***	223,602
TOTAL LIABILITIES	***518,184***	376,143	***518,184***	375,840
NET ASSETS	***253,596***	276,821	***253,596***	276,821

The increase in non-current assets was primarily attributable to the increase in finance lease receivables arising from additional buses leased to the Ministry of Transport in 2008-09.

The increase in non-current liabilities was primarily due to additional borrowings required to fund the acquisition of new buses and depot redevelopment work.

The decrease in net worth was mainly due to the impact of recognising superannuation actuarial losses.

AUTHORITY ACTIVITIES

The Authority, a statutory body incorporated under the *Transport Administration Act 1988*, operates bus services in Sydney and bus and ferry services in Newcastle. For further information on the Authority, refer to www.sta.nsw.gov.au.

CONTROLLED ENTITIES

The following controlled entities have not been reported on separately as they are not considered material by their size or the nature of their operations to the consolidated entity. These divisions were enacted as a requirement of the *Public Sector Employment and Management Act 2002*.

Entity Name
State Transit Authority Division
Western Sydney Buses Division

The Public Sector Employment and Management (Departmental Amalgamations) Order 2009 has established the Department of Transport and Infrastructure on 27 July 2009. This legislation may impact State Transit Authority Division and Western Sydney Buses Division as staff involved in activities set out in the Order may be moved from the Division and added to the Department of Transport and Infrastructure at a future date.

Sydney Ferries

AUDIT OPINION

The audit of Ferries' financial report for the year ended 30 June 2009 resulted in an unqualified Independent Auditor's Report, which included an emphasis of matter regarding significant uncertainty as to whether Ferries will realise its assets and extinguish its liabilities in the normal course of business at the amounts stated in the financial report.

KEY ISSUES

Financial Viability

Ferries' financial operations for 2008-09 resulted in a deficit of $14.5 million ($424,000 in 2007-08). At 30 June 2009, its current liabilities totalled $38.3 million ($32.6 million), significantly exceeding current assets of $12.9 million ($13.3 million).

The Board determined that the preparation of the financial report on a going concern basis was appropriate as continued Government support is guaranteed.

Structure and Ownership

On 21 October 2008, the Premier announced the Government's response to the recommendations made by the Special Commission of Inquiry into Sydney Ferries (Walker Inquiry). To implement the recommendations, the Government announced that it would undertake a market process to test the prospects offered by the private sector against the prospects offered by continuing with Sydney Ferries. The Government is currently undertaking this Ferry Market Review process and is expected to announce its decision in December 2009.

In the meantime, under the Interim Ferry Service Contract, Sydney Ferries has continued to provide services. The Government stated that the new Service Contract for the delivery of services will only be awarded to a private operator if the market process reveals that a private operator is able to offer better value for money than Sydney Ferries. Ferries advised that the new contract is due to commence on 3 April 2010.

These conditions create a significant uncertainty as to whether Ferries will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Independent Commission Against Corruption

During June 2009, the Independent Commission Against Corruption (ICAC) conducted a public inquiry into the alleged misuse of a Sydney Ferries corporate credit card by the former Chief Executive Officer.

ICAC's investigation found that the former Chief Executive Officer engaged in corrupt conduct by:

- using his corporate credit card to incur personal expenditure knowing that its use was restricted to business expenses only, and
- falsely claiming in a letter to the Minister for Transport that Sydney Ferries' use of credit cards was in full compliance with government policy even though his personal use of the corporate credit card was contrary to relevant policies.

The Board has advised that a number of corruption prevention measures have been implemented by the new acting Chief Executive Officer to ensure such incidents do not recur.

Overtime (Repeat Issue)

I commented on the high level of overtime incurred by Ferries in my 2006, 2007 and 2008 Reports to Parliament. A significant reduction in overtime occurred in 2008-09.

Ferries attribute the decrease in overtime to improved labour utilisation following the introduction of new rosters plus labour reforms supported by improved human resources and attendance management systems. This is demonstrated by the following table which provides details of overtime paid to operational staff over the past three years.

Year end 30 June	Staff Numbers		
	2009	**2008**	**2007**
Overtime			
$30,001 to $50,000	***8***	12	8
$20,001 to $30,000	***10***	29	29
$10,001 to $20,000	***32***	95	89
$5,001 to $10,000	***18***	101	115
$0 to $5,000	***270***	289	350
Total	***338***	526	591
Total $'000	***1,256***	3,745	3,628

Temporary staff costs for the same period have increased by $3.3 million and staff numbers as at 30 June have reduced by 21 since last year. Management advised that the increase in temporary staff costs is unrelated to the reduction in overtime.

Leave Entitlements (Repeat Issue)

I recommend that Ferries continues to monitor and manage leave entitlements to minimise adverse impact on their financial position.

I have previously reported on excessive leave balances held by some employees in my 2007 and 2008 Reports to Parliament. As leave entitlements are paid at rates applicable at the time the leave is taken, excessive leave balances will place additional financial pressures on Ferries in the future as they will be paid at higher remuneration rates.

Entitlement (days)	2009			2008		
	No of Personnel	Total Days	Average Days	No of Personnel	Total Days	Average Days
Annual Leave						
> 100	***11***	***1,386***	***126***	10	1,287	129
81 – 100	***0***	***0***	***0***	6	537	90
61 – 80	***23***	***1,708***	***74***	15	1,034	69
Total	***34***	***3,094***	***91***	31	2,858	92
Public Holidays						
> 60	***7***	***609***	***87***	8	663	83
41 – 60	***7***	***342***	***49***	7	326	47
21 - 40	***14***	***407***	***29***	14	386	28
10 – 20	***18***	***269***	***15***	17	243	14
Total	***46***	***1,627***	***35***	46	1,618	35
TOTAL EMPLOYEES	***668***			689		

Excessive leave balances remained high at 30 June 2009. Management has recognised this as a priority area and has implemented strategies to reduce excessive leave balances. During the period between June and October 2009, these strategies have seen personnel with greater than 60 days annual leave fall from 34 to 24, representing a reduction in total entitlement days of 1,199.

Also, there are only 11 personnel who have consistently held more than 60 days annual leave entitlements over the period from June 2008 to October 2009.

PERFORMANCE INFORMATION

Ferries provided the following information (unaudited) regarding its performance.

Year ended 30 June	Target	Actual			
	2009	2009	2008	2007	2006
Operational performance					
Services that run on time (%) (i)	***99.5***	***98.1***	98.3	98.0	98.4
Patronage growth (%) (ii)	***1***	***2.5***	(1.2)	0.8	(0.2)
Number of customer complaints	***867***	***889***	1,220	1,808	1,243
Number of significant incidents (iii)	***0***	***1***	0	2	2
Number of passenger injuries (iv)	***16***	***12***	15	35	17
Number of sick days taken per employee	***7***	***10.5***	9.0	8.4	9.6
Fleet availability (%) (v)	***80***	***80.8***	79	77	71
Vessel reliability (%) (vi)	***95***	***95.0***	94	93	91
Financial performance					
Earnings before interest, taxes, depreciation and amortisation ($m)	***16.1***	***12.0***	18.3	16.8	(35.0)
Operating deficit ($m)	***10.4***	***14.5***	0.4	2.9	53.5
Return on average assets (%) (vii)	***(2.6)***	***(6.1)***	1.9	2.1	(39.4)
Return on average equity (%) (viii)	***(38.2)***	***(68.9)***	(10.6)	(7.7)	(88.7)

(i) Proportion of actual services departing on time (within five minutes of scheduled departure as measured at Circular Quay).
(ii) Includes patronage on the Manly JetCat service which ceased on 31 December 2008. Patronage growth on all services excluding the Manly JetCat was 5.8 per cent.
(iii) Incidents resulting in loss of life, life-threatening injury or injury to multiple persons, and/or damage over $100,000.
(iv) Passenger injury that occurs as a result of ferry operations and requires medical attention.
(v) Percentage of fleet available for scheduled services (days available as a percentage of total working days).
(vi) Percentage of available vessels that remain in service without withdrawal as a consequence of mechanical failure.
(vii) Operating result before interest and tax as percentage of annual average assets.
(viii) Operating result after interest and tax as percentage of annual average total equity.

Ferries attribute the drop in customer complaints to significant improvements in customer service as part of the Ferries 2010 self-reform program launched in April 2008.

OTHER INFORMATION

Policies and Procedures

We identified opportunities for Ferries to improve its practices and procedures. We will discuss these further with Ferries staff and, where appropriate, report them to management.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	2009 $'000	2008 $'000
Farebox revenue	***48,647***	48,851
Government contributions	***80,454***	81,095
Other	***1,399***	561
OPERATING REVENUE	***130,500***	130,507
Employee related expenses	***68,194***	65,201
Operations and maintenance expenses	***47,611***	43,726
Depreciation, amortisation and impairment	***19,849***	16,178
Borrowing costs	***6,694***	5,950
Other (Gains)/Losses	***2,692***	(124)
OPERATING EXPENSES	***145,040***	130,931
DEFICIT	***14,540***	424
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY		
Increase/(decrease) in revaluation of property, plant and equipment	***(4,562)***	5,244
Superannuation actuarial losses*	***(7,101)***	(3,438)
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***(26,203)***	1,382

*Superannuation actuarial losses were recognised outside of profit and loss this year due to a mandatory change in accounting policy in accordance with Treasury Circular 09/01 Accounting for Superannuation.

The increase in expenditure is largely attributable to the following significant items:

- impairment of the JetCat vessels and spare parts ($4.0 million)
- increase in depreciation expenses as a result of the capitalisation of several major projects during 2008-09 ($2.9 million)
- revaluation decrement on Circular Quay leasehold improvements ($2.1 million)
- increased salaries and wages due to redundancy payments for JetCat crews and support staff ($1.6 million)
- impairment of software projects in development due to the suspension of projects ($800,000).

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***12,939***	13,259
Non-current assets	***111,702***	118,058
TOTAL ASSETS	***124,641***	131,317
Current liabilities	***38,253***	32,631
Non-current liabilities	***81,742***	61,118
TOTAL LIABILITIES	***119,995***	93,749
NET ASSETS	***4,646***	37,568

The decrease in net assets was largely due to the Total Income and Expense Recognised for the Year of $26.2 million and the net value of $6.7 million of wharves and adjoining land transferred to NSW Maritime as per Government directive.

The significant movement in liabilities is primarily due to additional borrowings obtained from New South Wales Treasury Corporation to finance capital expenditure projects including the Ferry Operations and Customer Information System (FOCIS), navigational aids upgrade and Circular Quay and Balmain Jetty refurbishments.

FERRIES' ACTIVITIES

Sydney Ferries was established as a statutory State owned corporation on 1 January 2004 by amendments to the *Transport Administration Act 1988*. In January 2009, the *Transport Administration Act 1988* was amended again which resulted in a change in the constitution of Sydney Ferries from that of a State owned corporation to a statutory body corporate. It is a not-for-profit entity that operates ferry passenger services on Sydney Harbour and the Parramatta River. Its principal objective is the delivery of safe and reliable ferry services in an efficient, effective and financially responsible manner.

The Public Sector Employment and Management (Departmental Amalgamations) Order 2009 has established the Department of Transport and Infrastructure on 27 July 2009. This legislation may impact Ferries as staff involved in activities set out in the Order may be moved from the Division and added to the Department of Transport and Infrastructure at a future date.

For further information on Sydney Ferries, refer to www.sydneyferries.nsw.gov.au.

Sydney Metro

AUDIT OPINIONS

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

KEY ISSUES

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

Metro Network Strategy

Sydney Metro advises that the Government's decision to invest in a metro system was the outcome of a two year appraisal of options and is based on the NSW Government's Transport Planning Framework, and the latest information from the Transport Data Centre.

Sydney Metro advises that Stage 1 (CBD Metro) of the metro (Rozelle to Central) which the Government announced in November 2008 is a foundational, or 'metro enabling' stage of a broader network. The future metro rail system is expected to include many of Sydney's most heavily used and congested bus corridors, such as Parramatta Road, Victoria Road, Anzac Parade and Military Road. Two new metro lines are proposed to form the foundations of the metro network, namely:

- Metro Line 1 City West line – from Westmead to the CBD and then beyond Rozelle to the north-west
- Metro Line 2 City East line – from Malabar via Maroubra to the city and beyond to the Northern Beaches.

Sydney Metro is still developing its Metro Network Strategy, in line with the NSW Government's forthcoming Transport Blueprint. The Metro Network Strategy defines and guides the development of a metro system for Sydney over the next 25-30 years. The strategy identifies potential metro lines and how they will integrate with other transit modes to form a fully integrated, multi-modal regional transit network. Once the Sydney Metro Board has endorsed the strategy, they will present it to the Government for approval. This is expected to occur in December 2009. Feasibility and planning work on Stage 1 (CBD Metro) and Stage 2 (West Metro) projects commenced prior to the development of the detailed strategy.

Stage 1 (CBD Metro)

Stage 1 (CBD Metro) is a foundation stage to the construction of a broader Sydney metro network. In October 2008, the New South Wales Premier announced the Government would put a case for investment to Infrastructure Australia to construct Stage 1 (CBD Metro) at an estimated cost of $4.0 billion. In its November 2008 mini-budget the NSW Government allocated $4.8 billion to fund the project. Sydney Metro advises that if allowances for contingencies, risk and escalation along with the cost of government land transfers and rolling stock are included, then the maximum project cost for this stage will be $5.3 billion. At 30 June 2009, total expenditure on the project was $58.7 million.

Sydney Metro will acquire at least 30 properties at a cost of $535 million to construct Stage 1 (CBD Metro). An additional five state government properties will also transfer to it. Following construction of Stage 1 (CBD Metro), Sydney Metro will dispose of a number of these properties and obtain an estimated $228 million in sale proceeds.

In September 2009 Sydney Metro called for tenders from three consortia organisations to build the permanent route infrastructure. This relates to tunnelling and surface civil works, station boxes and caverns. It expects to award a contract by mid 2010.

Two consortia were shortlisted in September 2009 to build, own and operate the metro network under a public-private partnership. This involves the private sector building the tracks and rail systems, fitting out the stations, providing the trains and then maintaining the network for a 35 year period. In return, Sydney Metro will pay the successful consortia a monthly service payment based largely on availability, reliability and performance measures. Sydney Metro will retain all passenger revenue.

Sydney Metro advises that the decision to defer the North West Metro and proceed with Stage 1 (CBD Metro) was the outcome of changed funding priorities for the NSW Government flowing from the 2008 mini budget deliberations. Costs incurred on the North West Metro (a project co-ordinated by the Co-ordinator General) amounted to $29.3 million when the State Government announced its deferral in late 2008. Sydney Metro reviewed the costs incurred and concluded that around 50 per cent ($13.6 million) of the costs did not result in future benefit to other metro projects and was not recognised on transfer from the Transport Infrastructure Development Corporation (TIDC).

Stage 1 (CBD Metro) will be Sydney's first metro line with stations at Central, Town Hall Square, Martin Place, Barangaroo – Wynyard, Pyrmont and Rozelle. Sydney Metro expects to start constructing the Stage 1 (CBD Metro) in late 2010. The first metro train should operate from December 2015 and trains will operate every two to three minutes during peak periods.

Stage 2 (West Metro)

Sydney Metro has identified Stage 2 (West Metro) as its first priority for extending the metro on the basis that Sydney's growth over the next 30 years will see accelerated urban renewal and growth in existing suburbs. However, any decision to proceed to actual construction of Stage 2 (West Metro) will be subject to future funding decisions. If constructed, Stage 2 (West Metro) would link directly with Stage 1 (CBD Metro) at Central. It would run via Broadway and have stations at the University of Sydney, Camperdown, Leichardt, Five Dock, Burwood, Strathfield, Sydney Olympic Park, Silverwater, Camellia, Parramatta and Westmead.

The initial feasibility study of Stage 2 (West Metro) in April 2009 indicated it would cost $8.3 billion to build. This was a conservative estimate based on preliminary engineering design. A more recent assessment based on detailed engineering analysis revised the cost downwards to $7.7 billion. Sydney Metro is preparing an updated business case, which it expects to submit to Cabinet by the end of the year. It is also working on its detailed environmental assessment so it can to obtain planning approval in 2010.

Sydney Metro estimates that excluding depreciation expense, it would cost $78.0 million to operate the metro line each year, and based on CityRail's fare structure it would generate $200 million in passenger revenue each year.

In June 2009, Sydney Metro received $91.0 million from the Commonwealth Government so it could complete detailed planning and pre construction work on Stage 2 (West Metro). It expects to complete this work by May 2010. At 30 June 2009, Sydney Metro had completed the feasibility study and announced the preferred route and station locations. Total expenditure on the project was $5.7 million.

Governance

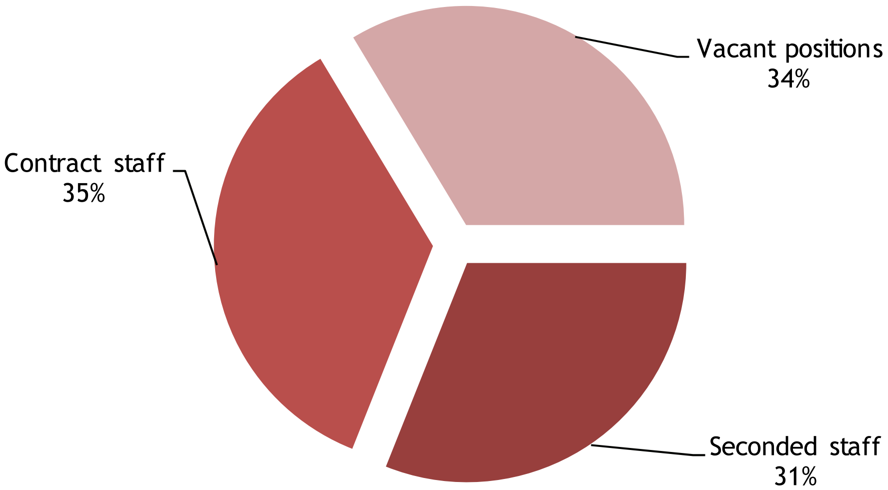
I recommend the Minister for Transport fill the two vacancies on the Sydney Metro Board as soon as possible.

At the end of October 2009, the Sydney Metro Board only had three members. Two vacancies exist after the resignation of members in August and September. The board plays a critical role in setting Sydney Metro's strategic and operational direction and these vacancies may mean the board has insufficient expertise across all areas affecting Sydney Metro's business at this critical phase of its life.

Staff Establishment

At 30 June 2009, Sydney Metro had no permanent staff. As shown in the chart below, it had 36 seconded staff, 41 contractors and 39 vacant positions.

Staff Establishment at 30 June 2009



The absence of permanent staff may create risks such as reduced ownership and commitment to project outcomes, and greater turnover of staff leading to loss of project knowledge. The use of contractors may also be more expensive than employing permanent staff.

Sydney Metro has advised that it is working towards increasing permanent staff numbers. It had offered permanent roles to 28 of the 36 seconded staff and has advertised externally for a further ten positions. It expects to advertise the remaining positions in January to March 2010.

FINANCIAL INFORMATION

Abridged Consolidated Income Statements

Period ended 27 January to 30 June	Consolidated 2009 $'000	Sydney Metro 2009 $'000
Operating costs (including Personnel Services)	*3,791*	*3,791*
Other expenses	*104*	*104*
OPERATING EXPENSES	*3,895*	*3,895*
Government grants	*171,812*	*171,812*
Interest income	*541*	*541*
OPERATING REVENUE	*172,353*	*172,353*
SURPLUS	*168,458*	*168,458*

Most of Sydney Metro's expenditure is capitalised as work in progress on the balance sheet. Only costs such as overheads and long range planning work not directly attributable to metro projects is expensed in Sydney Metro's Income Statement.

During the period, Sydney Metro received $80.8 million grant funding from the former Ministry of Transport and it received a $91.0 million Commonwealth Government grant for detailed planning and pre construction work on Stage 2 (West Metro) project.

Abridged Consolidated Balance Sheets

At 30 June	Consolidated 2009 $'000	Sydney Metro 2009 $'000
Current assets	*176,409*	*176,409*
Non-current assets	*65,053*	*65,053*
TOTAL ASSETS	*241,462*	*241,462*
Current liabilities	*21,255*	*21,255*
Non-current liabilities	*140*	*140*
TOTAL LIABILITIES	*21,395*	*21,395*
NET ASSETS	*220,067*	*220,067*

Sydney Metro's cash balance at 30 June 2009 was $173 million. This included the $91.0 million funding from the Commonwealth Government, which Sydney Metro received on 29 June 2009.

During the period, assets with a value of $51.6 million were transferred to Sydney Metro from Transport Infrastructure Development Corporation (TIDC). The transferred assets include $21.8 million of expenditure previously incurred by TIDC on metro projects and $29.9 million of unspent grant funding.

AGENCY ACTIVITIES

Sydney Metro was established as a statutory body under the *Transport Administration Act 1988* on 27 January 2009. Its principal activities are to develop safe and reliable metro railway systems as well as hold, manage and maintain metro rail infrastructure facilities.

For further information on Sydney Metro, refer to www.sydneymetro.nsw.gov.au.

CONTROLLED ENTITY

The following controlled entity has not been reported on separately as it is not considered material by its size or the nature of its operation to the consolidated entity. This division was enacted as a requirement of the *Public Sector Employment and Management Act 2002*.

Entity Name
Sydney Metro Division

Transport Infrastructure Development Corporation

AUDIT OPINION

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

KEY ISSUES

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

Delayed Commissioning of Constructed Assets

Commissioning of the Lidcombe and Homebush turnbacks has been further delayed to April 2011. These turnbacks were constructed in April 2008 with an original planned commissioning date in June 2008. The delay is due to a shortage of signal engineers in the rail industry who are qualified to test and commission new infrastructure assets. The estimated final construction cost of this clearways project is $101 million.

While the commissioning of these turnbacks has been delayed, the Corporation did commission the Epping to Chatswood Rail Line, the Hornsby Station platform five and stabling project, and the Revesby turnback.

For more information on how the Corporation and RailCorp are managing the shortage of signal engineers, refer to the comments on RailCorp in this Volume.

Rail Clearways Program

The Rail Clearways program was announced in the 2004 Mini Budget speech as a 15 project program to be completed over 6 years (ending in 2010) at an estimated cost of $1.0 billion. The original approved budget for the Program when later determined was $1.3 billion, excluding the cost of interest and escalation. The Clearways program is now a program of 13 projects that will be completed over 11 years (ending 2015) at a cost of $2.0 billion.

As part of the 2008 Mini Budget, the Government reviewed the priorities of the rail capital program to ensure it met the needs of growing demand on the CityRail network. It also reviewed the program in light of signalling skill shortages in the rail industry. As a result, two projects within the Rail Clearways Program were cancelled, with the delivery of two further projects to be staged (Richmond Line Duplication and Macarthur Station and Interchange).

The key projects of the Rail Clearways Program, their original and revised Budgets and planned construction completion dates (unaudited and as advised by the Corporation) are as follows:

Key Projects	Original Budget ($m)	Revised Budget ($m) [11]	Original Completion Date	Revised Completion Date (at July 2009)
Eastern Suburbs & Illawarra				
Bondi Junction Turnback	68	65	2006	Completed
Cronulla branch line duplication	212	349	2008	2010[1]
Bankstown				
Lidcombe Turnback and platform	See below[9]	See below[9]	2008	Completed[2]
Liverpool Turnback and platform	84	142	2010	2014[3]
Sydenham to Erskineville extra tracks	Nil[10]	Nil[10]	Nil[10]	Cancelled
Campbelltown express				
Kingsgrove to Revesby quadruplication	410	774	2010	2012[3]
Macarthur fourth platform	29	36	2010	Stage1-2010[4] Stage2-2015[4]
Airport & South				
Macdonaldtown Turnback	17	13	2005	Completed
Homebush Turnback	See below[9]	See below[9]	2008	Completed[2]
Revesby Turnback	92	88	2008	Completed[5]
Macdonaldtown stabling	40	46	2007	Completed
North West				
Berowra Platform	9	11	2006	Completed
Hornsby Platform	98	112	2008	Completed[6]
Quakers Hill to Vineyard Duplication	108	231	2012 (was 2010) [7]	Stage 1- 2011[8]
Carlingford line passing loop	36	Nil	2010	Cancelled
Total Program Cost	**1,290**	**1,968**		

1 Including Cronulla Yard and signalling works.
2 Project yet to be commissioned due to outstanding signalling works to be undertaken by RailCorp.
3 After reprioritisation and scope review.
4 After reprioritisation in November 2008. Stage 1 relates to the bus interchange and easy access works. Stage 2 relates to platform and rail works.
5 Commissioned in December 2008.
6 Commissioned in March 2009.
7 Date changed following the extension of the Quakers Hill to Schofield's project to Vineyard.
8 Stage 1 Quakers Hill to Schofields to be completed by 2011. No date set for stage 2 Schofields to Vineyard.
9 The Homebush/Lidcombe Turnbacks are costed together. The original budget is $87 million and the revised budget is $101 million.
10 The Sydenham to Erskineville project was not scheduled or funded prior to being cancelled.
11 Excludes RailCorp Management costs and borrowing costs.

Expenditure on the program to 30 June 2009 totalled $883 million ($561 million at 30 June 2008).

The objective of the Rail Clearways Program is to improve capacity and reliability on CityRail's Sydney suburban network. It comprises 13 key projects being delivered by the Corporation on behalf of RailCorp. The program involves separating the network's 14 metropolitan rail routes into five independent rail clearways.

Epping to Chatswood Rail Line (ECRL) Project

Major construction and commissioning of the ECRL was completed during the year. It was handed to RailCorp on 19 December 2008 and passenger services commenced on 23 February 2009. The ECRL was originally scheduled for completion in mid 2008. However, scheduling difficulties with certain works needing to be done in a particular order resulted in the delay.

The final forecast cost for the ECRL is $2.347 billion (excluding interest costs on borrowings). This is some $300 million more than the original approved budget. As previously reported, the estimated project cost of $1.6 billion (in 2000 prices) per 2003-04 budget papers did not include post 2000 escalation costs for the project of $447 million or the interest costs on borrowings.

At 30 June 2009, the Corporation had incurred $2.28 billion or 97.3 per cent of the final forecast cost. The Corporation expects to spend a further $64.2 million in 2009-10 finalising minor works, defect rectification and rehabilitation of work sites. The defect rectification work includes noise mitigation works to reduce noise by installing noise absorption panels. The Corporation reached an agreement with the tunnel contractor that the contractor would pay for this work.

OTHER INFORMATION

Commuter Car Parking Program (CCPP)

In December 2008, the New South Wales Government directed the Corporation to deliver 23 of the 29 car parks under the CCPP. RailCorp and various local councils are managing the construction of the remaining six car parks. The CCPP will deliver around 7,000 new car spaces for rail commuters.

The next table shows the original and latest forecast completion dates, together with the original and revised budgets. The overall revised budget for the program of $265 million is consistent with the original budget. At the end of October 2009, the Corporation had completed the Helensburgh and Seddon Park car parks. The Corporation believes it can complete the other car parks before October 2011.

	Location	Original completion date	Current forecast or actual completion date	Original Budget ($m)	Revised Budget ($m)
1	Berowra	Sept-10	Sept-10	2.1	2.8
2	Blacktown	Feb-11	Feb-11	35.9	45.7
3	Emu Plains	Sept-10	Sept-10	5.7	5.0
4	Glenfield M/Deck	Sept-10	Aug-10	15.5	15.5
5	Helensburgh	Sept-09	Sept-09	1.7	2.9
6	Katoomba	Apr-10	Apr-10	1.3	1.7
7	Macarthur (1)	Dec-10	Dec-10	8.0	8.0
8	Macarthur (2)	Oct-10	Oct-10	9.3	14.2
9	Padstow	Consolidated[1]	Consolidated[1]	11.8	Nil
10	Quakers Hill	Oct-10	Sept-10	5.9	5.6
11	Ourimbah	July-10	July-10	1.2	1.7
12	Revesby	Dec-10	Feb-11	30.4	33.6
13	Schofields	Sept-11	Sept-11	2.4	2.4
14	Seddon Park	Oct-09	Oct-09	0.8	0.8
15	Seven Hills	Nov-10	Nov-10	22.7	18.3
16	St Marys	Nov-10	Nov-10	24.8	23.7
17	Warwick Farm	Mar-11	Mar-11	30.9	26.8
18	Waterfall	Sept-10	Sept-10	2.4	2.7
19	Werrington	Mar-10	Mar-10	2.1	1.7
20	Wollongong	Dec-10	Dec-10	14.6	19.3
21	Woonona	Jun-10	Jun-10	1.5	2.1
22	Woy Woy	Dec-10	Feb-11	26.9	25.0
23	Wyong	Oct-10	Oct-10	7.3	5.7
	Total Program			**265.2**	**265.2**

[1] Car spaces consolidated into Revesby Project.

Chatswood Transport Interchange

As reported in Volume 4 of my 2008 Report to Parliament, CRI Chatswood Australia Pty Limited (CRI), the developer of the Chatswood Transport Interchange went into receivership in October 2008. The Corporation advised that this did not affect taxpayers and the general public as the transport elements supporting the start of services on the new ECRL were already complete.

There were several contractual disputes between the developer and the Corporation at the time it went into receivership. These were settled via a settlement deed in June 2009. The Corporation also obtained a bank guarantee as part of the settlement deed to cover obligations that may arise during the defects liability period, and received an undertaking from CRI's financiers to cover the Corporation's outgoing expenses on the retail centre for a period of up to 3 years. The retail shops were constructed but have remained boarded up and empty for over a year. The Corporation has maintained security and cleaning responsibilities for these areas until they are tenanted.

North Sydney Station Project

The Corporation completed (excluding defect rectification works) the North Sydney Station Project during the year and it became fully operational from December 2008. At 30 June 2009, the Corporation had incurred $83.0 million on the project. It expects the final forecast cost to be $88.3 million, some $18.4 million or 26.3 per cent more than the original budget of $69.9 million. The increase was due to increased construction scope and remediation works.

North West Metro

In May 2008, the Corporation received a Direction from the Minister for Transport pursuant to section 18E of the *Transport Administration Act 1988* to undertake such work to ensure construction of the North West Metro Project is commenced by 31 December 2010.

In October 2008, the Government decided to defer the North West Metro project indefinitely because of the size of the capital required to complete the project and the economic climate at the time. However, the Government decided to commence a new metro project for the Sydney CBD to deal with priority congestion issues on RailCorp's CityRail network.

The Corporation had incurred some $35.9 million on metro related activities, including $29.3 million on the North West Metro project.

South West Rail Link (SWRL)

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

The Minister's Direction was subsequently amended by Minister's Consent on 2 December 2008, directing the Corporation to deliver this project in two stages. Stage 1 relates to upgrading Glenfield station, providing additional commuter car parking, upgrading of power supplies and constructing new stabling facilities at Auburn. The Corporation advises that Stage 1 will be delivered in 2013 at a cost of $862 million. Stage 2 will include 11.4km of new twin track from Glenfield to Leppington, new stations and commuter car parking at Leppington and Edmondson Park and a new train stabling facility.

Northern Sydney Rail Freight Corridor (NSRF)

The NSRF program is an initiative of the Commonwealth Government to remove operational impediments to rail freight traffic between North Strathfield and Broadmeadow at Newcastle. The Corporation received $15.0 million from the Commonwealth in 2008-09 to commence feasibility studies. At 30 June 2009, the Corporation had spent $3.2 million.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	2009 $'000	2008 $'000
Government grants	***189,710***	408,894
Other	***337,954***	393,534
OPERATING REVENUE	***527,664***	802,428
OPERATING EXPENSES*	***359,403***	332,435
SURPLUS	***168,261***	469,993
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY		
Superannuation actuarial (losses)	--	(98)
Revaluation of property, plant and equipment	***(23,580)***	2,765
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***144,681***	472,660

* Operating expenses excludes direct and indirect costs incurred on the ECRL, South West Rail and Commuter Car Park projects. These costs are capitalised as work in progress.

Government grants were higher in 2007-08 because the Corporation was provided with funding to settle borrowings on the ECRL project.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***205,611***	406,792
Non-current assets	***175,865***	2,100,244
TOTAL ASSETS	***381,476***	2,507,036
Current liabilities	***83,830***	174,106
Non-current liabilities	***820***	243,760
TOTAL LIABILITIES	***84,650***	417,866
NET ASSETS	***296,826***	2,089,170

The significant decrease in assets, liabilities and net assets was mainly due to the vesting of the ECRL to RailCorp during the year. The Corporation vested across physical assets with a value of $2.1 billion and liabilities (mainly borrowings) of $187 million.

CORPORATION ACTIVITIES

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

The two shareholders of the Corporation as at 30 June 2009 were the Treasurer and the Minister for Transport.

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

Section Three

Performance Audit

Grants to the Transport Workers Union and related parties

Grants to the Transport Workers Union and related parties

Background

During fieldwork for our performance audits on 'Grant Administration' and 'Environmental Grants', the Audit Office became aware of public concern over nine grants totalling $651,223 made to the Transport Workers Union (TWU) and related parties. The grants were made between 2002 and 2007 by WorkCover NSW, the Ministry of Transport and the Motor Accidents Authority (MAA).

Using the criteria adopted in the two performance audits, we assessed whether these grants:

- were made under programs that were aligned to government priorities
- were allocated appropriately
- achieved the desired results.

Aligned to government priority

We found that the grants were aligned with the Government's priority of improving road safety.

In 2000, the Government, the industry and unions recognised that long-distance trucks were significantly and disproportionately involved in serious accidents. As a result, a number of agencies acted to address the problem. The Ministry was involved in promoting the policy debate, WorkCover NSW in improving drivers' occupational health and safety (OH&S), and the MAA in minimising insurance premiums.

The agencies made grants to a number of employer, industry and union groups, including the TWU, to engage stakeholders in reforms to improve the safety of long-distance road transport.

Allocated appropriately

We found that the WorkCover NSW and Ministry of Transport grants were allocated appropriately, but a lack of evidence means we cannot give the same assurance about the MAA grants.

WorkCover NSW grants were competitive and made in accordance with clear and documented procedures. The availability of funding was widely advertised and WorkCover NSW assessed applications from unions and employer groups made on standard forms, against consistent criteria.

WorkCover NSW approved five of the TWU's eight applications between 2002 and 2008. Generally, WorkCover NSW considered the TWU a useful partner for implementing the new OH&S laws because of its large membership, its wide geographical coverage of an industry targeted by the 2002 Safety Summit and a high injury rate in the transport and storage industry. Over the same period, WorkCover NSW rejected three TWU applications, which it assessed as being vague, offering poor value, being of questionable effectiveness or insufficiently consultative with employer groups.

The Ministry of Transport grant was not competitive, but was directly negotiated by the Transport and Logistics Centre (TALC) after an approach from the TWU.

The Ministry established TALC to work on transport workforce issues with oversight from the Commonwealth and the TALC National Advisory Council comprising key employer, industry and union organisations. The grant to the TWU was in accordance with the mandate and guidelines approved by the stakeholders.

In contrast, we cannot provide assurance that the MAA grant was made appropriately because relevant records had been destroyed along with other grant files. This should not have occurred.

MAA staff advised that the destruction was inadvertent. It occurred because the MAA established procedures in 1999 that wrongly categorised grant files as administrative rather than financial records. This error predated the making of the TWU grants in 2002 and 2003 and their subsequent destruction.

There is evidence to indicate that the grants were made in response to TWU letters seeking funds to establish the Concerned Families of Australian Truckies as a charitable organisation and to help it raise awareness about the risks of driver fatigue. The MAA's General Manager endorsed the TWU's letters indicating approval of the proposals. At the time the General Manager chaired the taskforce responsible for making truck drivers aware of the reforms.

In interviews the General Manager and former staff advised that:

- at the time the MAA had no documented procedures for making and administering these grants
- the MAA believed the grant was appropriate because it engaged drivers' families to help manage the risks around fatigue.

Achieved results

The fact that grants are allocated appropriately does not necessarily mean that they achieve what was intended. We found that the grants to the TWU had mixed success in achieving the desired results.

The Ministry of Transport monitored the results of its grant. The funding produced significant published research that informed a 2007 Senate inquiry into Workforce Challenges in the Transport Industry. The Transport and Logistics Industry Skills Council adopted the report's recommendations around training.

WorkCover NSW required the TWU to certify how the funds were spent. Some earlier grants did not specify the expected outcomes and do not appear to have provided value for money. For example, the 2002 grant was vague about how advice on the reforms was to be delivered. The TWU spent $70,000 training and employing two staff to answer 844 phone calls about the OH&S changes and the WorkCover NSW reforms, a cost of $84.90 a call.

Since 2003, WorkCover NSW has better specified and monitored outcomes. The funded TWU initiatives (including a dedicated fatigue hot line, training, workshops, literature in truckstops and an industry-recognised DVD "*and the rest")* have improved driver awareness about fatigue. The TWU conducted some of these initiatives jointly with the employers' Road Transport Association.

We can provide no assurance that the MAA grants achieved the desired results. The General Manager advised that representatives of the MAA attended conferences hosted by the TWU, but there is no other evidence that the MAA monitored the outcome of the grants or whether they achieved value for money.

Conclusion

The Ministry of Transport and WorkCover NSW grants to the TWU were made and administered appropriately.

The MAA has advised that:

- it has amended its procedures to ensure grant records are retained in accordance with Government procedural requirements
- the appropriate retention schedules are now applied to all records
- it is reviewing its procedures for making grants and monitoring how funding is used and whether the desired outcomes are achieved.

SCHEDULE OF GRANTS TO THE TWU AND RELATED PARTIES

Ministry of Transport

Date	Grant	Amount $
01.09.06	Commission a study into attraction, recruitment and retention of truck drivers.	44,110
	TOTAL	**44,110**

WorkCover NSW

Date	Grant	Amount $
30.01.02	Provide training and advice to truck drivers about changes to workers compensation legislation	100,000
18.06.03	Provide training and advice to truck drivers about changes to workers compensation, OH&S, and injury management	119,950
05.01.06	In conjunction with the employers' association provide advice on the new long distance driver fatigue regulations with a focus on risk management and OHS consultation	75,000
03.07.06	Provide advice on the new long distance driver fatigue regulations with a focus on risk management and OHS consultation	144,146
10.08.07	Commission research on age related risks to the safety of professional drivers.	73,417
	TOTAL	**512,513**

Motor Accidents Authority

Date	Grant	Amount $
22.05.02	Establish the Concerned Families of Australian Truckies (CFAT) as a charitable organisation.	19,800
05.02.03	Assist the CFAT to hold seminars on transport industry reforms and to encourage community participation on road safety awareness for truck drivers.	19,800
07.05.03	Assist the preparation, publication and launch of a general road safety awareness and training package for NSW transport workers and their families.	55,000
	TOTAL	**94,600**

Appendix

Appendix 1
Agencies not reported elsewhere in this Volume

Appendix 2
Financial Reports Not Received by Statutory Date
(as at 24 November 2009)

Appendix 3
Financial Reports Received but Audit Incomplete by Statutory Date
(as at 24 November 2009)

Appendix 4
Qualified Independent Auditor’s Reports Issued

Appendix 1 – Agencies not reported elsewhere in this Volume

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

Entity Name	Website	Period/Year Ended
Agricultural Scientific Collections Trust	www.dpi.nsw.gov.au	30 June 2009
Banana Industry Committee	www.bananasnsw.org.au	30 June 2009
Building Professionals Board	www.bpb.nsw.gov.au	30 June 2009
C.B. Alexander Foundation	www.tocal.com	30 June 2009
Chief Investigator of the Office of Transport Safety Investigations	www.otsi.nsw.gov.au	30 June 2009
Game Council of New South Wales	www.gamecouncil.nsw.gov.au	30 June 2009
- Game Council Division	*	30 June 2009
Independent Transport Safety and Reliability Regulator	www.transportregulator.nsw.gov.au	30 June 2009
- Independent Transport Safety and Reliability Regulator Division	*	30 June 2009
Luna Park Reserve Trust	www.lunaparksydney.com	30 June 2009
Ministerial Corporation for Industry	www.business.nsw.gov.au	30 June 2009
Rice Marketing Board for the State of New South Wales	www.rmbnsw.org.au	30 June 2009
Small Business Development Corporation of New South Wales	www.smallbus.nsw.gov.au	30 June 2009
Veterinary Practitioners Board	www.vsb.nsw.gov.au	30 June 2009

* This entity does not have a website.

Appendix 2 - Financial Reports Not Received by Statutory Date (as at 24 November 2009)

Entity Name	Period/Year Ended	Due Date	Date Financial Report Received
Festival Development Corporation	30 June 2009	11 August 2009	11 September 2009
Forestry Commission Division	30 June 2009	11 August 2009	21 August 2009
Foundation for the Historic Houses Trust of New South Wales	30 June 2009	11 August 2009	27 August 2009
Foundation for the Historic Houses Trust of New South Wales Limited	30 June 2009	11 August 2009	1 September 2009
Greyhound and Harness Racing Regulatory Authority	30 June 2009	11 August 2009	30 September 2009
Greyhound and Harness Racing Regulatory Authority Division	30 June 2009	11 August 2009	30 September 2009
Hamilton Rouse Hill Trust	30 June 2009	11 August 2009	27 August 2009
Historic Houses Trust of New South Wales	30 June 2009	11 August 2009	14 August 2009
Hunter Region Sporting Venues Authority	30 June 2009	11 August 2009	10 November 2009
NSW Institute of Teachers	30 June 2009	11 August 2009	14 August 2009
Office of The Institute of Teachers	30 June 2009	11 August 2009	14 August 2009
Pacific Power (Subsidiary No 1) Pty Ltd	30 June 2009	11 August 2009	7 September 2009
Pacific Solar Pty Limited	30 June 2009	11 August 2009	7 September 2009
Residual Business Management Corporation	30 June 2009	11 August 2009	7 September 2009
Rouse Hill Hamilton Collection Pty Limited	30 June 2009	11 August 2009	1 September 2009
Sydney Catchment Authority	30 June 2009	11 August 2009	12 August 2009
Sydney Catchment Authority Division	30 June 2009	11 August 2009	12 August 2009
Wentworth Park Sporting Complex Trust	30 June 2009	11 August 2009	17 August 2009

Appendix 3 - Financial Reports Received but Audit Incomplete by Statutory Date (as at 24 November 2009)

The *Public Finance and Audit Act 1983* requires that we issue an audit opinion within ten weeks of receiving an agency's financial report. The Act also states that we cannot issue our opinion until the agency has signed its financial report.

ANZAC Health and Medical Research Foundation

The audit was completed on 27 November 2009.

Border Rivers Catchment Management Authority

The Office commenced the audit later than planned and this extended the completion date of the audit. We signed the Independent Auditor's Report on 26 October 2009.

Building Professionals Board

The audit was completed on 12 November 2009.

Casino, Liquor and Gaming Control Authority

The audit was completed on 30 October 2009.

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

The financial report submitted to us contained a number of errors and this delayed the audit process. The Independent Auditor's Report was issued on 11 November 2009.

Corporation Sole 'Minister Administering the *Heritage Act, 1977*'

The financial report submitted to us contained a number of errors and this delayed the audit process. The Independent Auditor's Report was issued on 10 November 2009.

Crown Lands Homesites Program

The audit was completed on 20 October 2009.

Department of Planning

The audit of the financial report for the year ended 30 June 2009 was delayed due to a number of issues with the recognition of revenue that required adjustment to the financial report. The audit was completed on 12 November 2009.

Department of the Arts, Sports and Recreation

The audit of the financial report for the year ended 30 June 2009 was delayed due to significant delays in completing the valuation of land and building. The audit was completed on 16 November 2009.

Electricity Tariff Equalisation Ministerial Corporation

The audit was completed on 20 October 2009.

Festival Development Corporation

The audit of the financial report for the year ended 30 June 2009 was delayed due to the late submission of the financial report. The Independent Auditor's Report will be issued when the audit is complete.

Game Council Division

The audit was completed on 23 November 2009.

Game Council of New South Wales

The audit was completed on 23 November 2009.

HealthQuest and HealthQuest Special Purpose Service Entity

The audit of the financial reports for the period ended 1 July 2009 is incomplete. The Health Services Amendment (Dissolution of HealthQuest) Order 2009 dissolved HealthQuest and the HealthQuest Special Service Entity on 1 July 2009. Consequently, the financial year of both were extended by one day.

The delay in the audit process has been as a result of redrafting of the financial reports for the extended financial reporting period and the late provision of work papers to support the financial reports. We anticipate the audit will be completed shortly.

Home Purchase Assistance Fund

The Office commenced the audit later than planned and this extended the completion date of the audit. We signed the Independent Auditor's Report on 11 November 2009.

Hunter Region Sporting Venues Authority

The audit is delayed due to final resolution of a receivable balance.

Ingham Health Research Institute

The audit was completed on 26 November 2009.

Justice Health and Justice Health Service Special Purpose Service Entity

The audits of the financial reports for the year ended 30 June 2009 are incomplete. Justice Health is finalising the financial report for changes in presentation. The delay was due to the late provision of work papers to support the financial reports, and liability and commitment disclosure issues in relation to the new Long Bay Forensic Hospital. We anticipate the audit will be completed shortly.

Mine Subsidence Board

The audit was completed on 30 October 2009.

Natural Resources Commission and Natural Resources Commission Division

Whilst all audit field work was completed before the Statutory date, we did not receive the signed financial report until after year end. We signed the Independent Auditor's Report on 26 October 2009.

New South Wales Fire Brigades

The audit was completed on 29 October 2009.

New South Wales Institute of Psychiatry

The audit was completed on 10 November 2009.

New South Wales Medical Board

The audit was completed on 9 November 2009.

NSW Board of Vocational Education and Training

The audit has been delayed as the client is experiencing difficulties in reconciling final account balances.

NSW Self Insurance Corporation

The audit was completed on 20 October 2009.

NSW Vocational Education and Training Accreditation Board

The audit has been delayed as the client is experiencing difficulties in reconciling final account balances.

Office Of The Sydney 2009 World Masters Games Organising Committee

The audit was completed on 15 October 2009.

Office of the WorkCover Authority

The audit was completed on 13 November 2009.

Pacific Power (Subsidiary No1) Pty Ltd

The audit of the financial report for the year ended 30 June 2009 was delayed due to the late submission of the financial report. The Independent Auditor's Report will be issued once the audit is complete.

Pacific Solar Pty Limited

The audit of the financial report for the year ended 30 June 2009 was delayed due to the late submission of the financial report. The Independent Auditor's Report will be issued once the audit is complete.

Payments to Other Government Bodies under the Control of the Minister

The Office commenced the audit later than planned and this extended the completion date of the audit. We signed the Independent Auditor's Report on 21 October 2009.

Residual Business Management Corporation

The audit of the financial report for the year ended 30 June 2009 was delayed due to the late submission of the financial report. The Independent Auditor's Report will be issued once the audits of the Corporation and the subsidiary entities are complete.

Responsible Gambling Fund

The audit was completed on 30 November 2009.

State Rail Authority Residual Holding Corporation

The audit was completed on 20 October 2009.

State Water Corporation

The audit of the financial report for the year ended 30 June 2009 was delayed due to difficulties in completing the valuation of assets. We signed the Independent Auditor's Report on 23 October 2009.

Sydney 2009 World Masters Games Organising Committee Division

The audit was completed on 15 October 2009.

Sydney South West Area Health Service

The audit was completed on 20 November 2009.

Sydney South West Area Health Service Special Purpose Service Division

The audit was completed on 20 November 2009.

Treasury Managed Fund

The audit was completed on 20 October 2009.

Waste Recycling and Processing Corporation

The audit for the year ended 30 June 2009 is incomplete. The audit has been delayed due to accounting matters arising from the outcome of a court decision. We anticipate that the audit will be completed shortly.

WorkCover Authority of New South Wales

The audit was completed on 13 November 2009.

Workers Compensation Commission

The audit was completed on 13 November 2009.

Appendix 4 - Qualified Independent Auditor's Reports Issued

From 26 November 2008 to 8 December 2009 the Audit Office issued 24 qualified Independent Auditor's Reports (14 in the preceding period). The increase is due to 13 prior period opinions being finalised in the current year.

Organisation	Financial Statements Period Ended	Reason for Qualification
A.C.N 093 230 374 Pty Ltd (formerly TAFE Global)	30.06.2008	The company was unable to provide sufficient and appropriate evidence to support the material transactions relating to all areas of the company's operations. This uncertainty over the opening balances also affected our opinion on the operating result for the year ended 30 June 2008.
ANZAC Health and Medical Research Foundation - Trust Fund	30.6.2008	It is impractical for the Foundation to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry in the financial records.
Centennial Parklands Foundation	30.6.2009	It is impractical for the Foundation to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry in the financial records.
Crown Entity	30.06.2009	We were unable to substantiate the value of Crown reserves.
Department of Primary Industries	30.06.2008	We were unable to obtain sufficient appropriate audit evidence to substantiate the value of native forest timber.
	30.06.2009	We were unable to form an opinion on the tax deductibility of plantation establishment costs, incurred prior to 1 July 1994, for biological assets.
Forestry Commission of New South Wales	30.06.2008	We were unable to obtain sufficient appropriate audit evidence to substantiate the value of native forest timber.
	30.06.2009	We were unable to form an opinion on the tax deductibility of plantation establishment costs, incurred prior to 1 July 1994, for the Commission's biological assets.
Gosford Water Supply Authority	30.6.2008	Many of the Authority's investments do not have market values that are independently quoted and are not widely traded. The volatility in global financial markets caused an inability to obtain sufficient appropriate evidence to satisfy the fair value and recoverability of the Authority's investment portfolio.
NSW Ovine John's Disease Transaction Based Contribution Scheme	30.06.2009	The scheme does not have an effective system of internal control to ensure completeness over contributions revenue.

Organisation	Financial Statements Period Ended	Reason for Qualification
NSW Self Insurance Corporation	30.06.2009	The Corporation does not properly account for its general insurance contracts.
Riverina Citrus	30.04.2009	We issued a qualification on the Board's comparative figures. The methodology used by the Board to raise levies may not capture all rateable production.
Royal Alexandra Hospital for Children	30.6.2008 30.6.2009	It is impractical for the Hospital to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry in the financial records.
Sydney Water Corporation	30.06.2009	The Corporation does not recognise assets and liabilities arising from build-own-operate schemes.
Total State Sector Accounts	30.06.2009	The Total State Sector Accounts do not recognise land under roads despite being reliably measurable. We were also unable to form an opinion on the value of Crown Reserves controlled by the State.
Treasury Managed Fund	30.06.2009	The Fund does not properly account for its general insurance contracts.
University of New England Sports Association	31.12.2007 31.12.2008	Because of the timing of our appointment as auditors, we were unable to give an opinion on the opening balances and therefore for the results of operations and cash flows for the years ended 31 Dec 2007 and 31 Dec 2008. The Association has also not depreciated building and infrastructure assets prior to 1 Jan 2008.
University of New South Wales Foundation Trust	31.12.2008	It is impractical for the company to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry in the financial records.
UNSW & Study Abroad— Friends and U.S. Alumni, Inc. (Incorporated in the United States)	31.12.2007 31.12.2008	It is impractical for the Company to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry in the financial records.
UNSW Hong Kong Foundation Limited 2007	31.12.2008	It is impractical for the Company to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry in the financial records.
UON Foundation Trust	31.12.2008	It is impractical for the Trust to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry in the financial records.

Index

A

Page
A.C.N. 093 230 374 Pty Limited .... Vol 9 2009
Aboriginal Affairs, Department of .... Vol 6 2009
Aboriginal Affairs, Minister for .... Vol 6 2009
Aboriginal Housing Office .... Vol 6 2009
Aboriginal Housing Office Group of Staff .... Vol 6 2009
Aboriginal Land Council, New South Wales .... Vol 6 2009
Access Macquarie Limited .... Vol 2 2009
accessUTS Pty Limited .... Vol 2 2009
ACN 125 694 546 Pty Limited .... Vol 2 2009
Acyte Biotech Pty Ltd .... Vol 2 2009
Adult Migrant English Service, NSW .... Vol 9 2009
Ageing, Minister for .... Vol 6 2009
Ageing, Disability and Home Care,
Department of .... Vol 6 2009
Agencies not reported elsewhere in this Volume 157
Agricultural Business Research Institute .... Vol 2 2009
Agricultural Scientific Collections Trust.................. 157
AGSM Limited .... Vol 2 2009
Ambulance Service of New South Wales .... Vol 1 2009
ANZAC Health and Medical Research Foundation . Vol 1 2009
ANZAC Health and Medical Research Foundation
Trust Fund .... Vol 1 2009
Architects Registration Board, NSW................. Vol 6 2009
Art Gallery of New South Wales Foundation .... Vol 9 2009
Art Gallery of New South Wales Trust .... Vol 9 2009
Arts Education Foundation Trust .... Vol 9 2009
Arts, Minister for the .... Vol 9 2009
Arts, Sport and Recreation, Department of the... Vol 9 2009
Asbestos Diseases Research Foundation, The...... Vol 5 2008
Attorney General .... Vol 8 2009
Attorney General's Department .... Vol 8 2009
Audio Nomad Pty Ltd .... Vol 2 2009
Aus Health International Pty Limited .... Vol 6 2007
Australian Centre for Advanced Computing and
Communications Pty Ltd .... Vol 6 2009
Australian Education Consultancy Limited .... Vol 2 2009
Australian Institute of Asian Culture and Visual
Arts Limited, The .... Vol 9 2009
Australian Museum Trust .... Vol 9 2009
Australian Plant DNA Bank Limited.................. Vol 2 2009
Australian Proteome Analysis Facility Limited .... Vol 2 2009
Australian School of European Aviation
(JAA) Pty Ltd .... Vol 2 2009
Australian Technology Park Precinct
Management Ltd .... Vol 5 2008
Australian Water Technologies Pty Ltd .... Vol 7 2009
AWT International (Thailand) Limited .... Vol 7 2009

B

Banana Industry Committee 157
Belgenny Farm Agricultural Heritage Centre
Trust .... Vol 1 2009
Biobank Pty Limited .... Vol 2 2009
Board of Studies, Office of the .... Vol 9 2009
Board of Studies, The .... Vol 9 2009
Board of Studies Casual Staff Division .... Vol 9 2009
Board of Surveying and Spatial Information .... Vol 6 2009
Board of Vocational Education and Training,
NSW .... Vol 4 2008
Border Rivers-Gwydir Catchment Management
Authority .... Vol 7 2009
Bosch Institute, The .... Vol 2 2009
Boxing Authority of New South Wales .... Vol 9 2009
Brett Whiteley Foundation, The .... Vol 9 2009
Building and Construction Industry Long Service
Payments Corporation .... Vol 5 2009
Building Insurers' Guarantee Corporation.......... Vol 6 2009
Building Professionals Board 157
Buroba Pty Ltd .... Vol 5 2009
Bush Fire Co-ordinating Committee .... Vol 8 2009
Businesslink Pty Ltd, NSW .... Vol 6 2009

C

C.B. Alexander Foundation 157
CADRE Design Pty Limited ....Vol 2 2009
CADRE Design Unit Trust ....Vol 2 2009
Cancer Institute Division ....Vol 1 2009
Cancer Institute NSW ....Vol 1 2009
Casino, Liquor and Gaming Control Authority......Vol 9 2009
CCP Holdings Pty Limited ....Vol 3 2009
Centennial Park and Moore Park Trust ....Vol 9 2009
Centennial Parklands Foundation ....Vol 9 2009
Central West Catchment Management Authority ..Vol 7 2009
Centre for United States Studies Pty Limited ......Vol 2 2009
Cessnock Uni-Clinic Trust ....Vol 2 2009
Charles Sturt Foundation Limited ....Vol 2 2009
Charles Sturt Foundation Trust ....Vol 2 2009
Charles Sturt Services Limited ....Vol 2 2009
Charles Sturt University ....Vol 2 2009
Chief Investigator of the Office of Transport
Safety Investigations 157
Children, Office for ....Vol 9 2009
Chipping Norton Lake Authority ....Vol 6 2009
Citizenship, Minister for ....Vol 9 2009
Chiropractors Registration Board ....Vol 5 2008
City West Housing Pty Limited ....Vol 6 2009
Climate Change and the Environment,
Minister for ....Vol 7 2009
Clinical Excellence Commission ....Vol 1 2009
Clinical Excellence Commission Special
Purpose Service Entity ....Vol 1 2009
CMBF Limited ....Vol 2 2009
Cobar Water Board ....Vol 7 2009
Cobar Water Board Division ....Vol 7 2009
Cobbora Coal Unit Trust ....Vol 3 2009
Cobbora Management Company Pty Limited ....Vol 3 2009
Cobbora Unincorporated Joint Venture ....Vol 3 2009
Coffs Harbour Technology Park Limited ....Vol 9 2009
Commerce, Department of ....Vol 6 2009
Commerce, Minister for ....Vol 6 2009
Commission for Children and Young
People, NSW ....Vol 6 2009
Community Relations Commission, Office of the ..Vol 9 2009
Community Relations Commission for a
Multicultural New South Wales ....Vol 9 2009
Community Services, Department of ....Vol 6 2009
Community Services, Minister for ....Vol 6 2009
Cooks Cove Development Corporation ....Vol 5 2008
Corporate Governance Arrangements
in Large Government Agencies and
Universities ....Vol 2 2009
Corporation Sole 'Minister Administering the
Environmental Planning and Assessment
Act, 1979' 23
Corporation Sole 'Minister Administering the
Heritage Act, 1977' 25
Corrective Services, Department of ....Vol 8 2009
Corrective Services, Minister for ....Vol 8 2009
Country Energy ....Vol 3 2009
Country Energy Gas Pty Limited ....Vol 3 2009
Cowra Japanese Garden Maintenance
Foundation Limited ....Vol 8 2009
Cowra Japanese Garden Trust ....Vol 8 2009
Crime Commission, New South Wales ....Vol 8 2009
Crime Commission, Office of the New South
Wales ....Vol 8 2009
Crime Commission Division, New South Wales .....Vol 8 2009
Crown Employees (NSW Fire Brigades
Firefighting Staff, Death and Disability)
Superannuation Fund ....Vol 5 2009
Crown Entity ....Vol 5 2009
Crown Lands Homesites Program ....Vol 6 2009
Crown Leaseholds Entity ....Vol 5 2008
Cystemix Pty Limited ....Vol 2 2009

D

Dams Safety Committee .... Vol 7 2009
Delta Electricity.. Vol 3 2009
Delta Electricity Australia Pty Ltd .... Vol 3 2009
Dental Board of New South Wales.................... Vol 1 2009
Dental Technicians Registration Board .... Vol 5 2008
Director of Public Prosecutions, Office of the .... Vol 8 2009
Downtown Utilities Pty Limited .... Vol 3 2009
Dumaresq-Barwon Border Rivers Commission ..... Vol 7 2009
Duquesne Utilities Pty Ltd............................ Vol 5 2009

E

Education and Training, Department of............ Vol 9 2009
Education and Training, Minister for................ Vol 9 2009
Education Training Community Television
(ETC TV) Limited .... Vol 2 2009
Elastagen Pty Limited .... Vol 2 2009
Election Funding Authority of New South Wales .. Vol 8 2009
Electoral Commission, New South Wales........... Vol 8 2009
Electricity Industry Overview .... Vol 3 2009
Electricity Tariff Equalisation Ministerial
Corporation .... Vol 5 2009
Emergency Services, Minister for.................... Vol 8 2009
Emergency Services Overview .... Vol 8 2009
Energy, Minister for .... Vol 3 2009
Energy Industries Superannuation Scheme......... Vol 5 2009
Energy Investment Fund .... Vol 5 2009
EnergyAustralia... Vol 3 2009
EnergyAustralia Pty Limited.......................... Vol 3 2009
Environment and Climate Change,
Department of..................................... Vol 7 2009
Environment Protection Authority .... Vol 7 2009
Environmental Trust................................... Vol 7 2009
Eraring Energy.. Vol 3 2009
Events New South Wales Pty Limited .... Vol 8 2009

F

Fair Trading Administration Corporation........... Vol 6 2009
Festival Development Corporation.................. Vol 3 2009
Film and Television Office, New South Wales..... Vol 9 2009
Finance, Minister for .... Vol 6 2009
Financial Counselling Trust Fund.................... Vol 6 2009
**Financial Reports Not Received by Statutory
Date (as at 24 November 2009)....................... 158**
**Financial Reports Received but Audit Incomplete by
Statutory Date (as at 24 November 2009) 159**
Fire Brigades, New South Wales..................... Vol 8 2009
Fire Brigades Superannuation Pty Limited,
NSW .... Vol 5 2009
Food Authority, NSW.. 53
Food Authority, Office of the NSW 55
**Forestry Commission of New South Wales
(Trading as Forests NSW)................................ 44**
Forestry Commission Division 48
Foundation for the Historic Houses Trust
of New South Wales............................... Vol 9 2009
Foundation for the Historic Houses Trust
of New South Wales Limited .... Vol 9 2009

G

Game Council of New South Wales 157
Game Council Division 157
Gaming and Racing, Minister for .... Vol 9 2009
Gosford Water Supply Authority..................... Vol 7 2009
Government Telecommunications Authority
(Telco), New South Wales .... Vol 6 2009
GraduateSchool.com Pty Limited .... Vol 2 2009
**Grants to the Transport Workers Union
and related parties 151**
Greater Southern Area Health Service .... Vol 1 2009
Greater Southern Area Health Service
Special Purpose Service Entity.................. Vol 1 2009
Greater Western Area Health Service .... Vol 1 2009
Greater Western Area Health Service
Special Purpose Service Entity.................. Vol 1 2009
Greyhound and Harness Racing Regulatory
Authority.. Vol 5 2008
Greyhound and Harness Racing Regulatory
Authority Division................................. Vol 5 2008

H

Hamilton Rouse Hill Trust .... Vol 9 2009
Hawkesbury-Nepean Catchment Management
Authority.. Vol 7 2009
Health Administration Corporation .... Vol 1 2009
Health Administration Corporation
Special Purpose Service Entity .... Vol 1 2009
Health Care Complaints Commission .... Vol 5 2008
Health Care Complaints Commission,
Office of the....................................... Vol 5 2008
Health Foundation, New South Wales............... Vol 6 2008
Health, Department of .... Vol 1 2009
Health, Minister for .... Vol 1 2009
Health Overview .... Vol 1 2009
HealthQuest .... Vol 1 2009
HealthQuest Special Purpose Service Entity .... Vol 1 2009
HepatoCell Therapeutics Pty Ltd .... Vol 2 2009
Historic Houses Trust of New South Wales .... Vol 9 2009
Home Care Service of New South Wales .... Vol 6 2009
Home Care Service Division........................... Vol 6 2009
Home Purchase Assistance Fund .... Vol 7 2009
Housing, Minister for................................... Vol 7 2009
Housing NSW .... Vol 6 2009
Hunter Development Corporation.................... Vol 4 2008
Hunter New England Area Health Service .... Vol 1 2009
Hunter New England Area Health Service
Special Purpose Service Entity .... Vol 1 2009
Hunter Uni-Clinics Pty Limited .... Vol 2 2009
Hunter Water Australia Pty Limited. .... Vol 7 2009
Hunter Water Corporation .... Vol 7 2009
Hunter-Central Rivers Catchment Management
Authority.. Vol 7 2009

I

Illawarra Technology Corporation Limited .... Vol 2 2009
Independent Commission Against Corruption ...... Vol 8 2009
Independent Pricing and Regulatory Tribunal ..... Vol 8 2009
Independent Pricing and Regulatory Tribunal
Division.. Vol 8 2009
**Independent Transport Safety and Reliability
Regulator 157**
**Independent Transport Safety and Reliability
Regulator Division 157**
Industrial Relations, Minister for..................... Vol 5 2009
Infrastructure Implementation Corporation........ Vol 8 2009
Ingham Health Research Institute .... Vol 1 2009
Insearch Limited .... Vol 2 2009
Institute for Magnetic Resonance Research .... Vol 2 2009
Institute of Psychiatry, New South Wales .... Vol 5 2008
Institute of Sport, New South Wales................. Vol 9 2009
Institute of Sport Division .... Vol 9 2009
Institute of Teachers, NSW .... Vol 9 2009
Institute of Teachers, Office of the .... Vol 9 2009
Integral Energy Australia .... Vol 3 2009
Internal Audit Bureau of New South Wales......... Vol 6 2009
Internal Audit Bureau Division........................ Vol 6 2009
International Livestock Resources and Information
Centre Ltd .... Vol 2 2009
ITC (Europe) Ltd .... Vol 2 2009
ITC (Middle East) Ltd................................... Vol 2 2009
ITC (New Zealand) Limited .... Vol 2 2009
ITC Education Ltd .... Vol 2 2009
ITC Emirates Limited................................... Vol 2 2009

J

Jenolan Caves Reserve Trust .... Vol 7 2009
Jenolan Caves Reserve Trust Division .... Vol 7 2009
John Lewis and Pamela Lightfoot Trust............. Vol 2 2009
Judicial Commission of New South Wales........... Vol 8 2009
Justice Health... Vol 1 2009
Justice Health Special Purpose Service Entity ..... Vol 1 2009

Juvenile Justice, Department of .... Vol 6 2009
Juvenile Justice, Minister for .... Vol 6 2009

L

Lachlan Catchment Management Authority........ Vol 7 2009
Lake Illawarra Authority .... Vol 6 2009
LAMS Foundation Limited .... Vol 2 2009
LAMS International Pty Limited .... Vol 2 2009
Land Development Working Account................ Vol 6 2009
Landcom 29
Lands, Department of .... Vol 6 2008
Lands, Minister for .... Vol 9 2009
Law and Order Overview............................. Vol 8 2009
Legal Aid Commission of New South Wales .... Vol 8 2009
Legal Aid Commission, Office of the .... Vol 8 2009
Legal Aid Temporary Staff Division................. Vol 8 2009
Legal Opinions Provided by the Crown Solicitor .. Vol 4 2009
Legal Profession Admission Board .... Vol 8 2009
Legislature, The .... Vol 8 2009
Legislature (Audit of Members' Additional Entitlements), The .... Vol 2 2009
Liability Management Ministerial Corporation..... Vol 5 2009
Library Council of New South Wales .... Vol 9 2009
Lifetime Care and Support Authority of New South Wales .... Vol 5 2009
Liquor Administration Board .... Vol 5 2008
Local Government, Department of.................. Vol 8 2009
Local Government, Minister for...................... Vol 8 2009
Lord Howe Island Board .... Vol 7 2009
Lotteries Corporation, New South Wales........... Vol 5 2009
Lower Murray-Darling Catchment Management Authority .... Vol 7 2009
Luna Park Reserve Trust 157

M

Macquarie Generation................................. Vol 3 2009
Macquarie Graduate School of Management Pty Limited... Vol 2 2009
Macquarie University Medical Research Foundation Limited .... Vol 2 2009
Macquarie University Medical Research Trust ..... Vol 2 2009
Macquarie University Private Hospital Trust....... Vol 2 2009
Macquarie University Professorial Superannuation Scheme .... Vol 2 2009
Macquarie University Property Investment Company No. 2 Pty Limited...................... Vol 2 2009
Macquarie University Property Investment Company Pty Limited............................ Vol 2 2009
Macquarie University Property Investment Trust .... Vol 2 2009
Macquarie University .... Vol 2 2009
Marine Parks Authority .... Vol 7 2009
Maritime Authority of NSW .... Vol 5 2008
Maritime Authority of NSW Division .... Vol 5 2008
Medical Board, New South Wales.................... Vol 5 2008
Mid West Primary Pty Ltd............................ Vol 3 2009
Midwest Development Corporation Pty Limited... Vol 3 2009
Milk Marketing (NSW) Pty Limited 55
Mine Subsidence Board 19
Mineral Resources, Minister for 17
Minerals Industry/University of New South Wales Education Trust, The New South Wales Vol 2 2009
Ministerial Corporation for Industry...................... 157
Mitchell Services Limited .... Vol 2 2009
Motor Accidents Authority of New South Wales ... Vol 5 2009
Motor Accidents Authority of New South Wales, Office of the .... Vol 5 2009
Motor Vehicle Repair Industry Authority .... Vol 6 2009
MU Private Hospital Pty Limited..................... Vol 2 2009
MUPH Clinic Pty Limited .... Vol 2 2009
MUPH Clinic Sub-Trust................................ Vol 2 2009
MUPH Hospital Pty Limited .... Vol 2 2009
MUPH Hospital Sub-Trust .... Vol 2 2009
MUPI Holding Trust No. 1 .... Vol 2 2009
MUPI Holding Trust No. 2 .... Vol 2 2009
MUPI Holding Trust No. 3 .... Vol 2 2009
MUPI Holding Trust No. 4.............................Vol 2 2009
MUPI Holding Trust No. 5.............................Vol 2 2009
MUPI Holding Trust No. 6.............................Vol 2 2009
MUPIT Sub-Trust No. 1 ....Vol 2 2009
MUPIT Sub-Trust No. 2 ....Vol 2 2009
MUPIT Sub-Trust No. 3 ....Vol 2 2009
MUPIT Sub-Trust No. 4 ....Vol 2 2009
Murray Catchment Management Authority ....Vol 7 2009
Murrumbidgee Catchment Management Authority ....Vol 7 2009

N

Namoi Catchment Management Authority ....Vol 7 2009
National Marine Science Centre Pty Ltd ....Vol 2 2009
Natural Resources Commission ....Vol 8 2009
Natural Resources Commission Division ....Vol 8 2009
Newcastle Innovation Limited ....Vol 2 2009
Newcastle International Sports Centre Trust.......Vol 3 2009
Newcastle Port Corporation..........................Vol 5 2008
Newcastle Showground and Exhibition Centre Trust ....Vol 1 2009
NewSouth Eight Pty Ltd...............................Vol 2 2009
NewSouth Five Pty Ltd................................Vol 2 2009
NewSouth Four Pty Ltd ....Vol 2 2009
NewSouth Global (Thailand) Limited ....Vol 2 2009
NewSouth Innovations Pty Ltd ....Vol 2 2009
NewSouth One Pty Ltd ....Vol 2 2009
NewSouth Seven Pty Ltd..............................Vol 2 2009
NewSouth Six Pty Ltd ....Vol 2 2009
Norsearch Limited ....Vol 2 2009
North Coast Area Health Service ....Vol 1 2009
North Coast Area Health Service Special Purpose Service Entity...................Vol 1 2009
Northern Rivers Catchment Management Authority ....Vol 7 2009
Northern Sydney and Central Coast Area Health Service.....................................Vol 1 2009
Northern Sydney and Central Coast Area Health Service Special Purpose Service Entity ....Vol 1 2009
NorthPower Energy Services Pty Limited ....Vol 3 2009
Nurses and Midwives Board ....Vol 5 2008

O

Ombudsman's Office ....Vol 8 2009
Optical Dispensers Licensing Board ....Vol 5 2008
Optometrists Registration Board ....Vol 5 2008
Osteopaths Registration Board ....Vol 5 2008
Ovine Johne's Disease Transaction Based Contribution Scheme, NSW 56

P

Pacific Industry Services Corporation Pty Limited....... 55
Pacific Power (Subsidiary No. 1) Pty Ltd............Vol 3 2009
Pacific Solar Pty Limited ....Vol 3 2009
Parklands Foundation Limited ....Vol 9 2009
Parliamentary Contributory Superannuation Fund ....Vol 5 2009
Parramatta Park Trust ....Vol 9 2009
Parramatta Stadium Trust............................Vol 2 2009
Parramatta Stadium Trust Division ....Vol 2 2009
Payments to other Government Bodies under the control of the Minister ....Vol 6 2009
Pharmacy Board of New South Wales................Vol 1 2009
Physiotherapists Registration Board ....Vol 5 2008
Planning, Department of 26
Planning, Minister for 21
Podiatrists Registration Board ....Vol 5 2008
Police Force, NSW ....Vol 8 2009
Police Integrity Commission ....Vol 8 2009
Police Integrity Commission Division ....Vol 8 2009
Police, Minister for ....Vol 8 2009
Police, Ministry for ....Vol 8 2009
Port Kembla Port Corporation ....Vol 5 2008
Ports and Waterways, Minister for...................Vol 5 2008
Premier..Vol 8 2009

Premier and Cabinet, Department of............... Vol 8 2009
Primary Industries, Department of.......................... 35
Primary Industries, Minister for............................. 33
Probiotic Health Pty Limited......................... Vol 2 2009
Protective Commissioner – Common Fund,
Office of the .... Vol 2 2009
Protective Commissioner and Public Guardian,
Office of the .... Vol 8 2009
Psychologists Registration Board .... Vol 5 2008
Public Transport Ticketing Corporation.................... 75
Public Transport Ticketing Corporation
Division... 77
Public Trustee NSW.................................... Vol 8 2009
Public Trustee NSW – Common Fund................ Vol 8 2009

Q

Qualified Independent Audit Reports Issued 163
Qucor Pty Ltd... Vol 2 2009

R

Rail Corporation New South Wales 78
Rail Infrastructure Corporation 103
Redfern and Waterloo, Minister for................. Vol 5 2008
Redfern-Waterloo Authority.......................... Vol 5 2008
Redfern Waterloo Authority, Office of the .... Vol 5 2008
Remarkspdf Pty Ltd................................... Vol 2 2009
Rental Bond Board..................................... Vol 6 2009
Rental Housing Assistance Fund .... Vol 6 2009
Residual Business Management Corporation....... Vol 3 2009
Responsible Gambling Fund .... Vol 5 2008
Rice Marketing Board for the State of
New South Wales... 157
Risk Frontiers Flood (Australia) Pty Limited....... Vol 2 2009
Risk Frontiers Group Pty Limited.................... Vol 2 2009
Riverina Citrus.. 57
Rivservices Limited.................................... Vol 2 2009
Roads and Traffic Authority of New South Wales 108
Roads and Traffic Authority Division...................... 119
Rocky Point Holdings Pty Ltd......................... Vol 3 2009
Rouse Hill Hamilton Collection Pty Limited .... Vol 9 2009
Royal Alexandra Hospital for Children............. Vol 1 2009
Royal Alexandra Hospital for Children
Special Purpose Service Entity.................. Vol 1 2009
Royal Botanic Gardens and Domain Trust.......... Vol 7 2009
Rural Assistance Authority, New South Wales 49
Rural Assistance Authority, Office of the.................. 52
Rural Fire Service, NSW............................... Vol 8 2009

S

SAS Trustee Corporation.............................. Vol 5 2009
SAS Trustee Corporation - Pooled Fund .... Vol 5 2009
SAS Trustee Corporation Division of
the Government Service of NSW................ Vol 5 2009
Self Insurance Corporation, NSW.................... Vol 5 2009
Services UNE Ltd....................................... Vol 2 2009
Sesquicentenary of Responsible Government
Trust Fund.. Vol 8 2009
SGSM Limited... Vol 2 2009
Small Business, Minister for.................................. 59
Small Business Development Corporation
of New South Wales..................................... 157
South Eastern Sydney and Illawarra Area Health
Service... Vol 1 2009
South Eastern Sydney and Illawarra Area Health
Service Special Purpose Service Entity .... Vol 1 2009
Southern Cross University .... Vol 2 2009
Southern Rivers Catchment Management
Authority .... Vol 7 2009
Sport and Recreation, Minister for.................. Vol 9 2009
Sporting Injuries Committee .... Vol 5 2009
Sports Knowledge Australia Pty Limited............ Vol 2 2009
State and Regional Development, Department of........ 63
State Council of Rural Lands Protection Boards... Vol 3 2009
State Council of Rural Lands Protection Boards
Division .... Vol 3 2009
State Development, Minister for............................. 61
State Emergency Service.............................. Vol 8 2009
State Library of New South Wales Foundation..... Vol 9 2009
State Plan.. Vol 2 2009
State Property Authority .... Vol 6 2009
State Property Authority, Office of the............ Vol 6 2009
State Rail Authority Residual Holding
Corporation.. Vol 5 2009
State Records Authority of New South Wales ...... Vol 6 2009
State Rescue Board.................................... Vol 8 2009
State Sports Centre Trust .... Vol 9 2009
State Sports Centre Trust Division................... Vol 9 2009
State Super Financial Services Australia Limited.. Vol 5 2009
State Transit Authority of New South Wales............. 120
State Transit Authority Division 130
State Water Corporation .... Vol 7 2009
Statement of the Budget Result...................... Vol 4 2009
Superannuation Administration Corporation
(trading as Pillar Administration) .... Vol 5 2009
Sydney 2009 World Masters Games Organising
Committee.. Vol 9 2009
Sydney 2009 World Masters Games Organising
Committee Division............................... Vol 9 2009
Sydney 2009 World Masters Games Organising
Committee, Office of the .... Vol 9 2009
Sydney Business School Pty Ltd .... Vol 2 2009
Sydney Catchment Authority .... Vol 7 2009
Sydney Catchment Authority Division .... Vol 7 2009
Sydney Cricket and Sports Ground Trust........... Vol 9 2009
Sydney Cricket and Sports Ground Trust
Division .... Vol 9 2009
Sydney Desalination Plant Pty Limited............. Vol 7 2009
Sydney Educational Broadcasting Limited.......... Vol 2 2009
Sydney Ferries 131
Sydney Harbour Foreshore Authority................ Vol 5 2008
Sydney Harbour Foreshore Authority,
Office of the....................................... Vol 5 2008
Sydney Harbour Foreshore Authority
Casual Staff Division, ... Vol 5 2008
Sydney Institutes of Health and Medical
Research, The..................................... Vol 2 2009
Sydney International Film School Pty Limited ..... Vol 2 2009
Sydney Metro... 137
Sydney Metro Division 141
Sydney Metropolitan Catchment Management
Authority... Vol 7 2009
Sydney Olympic Park Authority .... Vol 9 2009
Sydney Olympic Park Authority, Office of the..... Vol 9 2009
Sydney Olympic Park Authority Sydney
Olympic Park Aquatic and Athletic Centres
Division... Vol 9 2009
Sydney Opera House Trust .... Vol 9 2009
Sydney Pilot Service Pty Ltd.......................... Vol 5 2008
Sydney Ports Corporation .... Vol 5 2008
Sydney South West Area Health Service .... Vol 1 2009
Sydney South West Area Health Service
Special Purpose Service Entity .... Vol 1 2009
Sydney Talent Pty Limited .... Vol 2 2009
Sydney Water Corporation .... Vol 7 2009
Sydney West Area Health Service.................... Vol 1 2009
Sydney West Area Health Service Special
Purpose Service Entity........................... Vol 1 2009
Sydney West International College Pty Limited ... Vol 2 2009
SydneyLearning Pty Limited .... Vol 2 2009

T

Taronga Conservation Society Australia .... Vol 7 2009
Taronga Conservation Society Australia Division .. Vol 7 2009
TCorp Nominees Pty Limited .... Vol 5 2009
Teacher Housing Authority of New South Wales... Vol 6 2009
Technical and Further Education Commission,
New South Wales .... Vol 9 2009
Technical and Further Education Commission
Division, New South Wales .... Vol 9 2009
Technical Education Trust Funds .... Vol 2 2009
Television Sydney (TVS) Limited..................... Vol 2 2009
Total State Sector Accounts .... Vol 4 2009

Tourism, Minister for 67
TransGrid .... Vol 3 2009
Transport, Minister for 69
Transport, Ministry of 71
Transport Infrastructure Development Corporation 142
Transport Services Overview 3
Treasurer .... Vol 6 2009
Treasury, The .... Vol 5 2009
Treasury Corporation, New South Wales .... Vol 5 2009
Treasury Corporation Division of the Government Service .... Vol 5 2009
Trustees of the ANZAC Memorial Building .... Vol 2 2009
Trustees of the Farrer Memorial Research Scholarship Fund .... Vol 3 2009
Trustees of the Museum of Applied Arts and Sciences .... Vol 9 2009
TVS Limited .... Vol 2 2009

U

U@MQ Limited .... Vol 2 2009
Ucom Fifteen Pty Limited .... Vol 2 2009
Ucom Sixteen Pty Limited .... Vol 2 2009
UNE Partnerships Pty Limited .... Vol 2 2009
UNE Vision Pty Ltd .... Vol 2 2009
UniCentre Conferences and Functions Pty Limited Vol 2 2009
UNILINC Limited .... Vol 2 2009
Uniprojects Pty Limited .... Vol 5 2008
United States Studies Centre Limited .... Vol 2 2009
Universities Admissions Centre (NSW & ACT) Pty Limited .... Vol 5 2008
Universities Overview .... Vol 2 2009
University of New England .... Vol 2 2009
University of New England Professorial Superannuation Fund .... Vol 2 2009
University of New England Sports Association .... Vol 2 2009
University of New South Wales .... Vol 2 2009
University of New South Wales Foundation .... Vol 2 2008
University of New South Wales Foundation Limited .... Vol 2 2009
University of New South Wales International House Limited .... Vol 2 2009
University of New South Wales Press Limited .... Vol 2 2009
University of Newcastle .... Vol 2 2009
University of Sydney, The .... Vol 2 2009
University of Sydney Professorial Superannuation System .... Vol 2 2009
University of Technology, Sydney .... Vol 2 2009
University of Western Sydney .... Vol 2 2009
University of Western Sydney Foundation Limited .... Vol 2 2009
University of Western Sydney Foundation Trust .... Vol 2 2009
University of Wollongong .... Vol 2 2009
University of Wollongong Recreation Aquatic Centre Limited .... Vol 2 2009
UNSW & Study Abroad – Friends and U.S. Alumni, Inc. .... Vol 2 2009
UNSW (Thailand) Limited .... Vol 2 2009
UNSW Asia School Limited .... Vol 2 2009
UNSW Global (Singapore) Pte Limited .... Vol 2 2009
UNSW Global India Private Limited .... Vol 2 2009
UNSW Global Pty Limited .... Vol 2 2009
UNSW Hong Kong Foundation Limited .... Vol 2 2009
UNSW Hong Kong Limited .... Vol 2 2009
UTSM Services (Malaysia) Sdn Bhd .... Vol 2 2009
UON Foundation Ltd .... Vol 2 2009
UON Foundation Trust .... Vol 2 2009
UON Services Limited .... Vol 2 2009
UON, Singapore Pte Ltd .... Vol 2 2009
Upper Parramatta River Catchment Trust .... Vol 7 2009
Upper Parramatta River Catchment Trust Division .... Vol 7 2009
UWS College Pty Limited .... Vol 2 2009
UWS Conference and Residential Colleges Limited Vol 2 2009
uwsconnect Limited .... Vol 2 2009

V

Valley Commerce Pty Limited .... Vol 5 2009
Veterinary Practitioners Board 157
Vocational Education and Training Accreditation Board, NSW .... Vol 4 2008

W

Warren Centre for Advanced Engineering Limited, The .... Vol 2 2009
Waste Recycling and Processing Corporation .... Vol 2 2009
Water and Energy, Department of .... Vol 7 2009
Water Industry Overview .... Vol 7 2009
Water, Minister for .... Vol 7 2009
Wayahead Pty Limited .... Vol 2 2009
Wentworth Annexe Limited .... Vol 2 2009
Wentworth Park Sporting Complex Trust .... Vol 9 2009
Western Catchment Management Authority .... Vol 7 2009
Western Research Institute Limited .... Vol 2 2009
Western Sydney, Minister for .... Vol 9 2009
Western Sydney Buses Division 130
Western Sydney Parklands Trust .... Vol 9 2009
Whitlam Institute Within the University of Western Sydney Limited .... Vol 2 2009
Whitlam Institute Within the University of Western Sydney Trust .... Vol 2 2009
Wild Dog Destruction Board .... Vol 2 2009
Wild Dog Destruction Board Division .... Vol 2 2009
Wine Grapes Marketing Board .... Vol 2 2009
Wollongong Sportsground Trust .... Vol 9 2009
Wollongong Sportsground Trust Division .... Vol 9 2009
Wollongong UniCentre Limited .... Vol 2 2009
WorkCover Authority, Office of the .... Vol 6 2008
WorkCover Authority of New South Wales .... Vol 6 2008
Workers Compensation Commission of New South Wales .... Vol 6 2008
Workers Compensation Nominal Insurer (trading as The NSW WorkCover Scheme) .... Vol 1 2009
Workers' Compensation (Dust Diseases) Board .... Vol 5 2008
World Youth Day Co-ordination Authority .... Vol 2 2009
World Youth Day Co-ordination Authority, Office of .... Vol 2 2009
Wyong Water Supply Authority .... Vol 7 2009

Y

Youth, Minister for .... Vol 9 2009

AUDITOR-GENERAL'S REPORT
FINANCIAL AUDITS
Volume Eleven 2009

focusing on Health

The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

Pursuant to the *Public Finance and Audit Act 1983*, I present Volume Eleven of my 2009 Report.

Peter Achterstraat
Auditor-General

Sydney
December 2009

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 contains an overview of the findings for this Volume's focus agencies. Section Two provides comments on financial audits of government agencies. It is divided into ministerial portfolios, each containing one or more government agencies. Section Three incorporates a Performance Audit review.

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

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

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

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

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

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

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

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

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

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

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

Appendix 1 contains the names of agencies not reported elsewhere in this Volume. These agencies received unqualified audit opinions and have no significant issues to report.

Contents

Significant Items iii

SECTION ONE - Overview

Health Overview 3

SECTION TWO – Commentary on Government Agencies

Minister for Health 29

Department of Health 31

Area Health Services:

Greater Southern 35

Greater Western 43

Hunter New England 52

North Coast 60

Northern Sydney and Central Coast 68

Southern Eastern Sydney and Illawarra 76

Sydney South West 84

Sydney West 92

Cancer Institute NSW 100

Health Administration Corporation 104

Health Care Complaints Commission 110

New South Wales Health Foundation 113

Registration of Health Professionals 114

Royal Alexandra Hospital for Children 116

APPENDIX

Appendix 1 – Agencies not reported elsewhere in this Volume 125

INDEX 127

Significant Items

	Page
Health Overview	
The Government has set up a three stage response to the Garling Inquiry Report supported by an additional $485 million over four years.	4
The Department is implementing 37 recommendations following the completion in December 2008 of a joint Treasury/Department of Health review of its budget setting and monitoring processes.	8
Trade Creditors for all Area Health Services were $269 million at 30 June 2009 compare to $292 million at 30 June 2008.	8
Only two of the eight Area Health Services achieved the Department's benchmark of paying creditors within 45 days. Of those not achieving the benchmark, Northern Sydney and Central Coast Area Health Service had the largest level of creditors over 45 days at $15.2 million.	9
Three Area Health Services did not raise purchase orders for more than 40 per cent of purchases. This is a significant control weakness and delays payment of creditors. The Department reminded Area Health Services to ensure purchases are supported by valid orders, but this does not seem to have been effective at all Services.	10
The Department has started a major project to address the high level of fully depreciated equipment being used by Area Health Services.	11
Area Health Services need to complete reviews of trust funds to determine amounts that can be used for general health services.	13
Area Health Services' annual stock takes of plant and equipment are unsatisfactory. Process improvements need to make senior officers accountable for the outcomes.	13
The cost of managing the swine flu pandemic for the winter of 2009 was approximately $36.2 million.	14
Only one Area Health Service is meeting the Department's benchmark for maintenance expenditure.	15
The Department was unable to provide information of the number of contractors it engaged and the length of time they were engaged for.	16
All Area Health Services met the emergency department benchmark of 100 per cent for treating immediately life threatening situations. Three did not meet it for imminently life threatening situations, while five did not meet it for potentially life threatening situations.	21
Metropolitan Area Health Services typically record a lower emergency admission performance than rural services. Sydney West and Sydney South West recorded the lowest emergency admission performance (69 per cent and 65 per cent respectively), while Hunter New England and Greater Western recorded the highest admission performance (83 per cent).	21

For elective surgery, 93 per cent of patients in the most urgent category were admitted within the target of 30 days (92 per cent in 2007-08). Northern Sydney Central Coast Area Health Service reported the best performance with 99 per cent, compared with the lowest percentage achieved by North Coast at 84 per cent.	22
The number of patients on the surgical waiting list has increased from 58,173 as at 30 June 2008 to 64,512 as at 30 June 2009.	23
New South Wales' proportion of the total Commonwealth Health budget in 2008-09 remained constant at 33 per cent.	24
Debts written off have doubled over the past 3 years, from $8.6 million in 2006-07 to $17.4 million in 2008-09. A large portion of the debts written off are patient fees, particularly for overseas visitors.	24
The new Bathurst Base Hospital opened in January 2008 at a cost of $106 million. Construction and operational problems were identified after completion resulting in remediation works costing $6.5 million. The problems highlighted the need for clinical staff to be more involved in the design and construction phases of such projects.	24
On 28 October 2008, the Government entered into a $721 million public private partnership project for the Royal North Shore Hospital to consolidate 53 outdated buildings into modern purpose built facilities for acute hospital care and community health. Work started in October 2009. The main property building is scheduled for completion by the end of 2012 with remaining development to be completed in 2014.	24
Phase two of the Liverpool Hospital redevelopment is underway with completion scheduled in late 2011. At 30 June 2009, costs of $98.2 million had been incurred. The forecast total cost on completion is $396 million.	25
Health Administration Corporation	
The Corporation has not finalised Service Partnership Agreements with its customers to ensure accountabilities and responsibilities are clearly defined and understood.	104
The Corporation does not have targets against which to measure its performance and its quality of service.	105
The Corporation has not undertaken a cost benefit analysis of its shared corporate services operations to determine whether planned outcomes and savings have been achieved, and to determine where further standardisation is required to improve outcomes. It intends to complete an "end to end" review of HSS by early to mid 2010.	106
Health Care Complaints Commission	
In 2008-09, the Commission received 3,360 complaints compared to 3,128 in 2007-08. Over the last three years complaints have increased by 23.4 per cent.	110
Complaints about public hospitals fell to 620 from 763 in 2007-08, but overall there has been a 22 per cent increase over the last three years.	111

Section One

Health Overview

Health Overview

THE HEALTH GROUP AND AUDIT OPINIONS

This commentary covers the Department of Health (the Department) and the entities it controls, which are listed below.

Area Health Services	Other Entities
Greater Southern (GSAHS)	Clinical Excellence Commission
Greater Western (GWAHS)	HealthQuest
Hunter New England (HNEAHS)	Justice Health
North Coast (NCAHS)	Royal Alexandra Hospital for Children (CHW)
Northern Sydney and Central Coast (NSCCAHS)	Health Administration Corporation (HAC) comprising:
South Eastern Sydney and Illawarra (SESIAHS)	- Ambulance Service of New South Wales
Sydney South West (SSWAHS)	- Health Support Services
Sydney West (SWAHS)	- Health Infrastructure
	- NSW Institute of Medical Education and Training

The audits of the Department and its controlled entities' financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports, other than for the CHW. An explanation for this qualification is included under the CHW's individual comment elsewhere in this Report.

The condensed financial reports for the Department and consolidated entity are included under the Department of Health comments elsewhere in this Report. Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Caring Together: The NSW Government's response to the Special Commission of Inquiry into Acute Care Services in NSW Public Hospitals (Garling Inquiry)

> I recommend the Department ensures it meets the set timeframes for implementation of the Garling Inquiry recommendations.

The Department of Health has advised it is in varying stages of implementing the recommendations made by the Garling Inquiry. It has completed Stage 1 of Caring Together.

The Garling Inquiry Report into acute care services in New South Wales public hospitals was released in November 2008. The report included 139 recommendations for improvement in areas such as emergency departments, surgery, doctors, nurses, workplace reform, communication, patient safety, funding and administration and management. Caring Together was released in March 2009 and outlined the Government's response to the recommendations.

The Department provided the following information about the Garling Inquiry.

The Government has supported 134 recommendations, requires further local or national consultation to determine a way forward for another three, and has not supported two of the recommendations. The recommendations not supported are:

- refunding the net cost for medication to patients for the treatment of hospital acquired infections after the patient has been discharged from the hospital
- NSW Health develop a new category of employee in the Ambulance Service of New South Wales responsible for performing non-treatment duties, which presently a two person team attends to, such as driving and attending to radio transmissions and paperwork.

The Government has set up a three stage response to the Report supported by an additional $485 million over four years. An Independent Panel of clinicians as well as people with expertise in cultural change systems information, trend analysis and governance administration will report to the Minister for Health every six months on the progress of implementation, for a period of three years.

The Government's responses to some of the key recommendations in the Report are:

Garling Inquiry Recommendation	Stage	Government Response
8(c) In the interests of patient safety, the Department only offer birthing facilities for low risk mothers in hospitals which: (i) Have an adequate number of qualified and trained health professionals to assist with the birth, and (ii) Have on site emergency caesarean facilities, or be able to transfer the mother to a hospital within 30 minutes travel which has these facilities.	Stage Two*	Further consultation and review of this recommendation will occur as part of stage two. This matter will be referred to the Maternal and Perinatal Health Priority Taskforce and will also be considered as part of the statewide hospital review.
9 (1a) Within 6 months the Department should establish a Children and Young People's Health Authority ('NSW Kids') to provide all health care for children and young people throughout New South Wales.	Stage Two	Consultation and review of functions will occur as part of stage two. The Department already has child health networks in place and has established MH-Kids with specific responsibilities for leading the development and supporting implementation of consistent approaches to mental health care for children and adolescents.
16 The Department should review their policies and practices around recruitment of senior medical officer positions to ensure recruitment of these medical officers occurs without unnecessary or extended delays. A complete list of all vacancies should be maintained on the NSW Health Intranet and updated monthly	Stage Two	The Department will prioritise implementation of the Information Communications Technology (ICT) program within the Health capital program with a new rostering system, planning for a community health system and improved infrastructure progressing during 2009/10 to better support patient care. The program has already started and the Department will continue to prioritise work with commencement of the entire program staged over the next five years.
25 To address shortages in the nursing workforce, the Department should consider allocating more funding for nurse practitioner positions across New South Wales, particularly in rural and remote areas and places where it is hard to employ doctors.	Stage One*	The Department has already introduced 82 Nurse Practitioners to provide advanced care with a further 64 nurses in transition to also perform these roles. Nurse Practitioner and advanced practice nursing positions will be further increased.

Garling Inquiry Recommendation	Stage	Government Response
60 The Department encourage hospital staff to enhance communication with patients and carers by ensuring that they: ▪ Are told who staff are and their function, ▪ The nature and purpose of treatment delivered, and ▪ Questions and concerns are addressed as soon as possible.	Stage One	To better support patient awareness, posters identifying categories of staff and types of uniforms worn will be prominently displayed in each facility.
82 An audit program of waiting lists for each hospital in New South Wales should be conducted by staff independent of the relevant area health service or hospital. These audits should examine the reclassification of patient's clinical urgency category and the paperwork that the hospital is required to maintain for waiting lists.	Stage One	The Government is already undertaking an audit program of waiting lists including selected audits by an independent body. Department policy requires each hospital to undertake a clerical audit of hospital waiting lists and to carry out such audits at least monthly. Routine monthly auditing of waiting lists by Hospital/Area Health Service Waiting Time Coordinators will continue to be undertaken.
99 Within 18 months Emergency departments should be limited to providing care for those in need of immediate or emergency care that requires the services of highly skilled emergency teams. This will ordinarily include those presently in categories 1, 2 and 3 of the Australian Triage Scale.	Stage Three*	Where clinically appropriate patients not requiring emergency department assessment will be fast tracked to other care centres such as Medical Assessment Units, and Psychiatric Emergency Care Centres, with review of potential for Primary Care Centres.
101 Within 18 months Primary Care centres should be established for all hospitals that have Emergency departments to provide services for patients seeking urgent or unplanned care who have been clinically determined as not in need of immediate or emergency care.	Stage Three	Following formal review for effectiveness, Primary Care Centres will be established in hospitals where there are sufficient patients needing attention to support a Primary Care Centre. Consultation on establishment will include relevant general practitioners, nurse practitioners and other medical, nursing and allied health staff.
117 The Department undertake a complete state-wide review which involves: (a) Identification of set criteria relating to patient safety, necessary workforce skills, the volume and quality of services regarded as critical (b) A determination of whether each hospital is (or can become) a location for the delivery of safe patient care (c) A clear delineation of the role of each hospital – what it can and can't do (d) Clear communication of the role of a local hospital to its community (e) Reallocation of specialist medical services to hospitals in New South Wales best placed to deliver those services; and (f) The consideration of the availability of an efficient transport and retrieval system to transport patients to hospitals best placed to provide the medical service required.	Stage One	Planning for a statewide review will begin immediately and include community and workforce consultation. Supported by existing health service plans the review will analyse population size and distribution, ageing, level of disease, changing models of care and lifestyle to agree on services that are needed and can be provided safely. Highly Specialised Services will be considered on a statewide level. The issue of patient safety will be paramount and considered in light of both the availability of an appropriately qualified workforce and the provision of appropriate facilities.

Garling Inquiry Recommendation	Stage	Government Response
130 The Department should ensure that each hospital performs equipment functionality assessments every 6 months to assess and predict the need for equipment replacement.	Stage Three	The Department will ensure reporting on equipment consistent with current requirements under the Australian Standards; Building Code of Australia; Therapeutic Goods Administration Accreditation and Manufacturer's warranties and maintenance contracts.

* Stage One: The action plan (Immediate) – The Action Plan is the first stage of the three staged approach
Stage Two: a Sustainability Plan (6 months) – In the second stage the New South Wales Government will report back on progress and detail change for building a stronger health care system
Stage Three: an Intergenerational Health Care System (18 months) – In the third stage, progress will again be reported and detail of the intergenerational plan for a sustainable health care system will be developed.

The majority of the Health Action Plan actions are being driven locally through Area Health Advisory Councils with local expert implementation teams/councils. These are supported by state-wide theme based implementation groups where required and the NSW Community and Clinical Expert Advisory Council (CCEAC).

The CCEAC was established to provide advice from a state-wide perspective to the Minister for Health and Director General on proposed and existing initiatives to implement the Health Action Plan. Reporting of progress is occurring via the Department of Health and the Senior Executive Advisory Board, with arm's-length monitoring of progress occurring through an Independent Panel.

The Independent Panel has the authority to review, audit and report directly to the Minister regarding the delivery of Caring Together commitments. As part of this process, an audit of Stage One of Caring Together: The Health Action Plan for New South Wales has been conducted. The Audit was a comprehensive assessment of the progress of specified recommendations. The scope for this audit was expanded to include sampling of all eight Area Health Services (AHS), the Clinical Excellence Commission, the Children's Hospital Westmead and Justice Health. The Audit was also to assess the completeness and accuracy of the reporting system for the Health Action Plan.

The Independent Panel has recently completed its first six monthly report which included the findings of the First Independent Audit. The report was released by the Minister in November and a response and the next Stage Government Report are expected by the end of 2009.

The Department of Health works with Health Services to track and report on the implementation of each of the Government responses to the 134 recommendations identified in the Health Action Plan.

The Department of Health has developed a reporting structure, established a secure website and assists in facilitating consultative forums to monitor and assist in the implementation of the Health Action Plan.

Examples of some achievements are as follows.

Stage One

- Allocation of funding over four years to each of the four rural AHS to employ a Country Careers Officer to assist with the recruitment and retention of health staff (Recommendation 12b).
- Provision of an information guide for patients and their carers with new application forms, in relation to the abolition of the patient co-contribution to the Isolated Patients Travel and Accommodation Assistance Scheme for pension and health care card holders (R14a).
- Auditing of Discharge Summaries included in internal audit plans and undertaken in some AHS, with achievement already across SSWAHS (R58).
- Substantial achievement or achievement by the majority of Health Services in displaying posters showing categories of staff and uniforms (R60a).

- New Hand Hygiene Policy being considered by the industrial associations for finalisation (R88).
- Release of Emergency Surgery Guidelines, defining the principles underpinning the redesign of emergency surgery and for use by AHS when initiating redesign of emergency surgery practices (R110).
- A toll free line has been established for patients or their families to raise any concerns about placement in mixed gender wards/settings. Approximately 20 calls have been received in its first month. A number of AHS are reporting improvements in compliance with policies concerning single sex rooms. A Policy, brochure and booklet are due to be released November (R124).
- Publication of budgets in all AHS, including on intranets, with fact sheets and summaries prepared for staff (R136a).
- 23 out of 26 Executive Clinical Directors have been appointed across the AHS to improve communication between clinicians and managers and strengthen adoption of improved models of care (R137).
- Allocation of funds to AHS for 500 Clinical Support Officer positions has occurred. Clinical Support Officer appointments are progressing with all appointed in GWAHS and CHW. However, some delays are being experienced with over 3,500 applications received for these positions and AHS currently completing the recruitment process (R40) by the end of 2009. These positions will assist in freeing up clinical staff to spend more time with patients (R 40).
- A Performance Audit Tool to monitor complaints regarding bullying has been sent to AHS to implement. Data will be collected by March 2010 (R 44a,b).
- A Clinical Handover Toolkit, Principles and Policy Directive was released in September. These resources will help ensure effective, concise and complete communication in clinical handover (R 56a, c).
- Appointments were made to the Bureau of Health Information in October 2009 (R 75, 76).

Stage Two

- Expressions of interest for the Agency for Clinical Innovation and Clinical Excellence Commission boards have been sought .Both organisations will play a key role in promoting the delivery of safe, high quality, patient centred care as part of implementing Caring Together (R 67).
- A State-wide recruitment campaign to attract doctors to the casual medical pool commenced on 12 September 2009. Areas have highlighted that this has assisted in filling vacancies (R 19a, b).

Receipt of Financial Report

Last year I reported the Department did not meet its statutory deadline for completing its financial report, and that there were a number of problems with the quality of working papers across the health sector. There has been a significant improvement this year, and the Department and its agencies are to be commended. I received the financial reports of all AHS, of the Health Administration Corporation, and the Department within the statutory timeframe. In addition, the majority of AHS provided adequate working papers to support their financial reports.

Budget to Actual Comparison

> I recommend the Department fully implement the recommendations from the external review of its budget setting and monitoring processes.
>
> The Department has made some improvements in its budget monitoring processes during 2008-09.

The Department had an original net cost of services budget set in the 2008-09 Budget Papers of $11.4 billion. The actual result was $12.0 billion, a variance of $600 million. A large portion of this variance was covered by additional approved funding during the year including:

- Commonwealth funding of $264 million approved under Section 26 of *Public Finance and Audit Act 1983*
- approved non-cash budget adjustments of $253 million for leave entitlements, depreciation and superannuation
- funding of $71.0 million approved from the Treasurer's advance predominantly for wage rises and a fall in revenue from community and dental programs.

Last year, I reported that although revised projections were prepared in early June 2008, the Department's operating deficit exceeded that projected by $320 million, and the extent of this deterioration only became apparent after 30 June 2008. This year approvals were sought and received for the majority of variations to the original budget. An unforeseen variation was a $119 million actuarial assessment for long service leave.

As reported last year, a consultant was engaged to review the Department's budget setting and monitoring processes. This led to 37 recommendations being made to address activity pressure, control issues and financial discipline. Of these 37 recommendations, the Department has advised that:

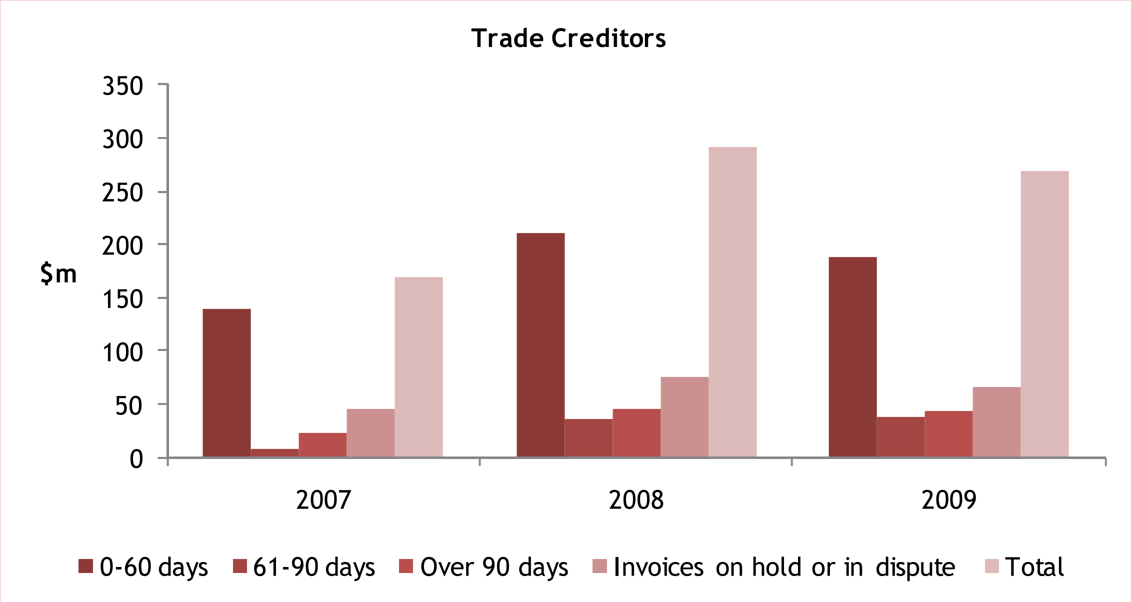
- 17 have been completed, substantially completed or deemed to require no further action
- 18 are in the process of being implemented, and
- two are being considered with the Garling Inquiry recommendations discussed previously in this report.

Accounts Payable

> I recommend the Department ensures AHS pay creditors within agreed payment terms. AHS need to improve cash flow management, to ensure purchases are supported by authorised orders, and disputed invoices are followed up in a timely manner.

Total trade creditors amounted to $269 million at 30 June 2009 ($292 million in 2007-08) for all eight AHS, a 7.9 per cent decrease. During the same period other operating expenditure (excluding Visiting Medical Officers) increased by $145 million.

Trade Creditors for the past three years are shown in the following graph:



Note: the Total column is comprised of the 3 ageing columns, as they include the amounts for invoices on hold or in dispute.

Commentary on individual AHS's trade creditor levels and ageing is included elsewhere in this Volume.

Total trade creditors for five of the AHS decreased during the year, while the remaining three increased. Total trade creditors decreased significantly compared to the prior year for South Eastern Sydney and Illawarra, but still remained at the highest level of all AHS. SWAHS also experienced an increase in trade creditors and was second highest.

Ageing of Trade Creditors

A review of trade creditors' ageing shows five AHS' trade creditors over 90 days (NSCCAHS, SWAHS, HNEAHS, GSAHS and NCAHS) increased over the prior year.

Last year, I recommended the Minister and Treasurer consider requiring AHS to comply with clause 15 of the Public Finance and Audit Regulation 2005, which allows interest to be paid to creditors when payment terms are not met. This does not appear to have occurred. The Minister and Treasurer should revisit this matter and take appropriate action to allow interest to be charged on overdue accounts (also see comments later in this section on Treasurer's Directions).

The Department requires creditors to be paid within contract terms and it monitors performance against a benchmark target of 45 days. The performance statistics are for general trade creditors and do not include visiting medical officers or other government agencies. According to information provided by the Department, two AHS achieved this target for 2008-09 (SSWAHS and HNEAHS). This is consistent with the prior year.

For those AHS that did not achieve the target, general creditors over 45 days (excluding those in dispute) decreased slightly from $75.2 million in 2007-08 to $69.3 million in 2008-09. However, this was after the Department provided cash assistance of $298 million to AHS during the year to assist with liquidity management. The Department information shows that NSCCAHS had the largest level of creditors over 45 days at $15.2 million, followed by SWAHS at $14.3 million.

Although most AHS showed a decrease in creditors at year end, creditor balances were consistently higher throughout the year. In some cases this drop is the result of the Department providing year end funding to assist AHS in paying their creditors.

Disputed or On Hold Invoices

For several AHS, we found the value of disputed or on hold creditor amounts made up a significant proportion of total creditors. At 30 June 2009, the largest of these was South Eastern Sydney and Illawarra, with disputed or on hold creditors of around $20.0 million (approximately 33 per cent of total creditors).

A large number of invoices were placed on hold because a purchase order was not raised for the invoices. Three AHS did not have purchase orders for more than 40 per cent of purchases. This is significant and the Department, in consultation with AHS, needs to address this issue urgently. The Department reminded AHS during the year of the need to ensure purchases are supported by valid orders, but this does not seem to have been effective at all Services. The use of purchase orders is an important internal control designed to ensure expenditure is approved before it is incurred. A lack of action on this issue may also give the impression that purchasing without orders is simply a means of deferring payment to suppliers.

The Department advised that it has implemented key performance indicators to identify and classify, on a monthly basis, reasons for invoices being placed on hold or in dispute. It is also improving systems to monitor the creation of valid purchase orders.

Measures Taken to Address Overpayment of Accounts

Health Support Services (HSS) implemented a Continuous Control Monitoring tool in April 2009 as a preventive and detective control procedure to limit overpayment of accounts payable invoices it processes for AHS. HSS advised this tool was successful in identifying a significant number of overpayments, which have been or are being recovered, as well as identifying duplicate supplier invoices.

Working Capital

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

The working capital position for the past four years, based on the Department's consolidated financial report, is shown below:

At 30 June	2009	2008	2007	2006
Current assets ($m)	***1,417***	1,333	1,307	1,238
Current liabilities* ($m)	***2,327***	2,224	1,830	1,743
Working capital deficit ($m)	***910***	891	523	505
Working capital (%)	***60.9***	59.9	71.4	71.0
Number of times current liabilities exceed current assets	***1.6***	1.7	1.4	1.4

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

AHS are able to operate at a low ratio due to continuous cash contributions from the Department. However, they need sufficient working capital to pay creditors within agreed payment terms and to avoid other operational problems. More commentary on working capital is included in the individual AHS comments elsewhere in this Volume.

Non-compliance with Treasurer’s Directions (Repeat Issue)

I recommend the Department finalise its review of the applicability of Treasurer’s Directions to AHS.

I also recommended the Minister and Treasurer consider requiring AHS to comply with clause 15 of the Public Finance and Audit Regulation 2005, which allows interest to be paid to creditors when payment terms are not met.

In prior years we reported instances of apparent non-compliance with the *Public Finance and Audit Regulation 2005,* Treasurer’s Directions and annual reporting legislation. Several years ago, the Department came to the view that Treasurer’s Directions do not apply to AHS, and at the time undertook to obtain legal advice to clarify the matter. The Department has still not resolved the issue.

Last year, I reported that regardless of any legal advice relating to the Treasurer’s Directions in my view the Directions should be applied as a matter of good practice. In response, the Department reviewed the Treasurer's Directions against Departmental policies applicable to AHS and indentified only a few minor variations.

Treasurer’s Directions stipulate that the Minister may award penalty interest where suppliers are not paid on time. The Department has not included this measure in its policies, but advised that it has developed appropriate measures for handling creditor inquiries to mitigate this. The Department should consider penalty interest provisions when AHS do not pay creditors on time.

Fully Depreciated Plant and Equipment (Repeat Issue)

I recommend the Department finalise its review of the continued use of fully depreciated plant and equipment, and in particular the safety implications. Recommendations from the review should be implemented at AHS where appropriate.

AHS’ plant and equipment contain a significant number of fully depreciated items:

Plant and Equipment	2009	2008	2007
Total Plant and Equipment at cost ($’000)	***1,556,089***	1,538,513	1,603,510
Fully Depreciated Plant and Equipment at cost ($’000)	***562,742***	579,226	668,210
Fully depreciated Plant and Equipment as a percentage of total (%)	***36.2***	37.6	41.7

At 30 June 2009, the original cost of fully depreciated plant and equipment for the AHS was $562.7 million. This represents 36.2 per cent of the total cost of plant and equipment, with a large portion relating to medical equipment.

In my report for 2007, I recommended the Department review the useful lives of fully depreciated assets, which continue to be used. The Department advised that it was developing a medical equipment strategic framework to handle the procurement and management of such equipment at hospitals.

Last year, I again reported on the high level of fully depreciated assets and recommended the Department commission an independent expert to help review the useful lives of assets, in particular critical plant and equipment. In response, the Department advised it would:

(a) develop a medical equipment strategic framework and introduce future strategies, including continued development of the HAC Rental Facility, which involves the Department purchasing equipment and leasing it to the AHS.

The Department has now advised it is giving high priority to finalising this major project through the following programs:

- ‘Options for the Implementation of a Medical Equipment Asset Management’ program. The aim of this program is to evaluate options and establish a finance model to target better long term financial and asset management practice with improved cash flow and organisational controls. A successful tenderer for this program has been engaged and is due to report by January/February 2010.
- ‘Medical Equipment Asset Management’ AHS pilot program. The purpose of this program is to test the market for a potential private partnership targeted at improving the whole of lifecycle management of equipment at two AHS. This is expected to be completed by June 2010.

The programs are interrelated and focus on managing medical equipment for whole of life cycle ownership, including financial management, procurement, maintenance, replacement, allied services and reporting. The outcomes of the first program will inform the rollout of the broader asset management strategy pilot program across the Department.

(b) provide funding to the AHS in 2008-09 for the specific purpose of replacing obsolete plant and equipment.

The Department has advised it provided some $32 million to AHS specifically for the replacement of medical equipment.

(c) review 2008-09 priorities with Health Support Services to identify state wide procurement opportunities.

The Department advised it has established procedures between AHS and Health Support Services to co-ordinate the purchase of medical equipment on a state-wide basis.

(d) provide the AHS with instructions for reviewing fully depreciated assets.

The Department has advised this was done as part of (c) above.

(e) plan the implementation of the Health Asset Management and Maintenance System, which would assist AHS in the effective management and maintenance of their facilities, biomedical equipment and associated services.

The Department has advised it has established a project on Medical Equipment Services to develop models for funding, procurement, management, maintenance, and end of life strategies for medical equipment (as outlined above).

Although progress on some of these actions has been made, there is still some way to go. It is now very important that the two programs referred to under (a) are completed on time, and that any recommendations are implemented effectively across AHS.

During the year some AHS undertook internal reviews of their fully depreciated plant and equipment (including bio-medical engineering equipment), while others did not do a review. Where reviews were done, we were not provided with documented results in some cases, and therefore could not form a view on whether continuing use of these assets posed safety risks and other concerns.

More detailed comments on fully depreciated assets, including the results of internal reviews, are included in individual AHS comments in this Volume.

Trust Funds (Repeat Issue)

> I recommend the Department, in conjunction with the AHS, review all special purpose and trust funds to confirm the nature and intended purpose of each fund. Where appropriate, approvals should be sought to move funds into the general purpose account where they can then be used for health services.

Last year, I recommended the Department, in conjunction with AHS, review all special purpose and trust funds to confirm their nature and intended purpose, as the nature and intended use of some funds was not apparent.

The Department, in a letter dated May 2009, requested a report from each AHS confirming :

- whether documentation was on hand to support the current classification of trust accounts, and that moneys are only applied in accordance with the terms of the donation. To the extent that documentation could not be located, details were to be provided of actions proposed by the AHS
- that no account is overdrawn (any exceptions and the circumstances involved were to be reported) as the Department considered this constitutes a serious breach of trust requirements
- that interest had been duly apportioned to each account
- any conditions attached to donations, which cannot be reasonably satisfied, and the actions proposed by the AHS.

Based on responses received by the Department, only one of the eight AHS completed this review during the year. Three AHS are in the process of undertaking the review; four have either undertaken some preliminary work or have not started; and one failed to provide the Department with a status of its review.

The AHS that completed a full review, found that only a few funds had been dormant for a number of years.

Other findings from our review of these trust funds are included in individual AHS comments.

Asset Stock Take

> I recommend the Department, in consultation with AHS, significantly improve its policies and procedures for plant and equipment stock takes. Accountability for this activity should reside with senior officers.

We reviewed the results of plant and equipment stock takes across all AHS and found:

- one had only counted medical equipment over $250,000
- one did not advise the Department whether a stock take had been performed
- the remaining seven either performed only a partial stocktake or did not perform a stocktake at all.

This is an unsatisfactory situation. The risk of theft or misappropriation of assets increases significantly if appropriate controls, including asset stock takes, are not in place to safeguard these assets. The Department's policy is for AHS to complete stocktakes of plant and equipment each year. The Department should ensure all AHS comply with this policy and that accountability for this resides with relevant senior officers.

Swine Flu Pandemic

The Department advised that winter resulted in the largest number of patients diagnosed with influenza-like symptoms since electronic record keeping of such information began in 1996. In the seven days to 22 July 2009, the peak of the pandemic, 7,433 patients presented to emergency departments with respiratory and viral infections or fever. This represented an increase of 75 per cent on the average number of presentations in recent years.

In addition, intensive care unit patients with influenza symptoms increased to 35 per cent compared to only 15 per cent in previous years. The Department advised the cost of managing the swine flu pandemic for the winter of 2009 was approximately $36.2 million.

Overtime

> I recommend the Department investigate the extent of overtime being worked at AHS and look at options, where appropriate, for reducing the amount of overtime.

We attempted to obtain overtime statistics for AHS from the payroll system at Health Support Services. The information obtained, at first glance, contained some unusually large amounts of overtime worked by individual officers, as well as in total. The Department advised the statistics contained anomalies that would prevent us from relying on the information. It has undertaken to do a detailed assessment and review of overtime during 2009-10. I will report on the results next year. The Department's review should assist it assess the risks or issues associated with:

- occupational health and safety
- rostering processes
- staffing issues
- sick and other leave.

Payments to Visiting Medical Officers (VMOs) and Medical Staff

> I recommend more detailed coverage be given by the Health internal auditors to costs incurred on VMOs, given the high proportion this constitutes of total AHS medical costs.

The following table shows a comparison of payments to VMOs and Medical Staff for the last four years for the eight AHS.

Year ended 30 June **Category**	**2009** **$'000**	**2008** **$'000**	**2007*** **$'000**	**2006*** **$'000**
Total medical staff	***1,245,073***	1,067,381	967,860	873,673
VMOs	***510,757***	455,710	358,846	340,306

* 2006 and 2007 exclude the amounts for GWAHS as these were not available.

VMOs are specialist medical staff working as independent contractors for an average of six to eight hours per week in the public health system to supplement staff specialists employed directly by AHS. At other times they work in private practice.

VMO costs are a substantial part of overall medical costs for AHS.

We found that limited coverage has been given by AHS internal auditors to VMOs over recent years and believe the area requires greater coverage.

Long-term maintenance benchmarking

I recommend maintenance of the Department's assets be improved so benchmark maintenance levels are met. This should be done in conjunction with the reviews being performed on fully depreciated plant and equipment referred to earlier.

The table below shows the percentage of actual maintenance expenditure compared to gross asset values.

Year ended 30 June **Area Health Service**	**2008** **%**	**2007** **%**	**2006** **%**
Sydney South West	***2.1***	1.7	1.4
South Eastern Sydney and Illawarra	***0.8***	0.6	0.8
Sydney West	***1.5***	1.5	1.5
Northern Sydney Central Coast	***0.4***	0.5	0.4
Hunter New England	***1.0***	1.0	1.1
North Coast	***0.8***	0.9	0.9
Greater Southern	***1.3***	1.1	2.0
Greater Western	***0.2***	0.1	0.2
Children's Hospital	***0.7***	0.8	0.8
State-wide total (a)	***1.1***	1.0	1.1

Key: Data is provided by the Department of Health, and was the latest available (unaudited)
(a) State-wide total includes Justice Health and Health Administration Corporation (Ambulance and Health Support Services)

The Department has determined that an overall benchmark of two per cent of gross asset values is an appropriate long-term benchmark for maintenance spending. It compiled data for the three years to 30 June 2008 to enable it to review past spending levels and to guide it in developing its view on future levels of maintenance spending across the health sector.

The state-wide percentage has been below the benchmark for the three years. SSWAHS was the only AHS to meet or exceed the benchmark in 2008, while GWAHS had the lowest maintenance spending at 0.2 per cent.

In conjunction with the Medical Equipment Services program, discussed earlier, the Department should implement procedures to ensure AHS assets are appropriately maintained.

Contract Staff (Repeat Issue)

> I recommend the Department determines the number of contractors who provide it with personal or professional services and the length of time they have done so. The review should identify contractors whose service is no longer required and ensure compliance with taxation legislation. A similar exercise should be performed at AHS for non-medical contractors.

Last year, I reported that the Department was unable to provide information on the number of contractors it engaged compared to established staffing positions and the length of time they had been with the Department. We requested this information for the parent entity again this year, but the Department was still unable to provide it.

Without such information, it is unclear how the Department is able to effectively manage its contract staff and how it ensures that it is complying with taxation legislation.

The Department has advised it believes it complies with Premier's Memorandum 2009-15 relating to the engagement and retention of agency and contract staff.

The Department also advised it is currently undertaking an internal review of the use of contract staff for relief and non-project based functions. We will review the results of this review in 2009-10.

PERFORMANCE INFORMATION

The Director-General has entered into performance agreements with individual AHS, which incorporate performance indicators, some of which have targets. The indicators are also measured and reported for benchmarking purposes. The Department holds monthly meetings with each AHS's executive team to review performance against targets, strategies to achieve targets and progress towards benchmarks.

The indicators cover different aspects of AHS performance including:

- quality and safety of services
- access to services
- activity against agreed targets (including planned surgery)
- provision of mental health services
- progress of key state wide strategic initiatives
- workforce development
- financial performance.

While the Department has established overall benchmarks and targets, targets may vary from the benchmark. The Department reviews and evaluates the performance of AHS against these targets.

The Department provided the following information on the financial and operational performance of AHS for the year ended 30 June 2009.

	Area Health Service					
	Greater Southern		Greater Western		Hunter New England	
	2009	2008	2009	2008	2009	2008
Abridged Consolidated Operating Statements (Year ended 30 June) - $million						
Employee related	***440.6***	429.1	***409.3***	391.3	***994.4***	905.0
Other expenses	***473.8***	422.5	***380.5***	343.1	***722.0***	694.0
Total expenses	***914.4***	851.6	***789.8***	734.4	***1,716.4***	1,599.0
Total revenues	***137.2***	119.1	***85.5***	89.2	***306.4***	249.9
Other (losses)/gains	***(1.5)***	(4.0)	***(1.5)***	(0.2)	***(0.2)***	(1.9)
Net cost of services	***778.7***	736.5	***705.8***	645.4	***1,410.2***	1,351.0
Government contributions	***758.6***	747.2	***715.4***	622.4	***1,358.3***	1,244.0
Surplus/(deficit)	***(20.1)***	10.7	***9.6***	(23.0)	***(51.9)***	(107.0)
Abridged Consolidated Balance Sheets (at 30 June) - $million						
Total assets	***620.7***	591.1	***574.1***	544.0	***1,291.4***	1,183.9
Total liabilities	***210.4***	204.4	***214.4***	213.1	***590.0***	444.9
Net assets	***410.3***	386.7	***359.7***	330.9	***701.4***	739.0
Performance Indicators – unaudited						
Average available beds (June)	***2,023***	2,009	***1,852***	1,910	***3,202***	3,195
Bed occupancy (%) (June)	***72.8***	71.0	***70.2***	71.9	***81.7***	75.8
Average length of stay (days)	***2.7***	2.8	***3.0***	3.1	***3.8***	3.8
Staff numbers (FTE) at 30 June	***4,628***	5,128	***4,863***	4,936	***11,771***	10,950
Emergency triage treatment categories (a)						
T1 (%)	***100***	100	***100***	100	***100***	100
T2 (%)	***81***	86	***83***	80	***85***	84
T3 (%)	***76***	80	***78***	77	***75***	76
T4 (%)	***76***	76	***82***	83	***77***	80
T5 (%)	***90***	89	***93***	91	***92***	94
Emergency admission performance (b)	***81***	87	***83***	83	***83***	85
Elective surgery categories (c)						
Category 1 (%)	***93***	94	***95***	95	***88***	88
Category 2 (%)	***83***	79	***85***	78	***86***	73
Category 3 (%)	***90***	94	***94***	94	***93***	96

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

(a) Percentage of patients treated within clinically appropriate timeframes
- T1 Immediately life threatening – treatment required within two minutes - benchmark = 100 per cent.
- T2 Imminently life threatening – treatment required within 10 minutes - benchmark = 80 per cent.
- T3 Potentially life threatening - treatment required within 30 minutes - benchmark = 75 per cent.
- T4 Potentially serious – treatment required within one hour - benchmark = 70 per cent.
- T5 Less urgent – treatment required within two hours - benchmark = 70 per cent.

(b) Percentage of patients transferred to an inpatient bed within eight hours of treatment – target = 80 per cent.

(c) Percentage of patients admitted for booked surgery within clinically appropriate timeframes
- Category 1 Admission recommended within 30 days
- Category 2 Admission recommended within 90 days
- Category 3 Admission recommended within 365 days

	Area Health Service					
	North Coast		Northern Sydney and Central Coast		South Eastern Sydney and Illawarra	
	2009	2008	2009	2008	2009	2008
Abridged Consolidated Operating Statements (Year ended 30 June) - $million						
Employee related	***534.4***	519.5	***1,053.8***	1,034.2	***1,322.9***	1,232.0
Other expenses	***467.6***	411.9	***696.2***	623.4	***1,004.0***	964.7
Total expenses	***1,002.0***	931.4	***1,750.0***	1,657.6	***2,326.9***	2,196.7
Total revenues	***132.2***	138.9	***342.5***	324.2	***566.2***	530.6
Other (losses)/gains	***(1.4)***	(1.1)	***(2.9)***	(2.8)	***(6.9)***	(2.4)
Net cost of services	***871.2***	793.6	***1,410.4***	1,336.2	***1,767.6***	1,668.5
Government contributions	***846.0***	753.4	***1,402.9***	1,319.7	***1,702.8***	1,603.2
Surplus/(deficit)	***(25.2)***	(40.2)	***(7.5)***	(16.5)	***(64.8)***	(65.3)
Abridged Consolidated Balance Sheets (at 30 June) - $million						
Total assets	***649.2***	704.5	***1,544.3***	1,542.2	***1,600.8***	1,643.3
Total liabilities	***232.9***	211.7	***486.2***	462.4	***609.1***	571.7
Net assets	***416.3***	492.8	***1,058.1***	1,079.8	***991.7***	1,071.6
Performance Indicators – unaudited						
Average available beds (June)	***1,625***	1,587	***2,771***	2,771	***3,501***	3,505
Bed occupancy (%) (June)	***83.8***	85.4	***88.3***	87.9	***93.3***	90.9
Average length of stay (days)	***3.7***	3.4	***4.4***	4.3	***3.6***	3.7
Staff numbers (FTE) at 30 June	***5,987***	6,526	***11,443***	12,162	***14,205***	14,709
Emergency triage treatment categories (a)						
T1 (%)	***100***	100	***100***	100	**100**	100
T2 (%)	***77***	83	***75***	78	**88**	93
T3 (%)	***61***	65	***67***	71	**72**	76
T4 (%)	***65***	67	***70***	72	**74**	78
T5 (%)	***88***	88	***86***	88	**91**	91
Emergency admission performance (b)	***75***	77	***70***	72	**74**	76
Elective surgery categories (c)						
Category 1 (%)	***84***	85	***99***	94	**91**	92
Category 2 (%)	***75***	70	***85***	72	**83**	73
Category 3 (%)	***90***	91	***96***	95	**94**	96

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

(a) Percentage of patients treated within clinically appropriate timeframes

T1 Immediately life threatening – treatment required within two minutes - benchmark = 100 per cent.

T2 Imminently life threatening – treatment required within 10 minutes - benchmark = 80 per cent.

T3 Potentially life threatening – treatment required within 30 minutes - benchmark = 75 per cent.

T4 Potentially serious – treatment required within one hour - benchmark = 70 per cent.

T5 Less urgent – treatment required within two hours - benchmark = 70 per cent.

(b) Percentage of patients transferred to an inpatient bed within eight hours of treatment – target = 80 per cent.

(c) Percentage of patients admitted for booked surgery within clinically appropriate timeframes

Category 1 Admission recommended within 30 days

Category 2 Admission recommended within 90 days

Category 3 Admission recommended within 365 days

	Area Health Service					
	Sydney South West		Sydney West		Total	
	2009	2008	2009	2008	2009	2008
Abridged Consolidated Operating Statements (Year ended 30 June) - $million						
Employee related	***1,560.5***	1,449.7	***1,186.2***	1,116.9	***7,502.1***	7,077.7
Other expenses	***992.7***	944.7	***827.0***	715.5	***5,563.8***	5,119.8
Total expenses	***2,553.2***	2,394.4	***2,013.2***	1,832.4	***13,065.9***	12,197.5
Total revenues	***553.3***	498.5	***329.5***	313.9	***2,452.8***	2,264.3
Other (losses)/gains	***(5.9)***	(5.5)	***(16.5)***	(3.7)	***(36.8)***	(21.6)
Net cost of services	***2,005.8***	1,901.4	***1,700.2***	1,522.2	***10,649.9***	9,954.8
Government contributions	***2,029.2***	1,840.2	***1,639.7***	1,508.6	***10,452.9***	9,638.7
Surplus/(deficit)	***23.4***	(61.2)	***(60.5)***	(13.6)	***(197.0)***	(316.1)
Abridged Consolidated Balance Sheets (at 30 June) - $million						
Total assets	***2,067.9***	1,922.6	***1,663.4***	1,685.8	***10,011.8***	9,817.4
Total liabilities	***653.9***	623.7	***549.2***	509.0	***3,546.1***	3,240.9
Net assets	***1,414.0***	1,298.9	***1,114.2***	1,176.8	***6,465.7***	6,576.5
Performance Indicators – unaudited						
Average available beds (June)	***3,958***	3,985	***2,888***	2,946	***22,311(e)***	22,397(e)
Bed occupancy (%) (June)	***90.7***	88.9	***92.8***	87.7	***87.4(d)***	85.1(d)
Average length of stay (days)	***3.7***	3.8	***3.5***	3.7	***3.7(e)***	3.7(e)
Staff numbers (FTE) at 30 June	***17,459***	17,515	***13,422***	13,411	***83,778***	85,337
Emergency triage treatment categories (a)						
T1 (%)	***100***	100	***100***	100	***100(d)***	100(d)
T2 (%)	***79***	80	***81***	78	***81(d)***	83(d)
T3 (%)	***63***	62	***65***	67	***68(d)***	70(d)
T4 (%)	***72***	73	***70***	70	***73(d)***	75(d)
T5 (%)	***89***	90	***88***	89	***89(d)***	90(d)
Emergency admission performance (b)	**65**	75	***69***	75	***73(d)***	77(d)
Elective surgery categories (c)						
Category 1 (%)	***95***	93	***96***	95	***93(d)***	92(d)
Category 2 (%)	***90***	79	***91***	82	***85(d)***	76(d)
Category 3 (%)	***97***	99	***96***	97	***94(d)***	96(d)

Key:Unless otherwise indicated all data is based on statistics provided by the Department of Health (unaudited).
(a) Percentage of patients treated within clinically appropriate timeframes
T1 Immediately life threatening – treatment required within two minutes - benchmark = 100 per cent.
T2 Imminently life threatening – treatment required within 10 minutes - benchmark = 80 per cent.
T3 Potentially life threatening - treatment required within 30 minutes - benchmark = 75 per cent.
T4 Potentially serious – treatment required within one hour - benchmark = 70 per cent.
T5 Less urgent – treatment required within two hours - benchmark = 70 per cent.
(b) Percentage of patients transferred to an inpatient bed within eight hours of treatment – target = 80 per cent.
(c) Percentage of patients admitted for booked surgery within clinically appropriate timeframes
Category 1 Admission recommended within 30 days
Category 2 Admission recommended within 90 days
Category 3 Admission recommended within 365 days
(d) Statistics include CHW.
(e) Statistics include CHW and Justice Health.

Financial Performance

The two key indicators used by the Department to monitor the financial performance of AHS are net cost of services (adjusted to exclude special purpose and specific project funds) and general creditor levels. The Department advised that only SSWAHS achieved both benchmarks in 2009 (SSWAHS in 2008). The general creditors benchmark was achieved by only two AHS in 2009 (two AHS in 2008). Achievement of creditors' benchmarks was discussed in detail earlier under Key Issues.

Net Cost of Services

The adjusted net cost of services for six (seven in 2008) of the eight AHS were higher than the budget approved by the Department. The over-runs ranged from $13.0 million for SESIAHS to $40.7 million for SWAHS. The Department's analysis identified that SWAHS's unfavourable result was mainly due to the Area's failure to deliver required savings.

Other AHS with significant unfavourable results against budget were GWAHS and North Sydney and Central Coast, with over-runs of $34.9 million and $34.5 million respectively. The Department advised that savings identified by these AHS in their approved Financial Plans were not met including reductions in staff numbers. The Department needs to continue to closely monitor all AHS' financial performance during 2009-10 and implement processes to ensure excessive budget overruns do not continue to occur.

The actual to budget net cost of services results for the AHS are detailed below:

Area Health Service **Year ended 30 June**	**Budget 2009 $m**	**Actual 2009 $m**	**(Over)/Under Budget $m**
Greater Southern	***762.9***	***778.7***	(15.8)
Greater Western	***670.9***	***705.8***	(34.9)
Hunter New England	***1,413.4***	***1,410.2***	3.2
North Coast	***844.5***	***871.2***	(26.7)
Northern Sydney and Central Coast	***1,375.9***	***1,410.4***	(34.5)
South Eastern Sydney and Illawarra	***1,754.6***	***1,767.6***	(13.0)
Sydney South West	***2,026.3***	***2,005.8***	20.5
Sydney West	***1,659.5***	***1,700.2***	(40.7)

Operational Performance and Activity Levels

The Department uses other indicators to monitor operational performance and activity levels of AHS. These indicators include bed occupancy rates, average length of stay and the time taken to treat and admit emergency department patients.

Bed Occupancy Rate

The bed occupancy rate is the percentage of available beds that are occupied during the reporting period. It measures the use of hospital resources by inpatients and is based on major facilities.

The bed occupancy rate ranged from a high of 93.3 per cent (South Eastern Sydney and Illawarra) to a low of 70.2 per cent (Greater Western). It also indicates the metropolitan bed occupancy rate is significantly higher than most rural areas.

Average Length of Stay

The State wide average length of stay for acute separations is consistent with the prior year at 3.7 days. Generally, metropolitan areas registered a slightly higher average length of stay than rural areas.

Average Available Beds

The average number of available beds has remained almost constant across the majority of AHS, with the number of available beds in June being 22,311 (22,397).

Emergency Department Patients

- *Triage*

Triage is a mechanism used to assess emergency department patients for urgency to be seen by a clinician. Correct triaging of patients ensures they are treated in a timely manner according to clinical urgency of their condition.

The Department sets triage targets that align with those recommended by the Australasian College of Emergency Medicine (ACEM).

Critical care triage categories T1 to T3 relate to life threatening situations (see previous table for explanations of T1 to T3). All AHS met the T1 benchmark. Three AHS did not meet the T2 benchmark and five AHS did not meet the other life threatening category (T3) in 2008-09.

The following table indicates how many of the eight AHS achieved the individual triage benchmarks.

Triage Category Year ended 30 June	Target %	2009	2008
Triage Category 1	100	***8***	8
Triage Category 2	80	***5***	6
Triage Category 3	75	***3***	4
Triage Category 4	70	***7***	7
Triage Category 5	70	***8***	8

- *Emergency Admission Performance*

Emergency Admission Performance measures the time it takes for patients who require a hospital admission to be admitted from the emergency department to an inpatient bed. It is expressed as a percentage of patients admitted to an inpatient bed within eight hours of the commencement of treatment in the emergency department.

Metropolitan AHS typically record a lower emergency admission performance than rural services. SWAHS and SSWAHS recorded the lowest emergency admission performance at 69 per cent and 65 per cent respectively. The highest were HNEAHS and GWAHS at 83 per cent.

Elective Surgery Waiting Times

Elective Surgery is defined by the Department as planned or scheduled, non-emergency surgical procedures generally performed in an operating theatre, by a surgeon, under some form of anaesthesia. The Department is increasingly using the term 'planned surgery' to describe this type of surgical activity.

Three categories are currently used to classify planned surgical patients according to their clinical priority.

- Category One – where it is desirable for the surgical procedure to occur within 30 days from the date of the patient being booked for surgery. In these cases, the condition has the potential to deteriorate quickly to the point that it may become an emergency.
- Category Two – where it is desirable for the surgical procedure to occur within 90 days from the date of the patient being booked for surgery. Typically, these are conditions that cause some pain, dysfunction or disability, but are not likely to deteriorate quickly or become an emergency.
- Category Three – where it is desirable for the surgical procedure to occur within 365 days from the date of the patient being booked for surgery. Typically, these are conditions that cause lower degree of pain, dysfunction or disability, and are unlikely to deteriorate quickly or become an emergency.

In terms of performance, the Department tracks the median waiting times for each category of patients, the percentage of patients within each category who have received their treatment within the desirable timeframes and the number of patients ready for care that have waited longer than the benchmark waiting time.

Category One remained consistent while Category Two improved during 2008-09. The Department advised that 93 per cent of patients in the most urgent category were admitted within the target of 30 days (92 per cent. Category Two patients admitted within the target of 90 days were 85 per cent (76 per cent).

NSCCAHS reported the best performance in Category One with 99 per cent, compared with the lowest percentage achieved by NCAHS at 84 per cent. For Category Two, SWAHS had the best percentage at 91 per cent compared to 75 per cent achieved by NCAHS.

For Category Three, SSWAHS had the highest percentage of admissions within the recommended 12 month timeframe with 97 per cent, compared to NCAHS and GSAHS who both achieved the lowest at 90 per cent.

The Department advised there was a slight decrease in the median waiting times for Category Three patients, who waited an average of 134 days in the April to June 2009 quarter (136 days for April to June 2008). The median waiting time for Category One patients remained constant at ten days for the April to June 2009 quarter (10). Category Two patients waited an average of 51 days (52).

As advised by the Department, the number of patients on the surgical waiting list has increased from 58,173 as at 30 June 2008 to 64,512 as at 30 June 2009. The Department advised that the number of surgical urgent overdue patients in Category One increased to 74 at 30 June 2009 (30). However, the Category Two overdue waiting list has decreased significantly to 839 at 30 June 2009 (2,083).

At 30 June	No of patients on surgical waiting list		Number overdue	
	2009	2008	2009	2008
Surgical Waiting List				
Category One	***2,210***	2,141	***74***	30
Category Two	***11,407***	12,849	***839***	2,083
Category Three	***50,895***	43,183	***674***	58
Total	***64,512***	58,173	***1,587***	2,171

Source: Department of Health (unaudited)

Interstate Comparisons

The following information, based on 2007-08 statistics compares performance indicators for public acute hospitals for New South Wales with other jurisdictions. Each jurisdiction has different complexities, salary structures and accounting mechanisms. The data should be considered in this context.

2007-08 Statistics		NSW*	National
Average available beds per 1,000 population		***2.9***	***2.7***
Average length of stay (including day surgery)		***3.6***	***3.3***
Emergency department waiting times by Triage category (percentage of patients treated within benchmark time)	T1	***100***	***100***
	T2	***80***	***74***
	T3	***66***	***60***
	T4	***72***	***62***
	T5	***87***	***85***

Source: Australian Institute of Health and Welfare (AIHW) - Australian Hospital Statistics 2007-08.
* These statistics differ from the Department's statistics, partly because they are based on a selection of hospitals only.

The AIHW continues to maintain that 'the concept of an available bed is also becoming less important, particularly in the light of increasing same-day hospitalisations and the provision of hospital-in-the-home care'. AIHW also believes that different case mixes in hospitals affect the comparability of bed numbers.

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

The New South Wales average length of stay increased to 3.6 days (3.5), while the national average remained constant at 3.3 days.

New South Wales triage performance is equal to or better than the national average in all of the five categories.

New South Wales Budgeted Health Expenditure - State and Commonwealth

The budgeted expenditure for the New South Wales Department of Health has increased steadily over the past five years from $10.3 billion in 2004-05 to $13.8 billion in 2008-09. As a percentage of total budgeted New South Wales State spending, health expenditure increased from 27 per cent in 2004-05 to 27.5 per cent in 2008-09, but is down from 27.8 per cent in 2007-08.

A review of Commonwealth Budget Papers showed that the New South Wales proportion of the total Commonwealth Health budget in 2008-09 remained constant at 33 per cent (33 per cent).

Debts – Doubtful and Write-offs

The table below shows the proportion of debtors considered doubtful and the value of debts that have been written off for the past three years at the eight AHS.

At 30 June	2009	2008	2007
Total debtors ($'000)	***293,324***	338,711	295,416
Recovery Doubtful ($'000)	***23,523***	24,446	19,493
Proportion of doubtful debts to total debtors (%)	***8.0***	7.2	6.6
Debts written off ($'000)	***17,388***	12,495	8,632

The proportion of debtors considered doubtful has increased slightly over the past three years to eight per cent of total debtors. The amount written off has more than doubled from $8.6 million in 2006-07 to $17.4 million in 2008-09. The Department has a policy that debts are only written off once they are older than 120 days and have been sent to a debt collection agency.

A large portion of the debts written off by AHS are patient fees, particularly ineligible patients. Ineligible patients are overseas visitors who are not part of the Australian Medicare system.

New Bathurst Base Hospital

GWAHS constructed a new Bathurst Base Hospital with 149 beds, a ten bed mental health unit and emergency department that opened in January 2008. The project cost was $106 million (budget $100 million). A number of construction and operational issues have been identified since opening the hospital. The remediation works have been estimated by the Health Service to be $6.5 million.

Royal North Shore Redevelopment Project

On 28 October 2008, the Government entered into a $721 million public private partnership project to consolidate 53 outdated buildings into modern purpose built facilities for acute hospital care and community health.

Work commenced in October 2009, with the completion of the community health building expected in the first quarter of 2011. The new main property building is scheduled for completion by the end of 2012 with remaining development to be finalised in 2014.

Liverpool Hospital Redevelopment

Phase two of the Liverpool Hospital redevelopment is underway with completion scheduled in late 2011. The redeveloped Liverpool Hospital will feature 855 beds, 23 operating rooms, 60 intensive care beds, extended cancer treatment facilities, a major new ambulatory care centre, an additional rooftop helipad, additional parking, new education facilities, and an elevated road and separate pedestrian bridge over the railway linking the eastern and western campuses.

At 30 June 2009, $98.2 million of project costs had been incurred. The forecast total cost on completion is $396 million. This is in line with the budget.

PUBLIC HEALTH SECTOR ACTIVITIES

The Department advises the Government on the strategic direction, policy and planning of the State's health system. It also monitors and evaluates health activities.

The *Health Administration Act 1982* empowers the Department's Director-General as a Corporation Sole (Health Administration Corporation) to enter into various legal contracts such as the purchase, sale or lease of property. This Act also enables the Director-General to determine that the Health Administration Corporation (HAC) may exercise any of the Director-General's functions. These functions include the provision of ambulance services to the New South Wales community and the provision of health support services to the public health system.

AHS are Public Health Organisations constituted under the *Health Services Act 1997*. They are subject to the control and direction of the Director-General. They provide health services for the residents of New South Wales within their respective geographical areas.

Justice Health and the Clinical Excellence Commission are board governed Statutory Health Corporations (SHC), subject to the control and direction of the Minister and (by delegation) the Director-General. The CHW is a chief executive governed statutory health corporation, subject to the direction and control of the Director-General. SHCs are also Public Health Organisations constituted under the *Health Services Act 1997*.

The Ambulance Service of New South Wales is an administrative unit of the Health Administration Corporation which carries out the Director-General's functions to provide ambulance services under the *Health Services Act 1997*.

The Director-General also established other units to provide various services to the public health sector as part of HAC. These include:

- Health Support Services (HSS), formed on 24 April 2007 from the merger of the HealthTechnology and HealthSupport business units. HSS provides financial, payroll, linen, food and other health support services to public health organisations
- NSW Institute of Medical Education and Training was established on 1 September 2005 to provide medical education and educational support to the health sector
- Health Infrastructure, established 1 July 2007 to undertake major capital projects in connection with public health organisations.

Section Two

Commentary on Government Agencies

Minister for Health

Department of Health

Area Health Services:

Greater Southern

Greater Western

Hunter New England

North Coast

Northern Sydney and Central Coast

South Eastern Sydney and Illawarra

Sydney South West

Sydney West

***Aus Health International Pty Limited**

Cancer Institute NSW

Health Administration Corporation

Health Care Complaints Commission

***Justice Health**

New South Wales Health Foundation

Registration of Health Professionals

Royal Alexandra Hospital for Children

Refer to Appendix 1 for:

New South Wales Institute of Psychiatry

* The audit was incomplete at the time of compiling this Volume.
The comment will be included in a 2010 Volume.

Department of Health

AUDIT OPINION

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

Unless otherwise indicated, the commentary on the financial information is for the consolidated entity.

A listing of the entities the Department controls is included later in this comment under the 'Controlled Entities' section. Separate comment is included in this Volume for each of the controlled entities other than Clinical Excellence Commission and HealthQuest.

Comment on certain aspects of the consolidated entity's financial and operating performance is included in the Health Overview section earlier in this Report.

KEY ISSUES

Intra Health Receivables and Payables

I recommend the Department, in conjunction with Area Health Services, confirm all inter agency balances regularly during the year, and in particular at year end to ensure eliminations are accurate. The Department should have a policy for resolving disputed receivables and payables balances, and should clear them prior to finalising the consolidated accounts.

We were unable to confirm some receivable and payable balances between controlled entities, including Area Health Services (AHS). On consolidation, the Department eliminates controlled entities' intra health receivables and payables. At year end, there was a $23.0 million unexplained variance between these balances. The Department has indicated balances will be reconciled regularly during the year, so problems are addressed in a timely manner.

Management Letter Repeat Issues

I have reported the following matters to the Department for at least the past two years and believe they should be addressed as a matter of priority.

- instances of non-compliance by Health entities with Treasurer's Directions. This matter is discussed in the Health Overview.
- some employees within the Department continue to have recreation leave balances in excess of 40 days at 30 June 2009. The Department advised it has implemented policy changes to enhance monitoring and control of leave balances in excess of 40 days, and will largely eliminate excess leave balances by the end of January 2010.
- the Department has improved the clearing of payroll suspense accounts, however some old uncleared items still exist. The Department expects to clear these by the end of the 2010 financial year.

OTHER INFORMATION

We identified other opportunities for improvement to the Department's accounting and internal control procedures and will report them to management.

FINANCIAL INFORMATION

Key Income and Expense Recognised for the year

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Employee related	***8,546,559***	7,959,424	***127,243***	121,938
Grants and subsidies	***957,980***	1,026,945	***11,283,779***	10,404,775
Other expenses	***4,336,891***	4,131,013	***466,904***	494,903
OPERATING EXPENSES	***13,841,430***	13,117,382	***11,877,926***	11,021,616
OPERATING REVENUE	***1,864,206***	1,869,982	***172,239***	212,017
Other losses	***64,408***	50,853	***3,042***	7,735
NET COST OF SERVICES	***12,041,632***	11,298,253	***11,708,729***	10,817,334
Government contributions	***11,886,145***	10,918,259	***11,735,501***	10,763,082
(DEFICIT)/SURPLUS	***(155,487)***	(379,994)	***26,772***	(54,252)
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Net increase/(decrease) in Reserves	***121,585***	429,100	***(2,277)***	--
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***(33,902)***	49,106	***24,495***	(54,252)

The increase in employee related expenses is mainly due to higher award rates and employee entitlements.

Government contributions increased largely in response to the increasing demand for, and rising costs of the New South Wales health care system. Government contributions included Commonwealth assistance of $3.8 billion ($3.6 billion in 2007-08), the major component being the $3.4 billion ($3.1 billion) paid under the Australian Health Care Agreement.

For the parent entity, the increase in grants and subsidies predominantly comprises an increase of $912 million paid to controlled entities, mainly the AHS.

Abridged Consolidated Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***1,416,781***	1,332,673	***233,782***	260,985
Non-current assets	***9,991,673***	9,716,154	***209,086***	188,252
TOTAL ASSETS	***11,408,454***	11,048,827	***442,868***	449,237
Current liabilities	***3,526,185***	3,316,607	***124,582***	153,564
Non-current liabilities	***420,454***	242,485	***2,083***	2,395
TOTAL LIABILITIES	***3,946,639***	3,559,092	***126,665***	155,959
NET ASSETS	***7,461,815***	7,489,735	***316,203***	293,278

The increase in non-current assets is largely the result of a reassessment of the fair value of land, buildings and infrastructure systems, as well as additions during the year.

The increase in current liabilities is largely due to an increase in employee benefit provisions, partially offset by a reduction in creditors.

The increase in non-current liabilities is mainly because of an increase in finance lease liabilities related to financing of construction costs for the Long Bay Forensic Hospital redevelopment.

Abridged Service Group Information

Department of Health net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget $'000	2009 Actual $'000	2008 Actual $'000	2009 Actual $'000	2008 Actual $'000
Overnight acute inpatient services	***4,486,354***	***4,805,199***	4,540,018	***3,376,585***	3,299,021
Outpatient services	***1,265,781***	***1,306,730***	1,174,602	***953,626***	953,418
Rehabilitation and extended care services	***881,493***	***923,444***	812,436	***528,513***	546,411
Primary and community based services	***954,756***	***852,930***	886,539	***432,335***	413,519
Aboriginal health services	***61,689***	***52,759***	52,109	***18,182***	16,960
Emergency services	***1,228,992***	***1,398,246***	1,277,800	***643,580***	666,502
Same day acute inpatient services	***716,609***	***683,514***	687,660	***482,828***	509,510
Mental health services	***1,024,470***	***1,058,519***	971,661	***491,289***	587,083
Population health services	***377,751***	***465,586***	490,031	***151,792***	142,124
Teaching and research	***373,798***	***494,705***	405,397	***383,085***	355,187
Total all programs	***11,371,693***	***12,041,632***	11,298,253	***7,461,815***	7,489,735

The budget figures are as shown in the 2008-09 Budget Papers and do not include additional supplementations approved throughout the year.

The Department provided the following explanations for variances between budget and actual net cost of services for the programs.

Primary and community based services was under budget as a result of AHS improving their reporting processes after the budget was set, to more accurately assign revenues and expenses to the program.

Aboriginal health services was less than budget, also mainly because of better reporting processes. In addition, expenditure was impacted by issues including recruitment difficulties and the rolling over of protected funds to the following year.

Emergency services was over budget principally because of award increases, variations in superannuation stemming from award increases, the pro rata effect of actuarial leave adjustments and new moneys provided specifically for faster emergency care.

Population health services was over budget as a result of the injection of additional moneys for the National Immunisation Program.

Teaching and research exceeded budget due to a number of factors such as variations in leave provisions, depreciation, superannuation and capital expensing. The variation also reflects an improvement in the allocation of expenses as previously mentioned.

DEPARTMENT ACTIVITIES

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

CONTROLLED ENTITIES

Separate comment is included in this Volume for each of the following controlled entities:

Area Health Services (AHS)	Other Entities
Greater Southern	Justice Health*
Greater Western	Royal Alexandra Hospital for Children
Hunter New England	Health Administration Corporation comprising:
North Coast	- Ambulance Service of New South Wales
Northern Sydney and Central Coast	- Health Support Services
South Eastern Sydney and Illawarra	- NSW Institute of Medical Education and Training (IMET)
Sydney South West	- Health Infrastructure
Sydney West	

* The audit was incomplete at the time of compiling this Volume. The comment will be included in a 2010 Volume.

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

Entity Name	Website
Clinical Excellence Commission	www.cec.health.nsw.gov.au
Clinical Excellence Commission Special Purpose Service Entity	*
HealthQuest	www.healthquest.gov.au
HealthQuest Special Purpose Service Entity	*

* This entity does not have a website.

Greater Southern Area Health Service

AUDIT OPINION

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

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

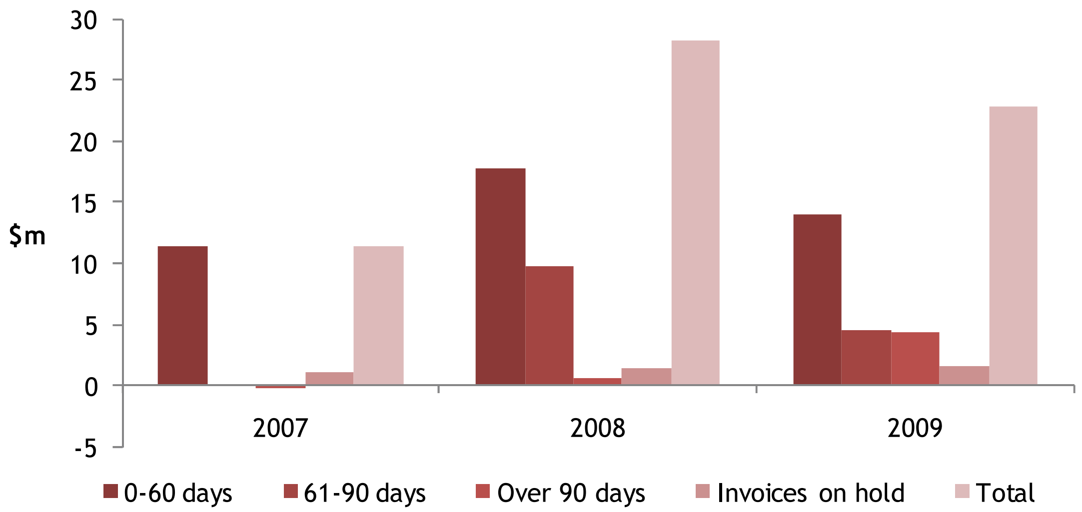
KEY ISSUES

Accounts Payable (Repeat issue)

> The Service needs to pay its creditors within agreed payment terms and to follow up disputed invoices in a timely manner.

The following chart shows the ageing of trade creditors for the past three years and the amounts on hold or in dispute. The information was provided by the Service and is unaudited.

Trade Creditors



Note: Total column is comprised of the three ageing columns, as they include the amounts for invoices on hold or in dispute.
Source: Greater Southern Area Health Service (unaudited).

The timely payment of invoices continues to be an issue for the Service. Although total trade creditors have decreased from $28.2 million to $22.9 million, the balance is still high.

Working Capital

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

The working capital position for the last four years based on the Service's financial report is shown below.

At 30 June	2009	2008	2007	2006
Current assets ($'000)	***29,703***	27,891	32,447	29,840
Current liabilities* ($'000)	***129,452***	128,908	101,935	92,097
Working capital deficit ($'000)	***99,749***	101,017	69,488	62,257
Working capital (%)	***22.9***	21.6	31.8	32.4
Number of times current liabilities exceed current assets	***4.4***	4.6	3.1	3.1

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

The Service is able to operate at a low working capital ratio due to continuous cash contributions from the Department. Although the Service is funded by grants from the Department, its working capital needs to be closely monitored to ensure it has sufficient funds to pay creditors, and to avoid other operational problems.

Budget to Actual Comparison

I recommend the Service improve its budget monitoring processes to ensure any potential budget overruns are addressed in a timely manner.

The Service's result for the year, a deficit of $20.1 million, was a $22.3 million deterioration against the budgeted surplus of $2.2 million. The Service advised this was mainly due to the transfer of hospital hotel services to Health Support Services, which resulted in a significant increase in operating expenses. The actual result being worse than budget has continued the trend from the prior year and should be appropriately addressed.

Fully Depreciated Plant and Equipment (Repeat issue)

The Service should liaise with the Department of Health to ensure it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment.

The Department advised it has engaged an independent expert to advise on options for the implementation of a Medical Equipment Asset Management program including a pilot review of "whole of lifecycle" management of equipment across a selection of Health Services (refer to Health Overview section of this Report).

The table below shows the extent of the Service's fully depreciated plant and equipment over the last three years.

At 30 June	2009	2008	2007
Total Plant and Equipment – at cost ($'000)	***57,840***	75,558	73,526
Fully depreciated Plant and Equipment – at cost ($'000)	***15,654***	34,992	32,031
Fully depreciated Plant and Equipment as a percentage of total (%)	***27.1***	46.3	43.6

The Service continues to use a high proportion of fully depreciated plant and equipment. Although this reduced from 46.3 per cent in 2007-08 to 27.1 per cent in 2008-09, it is still significant.

Last year, I recommended the Service, in conjunction with the Department, review the useful lives of fully depreciated assets. The Service advised it conducted an internal review this year, which looked at:

- whether the equipment was still in use
- whether continued use of the equipment posed a risk to either patient or staff safety
- the remaining useful life of the equipment.

The review identified $19.0 million of assets for write-off. Further consideration is to be given to the appropriateness of continuing to use fully depreciated assets.

Trust Funds (Repeat issue)

I recommend the Service review all special purpose and trust funds to confirm each fund's intended purpose. Where appropriate, approvals should be sought to move funds into the general purpose account where they can then be used for health services.

Last year, I recommended the Service review all special purpose and trust funds to confirm each fund's intended purpose. The nature and intended use of some funds was not apparent. The Service advised that it reviews the intended purpose of the trust funds when the trusts are established. However, there has been no subsequent review to assess the intended purpose of these funds. The Service had $2.0 million of these funds at 30 June 2009 ($2.1 million).

PERFORMANCE INFORMATION

Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.

The average length of stay in acute hospitals in the Greater Southern area was 2.7 days (2.8 days). This was the lowest in the State.

The Service's bed occupancy rate was 72.8 per cent (71.0 per cent). It is the second lowest in the State.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in all five triage categories, as it did in 2007-08.

The Service's emergency admissions performance decreased from 87 per cent in 2007-08 to 81 per cent in 2008-09. However, this still exceeded the Department's benchmark of 80 per cent.

OTHER INFORMATION

Comparison of Payments to Visiting Medical Officers (VMOs) and Medical Staff

The following table shows a comparison of payments to Visiting Medical Officers (VMOs) and Medical Staff for the last four years.

Year ended 30 June Category	2009 $'000	2008 $'000	2007 $'000	2006 $'000
Total Medical Staff*	***42,959***	**	**	**
VMOs	***55,835***	**	**	**

* Payments to Medical Staff include: base salary, overtime, penalties, sick and other leave, annual leave and long service leave.

** Figures are not readily available for 2006, 2007 and 2008 as the Service was using a number of different payroll systems during those years.

VMOs are specialist medical staff working as independent contractors for an average of six to eight hours per week in the public health system to supplement staff specialists employed directly by the Service. At other times they work in private practice.

The above table shows that VMO costs substantially exceed medical staff costs.

Debt Write-Offs and Provisions

The table below shows the proportion of debtors considered doubtful and the value of debts that have been written off for the past three years.

At 30 June	2009	2008	2007
Total debtors ($'000)	***11,557***	16,171	16,579
Recovery doubtful ($'000)	***1,106***	1,160	735
Proportion of doubtful debts to total debtors (%)	***9.6***	7.1	4.4
Debts written off ($'000)	***1,607***	1,303	--

The Service has a policy that debts are only written off once they are older than 120 days and have been sent to a debt collection agency.

A large portion of the debts written off by the Service are patient debts, particularly for patients who are overseas visitors who are not part of the Australian Medicare system.

Internal Controls

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

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the year

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Employee related	***440,582***	429,151	--	--
Personnel services	--	--	***440,582***	429,151
Visiting medical officers	***55,835***	54,816	***55,835***	54,816
Other expenses	***418,015***	367,640	***418,015***	367,640
OPERATING EXPENSES	***914,432***	851,607	***914,432***	851,607
OPERATING REVENUE	***137,195***	119,133	***144,746***	128,390
Loss on disposal of non-current assets	***1,445***	4,072	***1,445***	4,072
NET COST OF SERVICES	***778,682***	736,546	***771,131***	727,289
Government contributions	***758,617***	747,236	***751,066***	737,979
(DEFICIT)/SURPLUS	***(20,065)***	10,690	***(20,065)***	10,690
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Asset revaluation	***43,930***	--	***43,930***	--
Administrative transfers of assets to Health Support Services	***(277)***	--	***(277)***	--
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***23,588***	10,690	***23,588***	10,690

The increase in other expenses is mainly due to a rise in the food services expense of $13.4 million and an increase in inter-area and inter-state patient outflows by $17.7 million.

Food services, previously provided in-house by Service employees, were outsourced to Health Support Services during the year.

Inter-area/inter-state patient outflows are recognised when patients who reside within the Greater Southern area are treated outside this area/state. These flows have increased as a result of a rise in the number of patients treated and an increase in the associated costs.

The significant movement in income and expense recognised directly in equity is due to the revaluation increment in the current year of $43.9 million.

Abridged Balance Sheet

At 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***29,703***	27,890	***29,703***	27,890
Non-current assets	***591,044***	563,250	***591,044***	563,250
TOTAL ASSETS	***620,747***	591,140	***620,747***	591,140
Current liabilities	***185,994***	190,174	***185,994***	190,174
Non-current liabilities	***24,429***	14,229	***24,429***	14,229
TOTAL LIABILITIES	***210,423***	204,403	***210,423***	204,403
NET ASSETS	***410,324***	386,737	***410,324***	386,737

Non-current liabilities increased mainly due to an increase in borrowings from the NSW Health Department and the Sustainable Energy Development Authority.

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of the Greater Southern area through the following hospitals:

- Albury Base Hospital
- Albury Mercy Hospital
- Barham Koondrook Soldiers' Memorial Hospital
- Batemans Bay District Hospital
- Batlow District Hospital
- Bega District Hospital
- Berrigan War Memorial Hospital
- Bombala Hospital
- Boorowa District Hospital
- Bourke Street Health Service
- Braidwood Hospital
- Coolamon-Ganmain Health Service
- Cooma Hospital
- Cootamundra Hospital
- Corowa Hospital
- Crookwell District Hospital
- Culcairn Health Service
- Delegate Multi Purpose Service
- Deniliquin District Hospital
- Finley Hospital
- Goulburn Hospital
- Griffith Base Hospital
- Gundagai District Hospital
- Hay Hospital
- Henty District Hospital
- Hillston District Hospital
- Holbrook Hospital
- Jerilderie District Hospital
- Junee District Hospital
- Kenmore Psychiatric Hospital
- Leeton District Hospital
- Lockhart and District Hospital
- Mercy Care Hospital
- Moruya District Hospital
- Murrumburrah-Harden District Hospital
- Narrandera District Hospital
- Pambula District Hospital
- Queanbeyan Hospital
- Temora and District Hospital
- Tocumwal Hospital
- Tumbarumba Health Service
- Tumut Hospital
- Urana Health Service
- Wagga Wagga Base Hospital
- West Wyalong District Hospital
- Yass District Hospital
- Young District Hospital.

The Service also incorporates and manages the operating activities of various community health services, and is associated with several affiliated health organisations.

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

CONTROLLED ENTITY

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

Entity Name
Greater Southern Area Health Service Special Purpose Service Entity

Greater Western Area Health Service

AUDIT OPINION

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

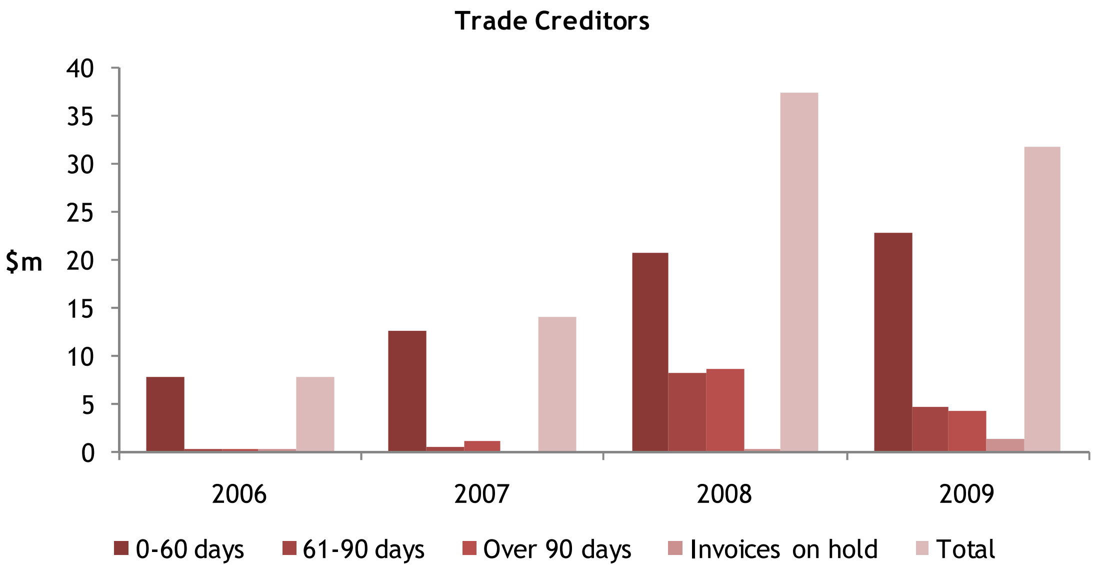
Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Accounts Payable

> The Service needs to pay its creditors within agreed payment terms and follow up disputed invoices in a timely manner.

The following chart shows ageing of trade creditors for the past four years, and amounts on hold or in dispute.



Note: Total column is comprised of the three ageing columns, as they include the amounts for invoices on hold or in dispute.
Source: Greater Western Area Health Service (unaudited).

The timely payment of creditors continues to be an issue for the Service, although the amount over 90 days has reduced from last year. Total creditors at 30 June 2009, $31.7 million, were lower when compared to the prior year, $37.4 million. Creditors over 90 days old have reduced by 50 per cent in that time. During the year, the Service needed special funding of $21.0 million from the Department of Health (the Department) to pay creditors.

At 30 June 2009 $1.2 million or 3.8 per cent of total creditors were either on hold or in dispute ($99,000 in 2007-08).

Working Capital

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

The working capital position for the last four years based on the Service's financial report is shown below.

At 30 June	2009	2008	2007	2006
Current assets ($'000)	***33,090***	33,038	19,841	19,966
Current liabilities* ($'000)	***133,561***	150,470	93,625	81,643
Working capital deficit ($'000)	***100,471***	117,432	73,784	61,677
Working capital (%)	***24.8***	22.0	21.2	24.5
Number of times current liabilities exceed current assets	***4.0***	4.6	4.7	4.1

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

The Service is able to operate at a lower working capital ratio due to continuous cash contributions from the Department. However, the Service needs sufficient working capital to pay creditors within agreed payment terms and to avoid other operational problems.

Budget to Actual Comparison

I recommend the Service improve its budget monitoring processes to ensure any potential budget overruns are addressed in a timely manner.

The Service's result for the year, a surplus of $9.6 million, was a $5.6 million deterioration from the budget of $15.2 million. Although this is a significant improvement from the prior year deficit of $23.0 million against a budgeted surplus of $10.6 million, this result was only achieved after the Service received additional capital allocations of $27.8 million in excess of budget. Although there may be extenuating circumstances, this has continued a trend from the prior year, and should be appropriately addressed.

Fully Depreciated Plant and Equipment (Repeat Issue)

The Service should liaise with the Department of Health to ensure that it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment).

The Department advised it has engaged an independent expert to conduct a pilot review on fully depreciated assets across a selection of Health Services (refer Health Overview section of this Report).

The table below shows the extent of the Service's fully depreciated plant and equipment over the last three years.

At 30 June	2009	2008	2007
Total Plant and Equipment – at cost ($'000)	***78,113***	78,336	70,682
Fully Depreciated Plant and Equipment – at cost ($'000)	***27,000***	28,200	26,300
Fully depreciated Plant and Equipment as a percentage of total (%)	***34.6***	36.0	37.2

The Service continues to use a high proportion of fully depreciated plant and equipment. Although this reduced from 36.0 per cent in 2007-08 to 34.6 per cent in 2008-09, it is still significant.

Last year, I recommended the Service, in conjunction with the Department, review the useful lives of fully depreciated assets. The Service advised it conducted an internal review this year, which looked at:

- whether the equipment was still in use
- the remaining useful life of the equipment.

The review resulted in $6.9 million of assets being written off, generally for assets with an original cost of less than $10,000.

The Service has advised it may seek an independent review during 2009-10 to assist it assess the safety risk of continuing to use these assets.

Asset Stock Take

I recommend the Service strengthen its policies and procedures in relation to plant and equipment stock takes.

In 2008-09, the Service did not perform a stock take of all plant and equipment with a value of greater than $10,000. The Service has advised that a full stock take is scheduled for 2009-10. When undertaking the stock take the Service should ensure its procedures include the following:

- assigning responsibility for the stock take process
- requiring all cost centres to complete and return their stock take sheets
- preparing a summary report detailing the results of the stock take; and
- ensuring the property, plant and equipment register and general ledger are adjusted for the results of the stock take.

Trust Funds (Repeat Issue)

I recommend the Service review all special purpose and trust funds to confirm each fund's intended purpose. Where appropriate, approvals should be sought to move funds into the general purpose account where they can then be used for health services.

Last year, I recommended the Service review all special purpose and trust funds to confirm each fund's intended purpose. The nature and intended use of some funds was not apparent. The Service has advised that a review is currently being undertaken and is targeted for completion in 2009-10. The volume of these funds at 30 June 2009 was $6.6 million ($7.0 million in 2007-08).

New Bathurst Base Hospital

Last year, I reported that the Service had opened a new Bathurst Base Hospital in January 2008 and that some construction and operational issues had been identified after the opening.

The problems identified and additional costs incurred, $6.5 million, demonstrated the need and importance of adequately involving clinical staff in the design, and throughout the construction process.

PERFORMANCE INFORMATION

Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.

The average length of stay in acute hospitals in the Greater Western area was 3.0 days (3.1 days). This is lower than the State average of 3.7 days and is the second lowest in the State.

The Service's bed occupancy rate reduced to 70.2 per cent (71.9 per cent). This is the lowest in the State.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in all five triage categories, as it did in 2007-08.

The Service's emergency admission performance of 83 per cent exceeded the Department's benchmark of 80 per cent and was one of the highest in the State.

OTHER INFORMATION

Payments to Visiting Medical Officers (VMOs) and Medical Staff

The following table shows a comparison of payments to VMOs and Medical Staff for the last four years.

Year ended 30 June Category	2009 $'000	2008 $'000	2007 $'000	2006 $'000
Total medical staff*	***41,677***	37,818	**	**
VMOs	***53,889***	53,613	45,347	39,339

* Payments to Medical Staff include: base salary, overtime, penalties, sick and other leave, annual leave and long service leave.
** Costs for Medical Staff were not recorded separately from those for other staff in 2006 and 2007.

VMOs are specialist medical staff working as independent contractors for an average of six to eight hours per week in the public health system to supplement staff specialists employed directly by the Service. At other times they work in private practice.

VMOs are a substantial part of overall medical costs for the Service.

An internal audit of the processing of claims and payments to VMOs conducted in 2006-07 revealed that procedures at that time failed to analyse whether the number of claims made by a VMO reflected a realistic workload for a clinician. Internal audit recommended a regular analysis to be performed by management to detect and monitor large volume claims and extraordinary patterns of servicing. The Service has implemented the recommendations.

Debt Write-Offs and Provisions

The table below shows the proportion of debtors considered doubtful and the value of debts that have been written off for the past three years.

At 30 June	2009	2008	2007
Total debtors ($'000)	***12,513***	20,972	11,109
Recovery doubtful ($'000)	***862***	388	923
Proportion of doubtful debts to total debtors (%)	***6.9***	1.9	8.3
Debts written off ($'000)	***964***	748	655

The proportion of debts considered doubtful has fluctuated over the past three years increasing significantly to 6.9 per cent (1.9 per cent). The Service has a policy that debts are only written off once they are older than 120 days and have been sent to a debt collection agency.

A large portion of the debts written off by the Service are patient fees, particularly for patients who are overseas visitors and are not part of the Australian Medicare system.

Internal Controls

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

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
Employee related	***409,284***	391,357	--	--
Personnel services	**--**	--	***409,284***	391,357
Visiting medical officers	***53,889***	53,613	***53,889***	53,613
Grants and subsidies	***10,417***	8,996	***10,417***	8,996
Other expenses	***316,243***	280,493	***316,243***	280,493
OPERATING EXPENSES	***789,833***	734,459	***789,833***	734,459
OPERATING REVENUE	***85,525***	89,241	***94,032***	97,347
Loss on disposal of non-current assets and other (gains)/losses	***1,510***	219	***1,510***	219
NET COST OF SERVICES	***705,818***	645,437	***697,311***	637,331
Government contributions	***715,438***	622,444	***706,931***	614,338
SURPLUS/(DEFICIT)	***9,620***	(22,993)	***9,620***	(22,993)
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Asset revaluation	***19,167***	43,759	***19,167***	43,759
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***28,787***	20,766	***28,787***	20,766

Employee related expenses have increased mainly due to increases in award rates from 1 July 2008.

Other expenses increased due to new Private Partnership Project charges for cleaning, increased IT licensing fees, and an increase in inter area and inter-state patient outflows.

Inter-area and inter-state patient outflows are recognised when patients who reside within the Greater Western area are treated outside this area.

Total income and expense recognised directly in equity has decreased due to the revaluation increment of land and buildings in the previous financial year.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***33,090***	33,038	***33,090***	33,038
Non-current assets	***540,996***	510,926	***540,996***	510,926
TOTAL ASSETS	***574,086***	543,964	***574,086***	543,964
Current liabilities	***192,322***	206,785	***192,322***	206,785
Non-current liabilities	***22,108***	6,310	***22,108***	6,310
TOTAL LIABILITIES	***214,430***	213,095	***214,430***	213,095
NET ASSETS	***359,656***	330,869	***359,656***	330,869

The increase in non-current assets is mainly attributed to the revaluation of land and buildings and additions to infrastructure systems.

The decrease in current liabilities is predominantly due to the payment of long outstanding creditors from a loan provided by the Department of Health.

The increase in non-current liabilities is a result of the additional loan provided by the Department and an increase in employee benefits liabilities as a result of increase award rate and higher leave balances.

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of the Greater Western area through the following hospitals:

- Balranald District Hospital
- Baradine Multi Purpose Health Service
- Bathurst Base Hospital
- Blayney Hospital & Health Service
- Bloomfield Hospital
- Bourke District Hospital & Health Service
- Brewarrina District Hospital & Health Service
- Broken Hill Base Hospital and Health Service
- Canowindra Health Service
- Cobar Health Service
- Collarenebri Hospital and Health Service
- Condobolin Health Service
- Coolah Multi Purpose Service
- Coonabarabran Health Service
- Coonamble Health Service
- Cowra Health Service
- Cudal Health Service
- Dubbo Base Hospital
- Dunedoo Health Service
- Eugowra Health Service
- Forbes Health Service
- Gilgandra Multi Purpose Health Service
- Goodooga Health Service
- Grenfell Multi Purpose Health Service
- Gulargambone Multi Purpose Health Service
- Gulgong Health Service
- Ivanhoe Health Service
- Lake Cargelligo Hospital and Health Service
- Lightning Ridge Multi Purpose Health Service
- Menindee Health Service
- Molong Health Service
- Mudgee Health Service
- Narromine Health Service
- Nyngan Health Service
- Oberon Health Service
- Orange Base Hospital
- Parkes Health Service
- Peak Hill Health Service
- Rylstone Hospital and Health Service
- Tibooburra Health Service
- Tottenham Health Service
- Trangie Multi Purpose Health Service
- Trundle Hospital and Health Service
- Tullamore Multi Purpose Service
- Walgett Health Service
- Warren Multi Purpose Health Service
- Wellington Health Service
- Wentworth Hospital and Health Service
- White Cliffs Health Service
- Wilcannia Health Service

The Service also incorporates and manages the operating activities of various community health services, and is associated with several affiliated health organisations.

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

CONTROLLED ENTITY

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

Entity Name
Greater Western Area Health Service Special Purpose Service Entity

Hunter New England Area Health Service

AUDIT OPINION

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

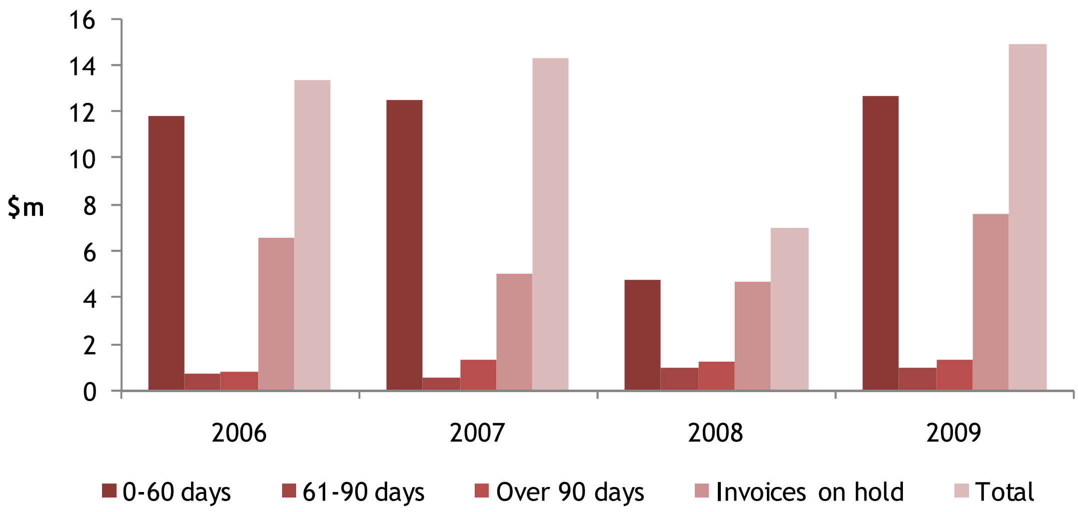
Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Accounts Payable

The Service needs to pay its creditors within agreed payment terms and to follow up disputed invoices in a timely manner.

The following chart shows ageing of trade creditors for the past four years, and amounts on hold or in dispute.



Note: Total column is comprised of the three ageing columns, as they include the amounts for invoices on hold or in dispute.
Source: Hunter New England Area Health Service (unaudited).

Total creditors at 30 June 2009, $14.9 million, were significantly higher compared to the prior year, $7.0 million. Creditors over 90 days old, including invoices on hold, have increased by 5.8 per cent over that time. During the year, the Service received special funding of $10.0 million from the Department of Health (the Department) for general liquidity assistance.

In each of the past four years, amounts on hold or in dispute have constituted a significant portion of total trade creditors. At 30 June 2009 $7.6 million or 51 per cent of total creditors were either on hold or in dispute. This percentage is a reduction on 67 per cent at 30 June 2008, but similar to the percentage at 30 June 2006. A significant amount of the 2009 on hold balance, $1.3 million, was over 90 days old.

The Service advised that the on hold balance at 30 June 2009 includes $3.4 million relating to capital expenditure awaiting clarification of delivery issues.

Working Capital

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

The working capital position for the last four years based on the Service's financial report is shown below.

At 30 June	2009	2008	2007	2006
Current assets ($'000)	***163,630***	121,509	117,240	110,142
Current liabilities* ($'000)	***251,395***	217,883	187,480	165,524
Working capital deficit ($'000)	***87,765***	96,374	70,240	55,382
Working capital (%)	***65.1***	55.8	62.5	66.5
Number of times current liabilities exceed current assets	***1.5***	1.8	1.6	1.5

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

The Service is able to operate at a lower working capital ratio due to continuous cash contributions from the Department. However, the Service needs to maintain working capital to pay creditors within agreed payment terms and avoid operational problems.

Budget to Actual Comparison

The Service's result for the year, a deficit of $52.0 million, was $6.7 million better than the budgeted deficit of $58.7 million. This is a significant improvement from the prior year when the Service's deficit of $107 million exceeded the budgeted deficit by $28.9 million.

Fully Depreciated Plant and Equipment (Repeat Issue)

The Service should liaise with the Department of Health to ensure that it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment.

The Department advised it has engaged an independent expert to conduct a pilot review on fully depreciated assets across a selection of Health Services (refer Health Overview section of this Report).

The table below shows the extent of the Service's fully depreciated plant and equipment over the past three years.

At 30 June	2009	2008	2007
Total Plant and Equipment – at cost ($'000)	***212,709***	201,179	197,924
Fully depreciated Plant and Equipment – at cost ($'000)	***61,400***	56,700	57,800
Fully depreciated Plant and Equipment as a percentage of total (%)	***28.9***	28.2	29.2

The Service continues to use a high proportion of fully depreciated plant and equipment.

Last year, I recommended the Service, in conjunction with the Department, review the useful lives of fully depreciated assets. The Service advised it conducted an internal review this year, which looked at:

- whether the equipment was still in use
- whether continued use of the equipment posed a risk to either patient or staff safety
- the remaining useful life of the equipment.

The review resulted in $21.9 million of assets being removed from the general leader and fixed assets register.

The Service has advised they have an Asset Management and Maintenance System that registers all clinical assets to schedule and record their maintenance history.

PERFORMANCE INFORMATION

Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.

The average length of stay in acute hospitals in the Hunter New England area remained at 3.8 days (3.8 days), slightly higher than the State average of 3.7 days.

The Service's bed occupancy rate increased to 81.7 per cent (75.8 per cent). This is still lower than the State average of 87.4 per cent.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in all five triage categories, as it did in 2007-08.

The Service's emergency admission performance of 83 per cent exceeded the Department's benchmark of 80 per cent and was one of the highest in the State.

OTHER INFORMATION

Trust Funds

Last year I recommended the Service review all special purpose and trust funds to confirm each fund's intended purpose, as the nature and purpose of some funds was not readily apparent. The Service conducted a review in 2008-09 and has advised of $20.9 million ($16.4 million at 30 June 2008) held in special purpose and trust funds, the nature and intended use was satisfactorily confirmed for all but $3,000.

Asset Stock Take

I recommend the Service strengthen its policies and procedures in relation to plant and equipment stock takes.

In 2008-09 the Service performed a stock take of plant and equipment with a value of greater than $10,000. A listing was made available to all cost centres detailing the assets under their control. Stock takes were not performed by all cost centres. A final summary report was provided to Health Support Services to update the Fixed Assets Register for those cost centres that responded.

The Service should strengthen its procedures over stock takes of plant and equipment by:

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

Payments to Visiting Medical Officers (VMOs) and Medical Staff

The following table shows a comparison of payments to VMOs and Medical Staff for the last four years.

Year ended 30 June Category	2009 $'000	2008 $'000	2007 $'000	2006 $'000
Total medical staff*	***160,900***	144,038	128,052	103,287
VMOs	***68,681***	67,130	59,476	57,197

* Payments to Medical Staff include: base salary, overtime, penalties, sick and other leave, annual leave and long service leave.

VMOs are specialist medical staff working as independent contractors for an average of six to eight hours per week in the public health system to supplement staff specialists employed directly by the Service. At other times they work in private practice.

VMOs are a substantial part of overall medical costs for the Service.

Debt Write-Offs and Provisions

The table below shows the proportion of debtors considered doubtful and the value of debts that have been written off for the past three years.

At 30 June	2009	2008	2007
Total debtors ($'000)	***42,586***	45,247	38,671
Recovery doubtful ($'000)	***620***	920	613
Proportion of doubtful debts to total debtors (%)	***1.5***	2.0	1.6
Debts written off ($'000)	***209***	1,107	392

The proportion of debts considered doubtful has remained fairly constant over the past three years. The Service has a policy that debts are only written off once they are older than 120 days and have been sent to a debt collection agency.

A large portion of the debts written off by the Service are patient fees, particularly for patients who are overseas visitors and are not part of the Australian Medicare system.

Calvary Mater Newcastle Hospital

During 2005-06, the Health Administration Corporation entered into a contract with a private sector provider for the financing, design, construction, commissioning and facilities management of a new Mater Hospital and a mental health facility. The developer was to complete the construction in three stages by 2009 and manage the facility until 2033.

Stage 1 was completed in January 2008 at a cost of $71.3 million and transferred to the Calvary Mater Newcastle Hospital. The remaining stages were completed in 2008-09 at a cost of $35.5 million and transferred to the Mater.

The new mental health facility and other refurbished buildings were completed in 2008-09 at a cost of $50.4 million and retained as assets by the Service.

Internal Controls

We identified opportunities for improvement to accounting and internal control procedures for the management of excess leave balances and have reported them to management.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Employee related	***994,381***	904,961	--	--
Personnel services	--	--	***994,381***	904,961
Visiting medical officers	***68,681***	67,130	***68,681***	67,130
Grants and subsidies	***9,882***	9,528	***9,882***	9,528
Other expenses	***643,476***	617,378	***643,476***	617,378
OPERATING EXPENSES	***1,716,420***	1,598,997	***1716,420***	1,598,997
OPERATING REVENUE	***306,408***	249,864	***326,075***	270,234
Loss on disposal of non-current assets and other (gains)/losses	***233***	1,900	***233***	1,900
NET COST OF SERVICES	***1,410,245***	1,351,033	***1,390,578***	1,330,663
Government contributions	***1,358,287***	1,244,040	***1,338,620***	1,223,670
DEFICIT FOR THE YEAR	***(51,958)***	(106,993)	***(51,958)***	(106,993)
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Asset revaluation	--	111,061	--	111,061
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***(51,958)***	4,068	***(51,958)***	4,068

Employee related expenses rose due to an increase in award rates from 1 July 2008 and higher staff levels arising from the merger of the Hunter New England, North Coast and Northern Sydney and Central Coast pathology services into the new Pathology North.

Other expenses increased due to higher interest expense for amounts relating to construction of the Calvary Mater Newcastle Hospital, an increase in inter area patient outflows and a growth in the demand for hospital services.

Inter area patient outflows are recognised when patients who reside within the Hunter New England area are treated outside this area.

The increase in revenue is attributable to higher intra health charges to the North Coast and Northern Sydney and Central Coast Area Health Services following the merger of the pathology services.

The increase in Government contributions reflects a general rise in the budget allocation and a $45.0 million supplementation for employee award increases.

Total income and expense recognised directly in equity has decreased due to the revaluation of land and buildings in the previous financial year.

Abridged Balance Sheets

At 30 June	**Consolidated**		**Parent**	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
Current assets	***163,630***	121,509	***163,630***	121,509
Non-current assets	***1,127,758***	1,062,341	***1,127,758***	1,062,341
TOTAL ASSETS	***1,291,388***	1,183,850	***1,291,388***	1,183,850
Current liabilities	***426,389***	364,768	***426,389***	364,768
Non-current liabilities	***163,564***	80,123	***163,564***	80,123
TOTAL LIABILITIES	***589,953***	444,891	***589,953***	444,891
NET ASSETS	***701,435***	738,959	***701,435***	738,959

The increase in current assets is mainly due to increases in cash and inventory resulting from the merger of the pathology services.

The increase in non-current assets is due to $13.4 million owing by the North Coast and Northern Sydney and Central Coast Area Health Services for employee entitlement liabilities transferred to the Service following for the merger of the pathology services, and the finalisation of the new mental health facility.

The increase in current liabilities is mainly due to higher trade creditors as a result of the timing of payment of outstanding creditors by Health Support and the recognition of entitlements for employees transferred as part of the pathology services merger.

The increase in non-current liabilities is mainly attributable to the recognition of interest bearing liabilities owing to Nova Care for construction of the Calvary Mater Newcastle Hospital.

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of the Hunter New England area through the following hospitals:

- Armidale Hospital
- Barraba District Hospital
- Belmont Hospital
- Bingara Community Hospital
- Boggabri District Hospital
- Bulahdelah Community Hospital
- Calvary Mater Newcastle
- Cessnock District Hospital
- Denman Hospital
- Dungog Community Hospital
- Glenn Innes District Hospital
- Gloucester Soldier's Memorial Hospital
- Gunnedah District Hospital
- Guyra Community Hospital
- Inverell District Hospital
- James Fletcher Mental Health Hospital
- John Hunter Children's Hospital
- John Hunter Hospital
- Kurri Kurri District Hospital
- Maitland Hospital
- Manilla District Hospital
- Manning Hospital - Taree
- Merriwa Community Hospital
- Moree District Hospital
- Morisset Mental Health Hospital
- Muswellbrook District Hospital
- Narrabri District Hospital
- Quirindi Hospital
- Royal Newcastle Centre
- Scott Memorial Hospital - Scone
- Singleton District Hospital
- Tamworth Hospital
- Tenterfield Community Hospital
- Tingha Hospital
- Tomaree Community Hospital
- Vegetable Creek Hospital - Emmaville
- Walcha Multipurpose Service
- Warialda District Hospital
- Wingham Community Hospital
- Wee Waa District Hospital
- Werris Creek District Hospital
- Wilson Memorial Hospital - Murrurundi

The Service also incorporates and manages the operating activities of various community health services, and is associated with several affiliated health organisations.

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

CONTROLLED ENTITY

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

Entity Name
Hunter New England Area Health Service Special Purpose Service Entity

North Coast Area Health Service

AUDIT OPINION

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

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

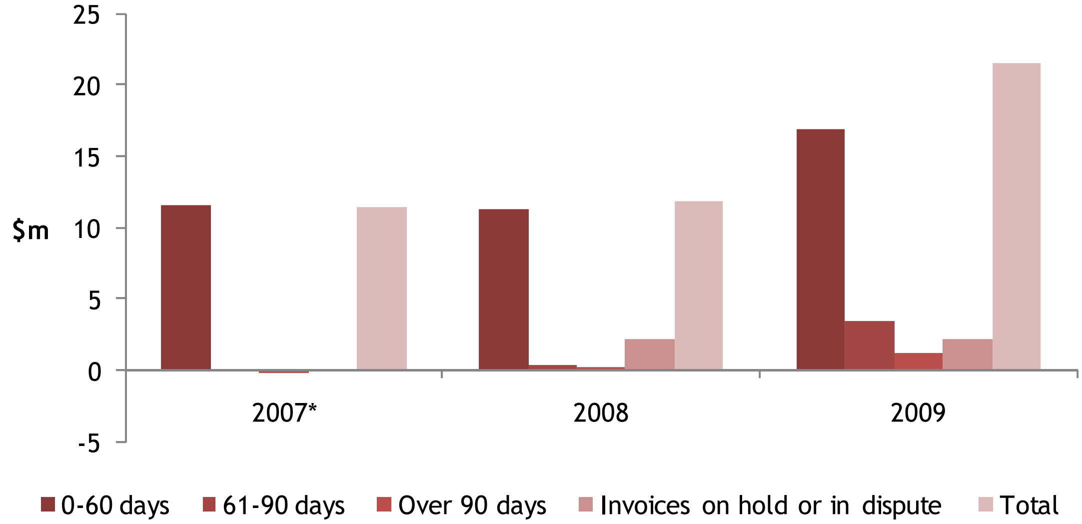
KEY ISSUES

Accounts Payable (Repeat issue)

> The Service needs to pay its creditors within agreed payment terms and to follow up disputed invoices in a timely manner.

The following chart shows the ageing of trade creditors for the past three years, and amounts on hold or in dispute*. The information was provided by the Service and is unaudited.

Trade Creditors



* Amount 'on hold or in dispute' not disclosed for 2007 as this information is not available.
Note: the Total column is comprised of the three ageing columns, as they include the amounts for invoices on hold or in dispute.
Source: North Coast Area Health Service (unaudited).

The timely payment of creditors continues to be an issue for the Service. Total trade creditors rose significantly to $21.5 million at 30 June 2009 from $11.9 million in the prior year.

Working Capital

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

The working capital position for the last four years based on the Service's financial report is shown below.

At 30 June	2009	2008	2007	2006
Current assets ($'000)	***34,272***	33,203	41,958	49,936
Current liabilities* ($'000)	***150,788***	136,843	110,630	101,865
Working capital deficit ($'000)	***116,516***	103,640	68,672	51,929
Working capital (%)	***22.7***	24.3	37.9	49.0
Number of times current liabilities exceed current assets	***4.4***	4.1	2.6	2.0

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

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

Budget to Actual Comparison

I recommend the Service improve its budget monitoring processes to ensure any potential budget overruns are addressed in a timely manner.

The Service's result for the year, a deficit of $25.1 million, was a deterioration of $24.6 million against the budgeted deficit of $544,000. The Service advised this was mainly due to activity increases including a 3.3 per cent rise in admissions from the previous year and the Service's inability to achieve identified expenditure and revenue savings strategies. The actual result exceeding the budget has continued to be a trend from the prior year, and should be appropriately addressed.

Fully Depreciated Plant and Equipment

The Service should liaise with the Department of Health to ensure it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment.

The Department advised it has engaged an independent expert to advise on options for the implementation of a Medical Equipment Asset Management program including a pilot review of ‘whole of lifecycle’ management of equipment across a selection of Health Services (refer to Health Overview section of this report).

The table below shows the extent of the Service’s fully depreciated plant and equipment over the last three years.

	2009	2008	2007
Total Plant and Equipment – at cost ($’000)	***70,360***	76,272	77,248
Fully depreciated Plant and Equipment – at cost ($’000)	***20,141***	24,247	25,517
Fully depreciated Plant and Equipment as a percentage of total (%)	***28.6***	31.8	33.0

The Service continues to use a high proportion of fully depreciated plant and equipment. Although this reduced from 31.8 per cent in 2007-08 to 28.6 per cent in 2008-09, it is still significant.

Last year I recommended the Service, in conjunction with the Department, review the useful lives of fully depreciated assets. The Service advised it conducted an internal review this year, which looked at:

- whether the equipment was still in use
- whether continued use of the equipment posed a risk to either patient or staff safety, and
- the remaining useful life of the equipment.

The review resulted in $7.8 million of assets being written off in 2008-09. No assets were found to pose a risk to either patient or staff safety.

Trust Funds (Repeat issue)

I recommend the Service review all special purpose and trust funds to confirm each fund’s intended purpose. Where appropriate, approvals should be sought to move funds into the general purpose account where they can then be used for health services.

Last year I recommended the Service review all special purpose and trust funds to confirm each fund’s intended purpose. The nature and intended use of some funds was not apparent. The Service advised it has commenced a review in June 2009, but it has not been completed to date. The Service had $3.1 million of these funds at 30 June 2009 ($1.8 million at 30 June 2008).

PERFORMANCE INFORMATION

Comparative performance data on all Area Health Services appears in the ‘Health Overview’ section earlier in this Volume.

The average length of stay in acute hospitals in the North Coast area increased to 3.7 days (3.4 days). This is equal to the State average.

The Service’s bed occupancy rate decreased to 83.8 per cent (85.4 per cent). This is below the State average of 87.4 per cent.

The Service met or exceeded the Department’s benchmarks for timeliness in treating emergency patients in only two of the five triage categories. However, the reported performance of the Service failed to meet three benchmarks including the requirement to treat 80 per cent of imminently life threatening patients within ten minutes.

The Service had a slight decrease in its emergency admissions performance from 77 per cent in 2008 to 75 per cent in 2009. This is below its target of 80 per cent.

A progressive state-wide upgrade of software used in the extraction and transmission of data relating to triage performance and emergency admissions is currently being undertaken. As a result of this upgrade, the Department advised that data for 2008-09 may not be directly comparable with previous periods for a number of hospitals and may understate their actual performance against benchmarks.

Hospitals in the Service affected by the upgrade include Lismore Base Hospital, the Tweed Hospital and Murwillumbah District Hospital. The Department advised that performance reported may not be reflective of the Service's actual emergency department performance.

OTHER INFORMATION

Asset Stock Take

> I recommend the Service strengthen its policies and procedures in relation to plant and equipment stock takes.

In 2008-09, the Service performed a stock take of plant and equipment with a value greater than $10,000 at some hospitals.

A final summary report on the results of the stock take was not prepared because all hospitals did not complete the stock take.

The Service should strengthen its stock take procedures over plant and equipment by:

- assigning accountability for the stock take process
- ensuring all cost centres complete and return stock take sheets
- preparing a summary report detailing the results of the stock take
- ensuring the property, plant and equipment register and general ledger are adjusted for the results of the stock take.

Comparison of Payments to Visiting Medical Officers (VMOs) and Medical Staff

The following table shows a comparison of payments to Visiting Medical Officers (VMOs) and Medical Staff.

Year ended 30 June **Category**	**2009** **$'000**	**2008** **$'000**	**2007** **$'000**	**2006** **$'000**
Total Medical Staff*	***59,472***	52,640	46,737	39,262
VMOs	***87,732***	77,941	71,453	67,314

* Payments to Medical Staff include: base salary, overtime, penalties, sick and other leave, annual leave and long service leave.

VMOs are specialist medical staff working as independent contractors for an average of six to eight hours per week in the public health system to supplement staff specialists employed directly by the Service. At other times they work in private practice.

The above table shows VMO costs are higher than expenses for staff specialists employed directly by the Service.

Debt Write-Offs and Provisions

The table below shows the proportion of debtors considered doubtful and the value of debts that have been written off for the past three years.

At 30 June	2009	2008	2007
Total debtors ($'000)	***16,102***	17,746	17,654
Recovery doubtful ($'000)	***1,093***	1,536	756
Proportion of doubtful debts to total debtors (%)	***6.8***	8.7	4.3
Debts written off ($'000)	***1,777***	992	--

The proportion of debtors considered doubtful has fluctuated over the past three years decreasing slightly to 6.8 per cent at 30 June 2009 (8.7 per cent). The Service has a policy that debts are only written off once they are older than 120 days and have been sent to a debt collection agency.

A large portion of the debts written off by the Service are patient debts, particularly for patients who are overseas visitors and not part of the Australian Medicare system.

Internal Controls

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

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
Employee related	***534,369***	519,469	--	--
Personnel services			***534,369***	519,469
Visiting medical officers	***87,732***	77,941	***87,732***	77,941
Grants and subsidies	***7,652***	8,021	***7,652***	8,021
Other expenses	***372,277***	325,992	***372,277***	325,992
OPERATING EXPENSES	***1,002,030***	931,423	***1,002,030***	931,423
OPERATING REVENUE	***132,228***	138,923	***140,712***	147,941
Loss on disposal of non-current assets	***44***	6	***44***	6
Other losses	***1,335***	1,135	***1,335***	1,135
NET COST OF SERVICES	***871,181***	793,641	***862,697***	784,623
Government contributions	***846,032***	753,369	***837,548***	744,351
DEFICIT	***(25,149)***	(40,272)	***(25,149)***	(40,272)
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Asset revaluation	***(50,739)***	65,917	***(50,739)***	65,917
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***(75,888)***	25,645	***(75,888)***	25,645

The increase in other expenses is mainly due to a rise in the food services expense of $14.3 million and an increase in inter-area patient outflows by $11.7 million.

Food services, previously provided in-house by Service employees, were outsourced to Health Support Services during the year.

Inter-area patient outflows are recognised when patients who reside within the North Coast area are treated at outside this area. These flows have increased as a result of a rise in the number of patients treated and an increase in the associated costs.

The significant movement in income and expense recognised directly in equity is due to a revaluation decrement for land and building assets in the current year of $50.7 million compared to an increment of $65.9 million in 2008.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***34,272***	33,203	***34,272***	33,203
Non-current assets	***614,896***	671,294	***614,896***	671,294
TOTAL ASSETS	***649,168***	704,497	***649,168***	704,497
Current liabilities	***220,898***	207,143	***220,898***	207,143
Non-current liabilities	***11,977***	4,566	***11,977***	4,566
TOTAL LIABILITIES	***232,875***	211,709	***232,875***	211,709
NET ASSETS	***416,293***	492,788	***416,293***	492,788

Overall, net assets decreased primarily due to a revaluation decrement of $50.7 million on land and buildings and increase in non-current borrowings by $7.8 million.

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of the North Coast area through the following hospitals:

- Ballina District Hospital
- Bellingen River District Hospital
- Bonalbo Hospital
- Byron District Hospital
- Campbell Hospital (Coraki)
- Casino and District Memorial Hospital
- Coffs Harbour Base Hospital
- Dorrigo Multi Purpose Service
- Grafton Base Hospital
- Kempsey District Hospital
- Kyogle Memorial Hospital
- Lismore Base Hospital
- Macksville Health Campus
- Maclean District Hospital
- Mullumbimby and District War Memorial Hospital
- Murwillumbah District Hospital
- Nimbin Multi Purpose Service
- Port Macquarie Base Hospital
- The Tweed Hospital
- Urbenville Health Service
- Wauchope District Memorial Hospital.

The Service also incorporates and manages the operating activities of various community health services and is associated with several affiliated health organisations.

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

CONTROLLED ENTITY

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

Entity Name
North Coast Area Health Service Special Purpose Service Entity

Northern Sydney and Central Coast Area Health Service

AUDIT OPINION

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

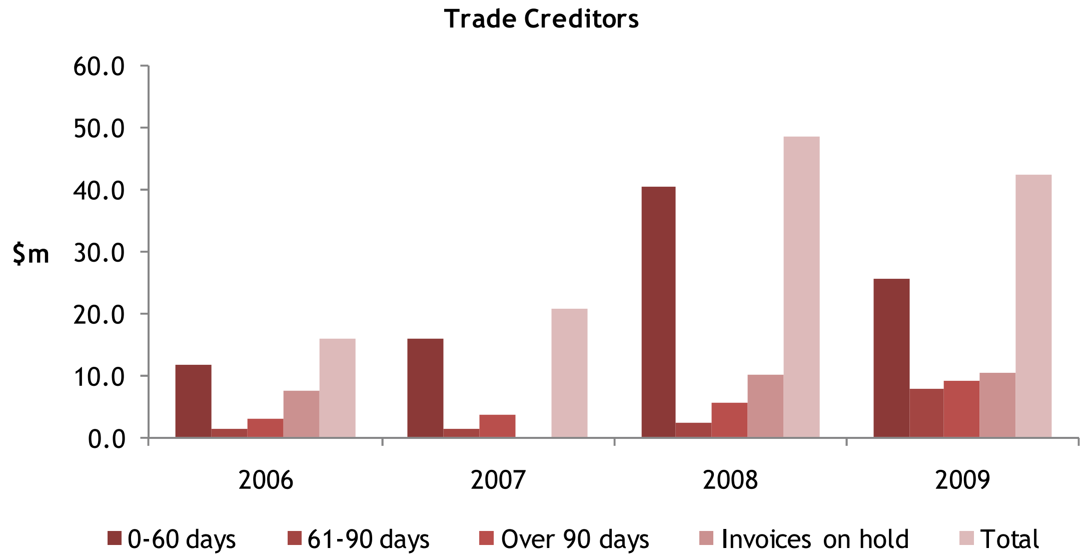
Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Accounts Payable

The Service needs to pay its creditors within agreed payment terms and to follow up disputed invoices in a timely manner.

The following chart shows the ageing of trade creditors for the past four years and the amounts on hold or in dispute:



Note: Total column is comprised of the three ageing columns, as they include the amounts for invoices on hold or in dispute

Source: Northern Sydney and Central Coast Area Health Service (unaudited).

The timely payment of creditors continues to be an issue for the Service. Creditors older than 90 days have increased by 66 per cent. Total creditors of $42.3 million at balance date were lower than previous year's balance of $48.4 million. During the year, the Service received $34.1 million in additional funding from the Department of Health (the Department) to help pay some of its outstanding creditors.

In each of the past four years, the amounts on hold or in dispute have constituted a significant portion of total trade creditors. At 30 June 2009, $10.4 million, 25 per cent of total creditors were either on hold or in dispute. This percentage was slightly lower at 30 June 2008, 21 per cent. A significant amount of the on hold balance, $5.0 million, was older than 90 days, with some invoices dating back more than two years.

Working Capital

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

The working capital position for the last four years based on the Service's financial report is shown below.

At 30 June	2009	2008	2007	2006
Current assets ($'000)	***133,120***	135,787	135,144	153,992
Current liabilities* ($'000)	***277,030***	279,050	223,113	221,507
Working capital deficit ($'000)	***143,910***	143,263	87,969	67,515
Working capital ratio (%)	***48.1***	48.7	60.6	69.5
Number of times current liabilities exceed current assets	***2.1***	2.1	1.7	1.4

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

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

Budget to Actual Comparison

I recommend the Service improve its budget monitoring processes to ensure any potential budget overruns are addressed in a timely manner.

The Service's result for the year, a deficit of $7.5 million, was a deterioration of $39.7 million than the budget of $32.2 million. In comparison, the 2007-08 result was $47.7 million deterioration from the budget of $31.3 million.

The Service advised this was due in part to the deferring of some capital works projects resulting in reduced revenue from government grants being received. The variance between budget and actual has continued a trend from the prior year, and should be appropriately addressed.

Fully Depreciated Plant and Equipment (Repeat issue)

The Service should liaise with the Department of Health to ensure that it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment.

The Department advised it has engaged an independent expert to conduct a pilot review on fully depreciated assets across a selection of Health Services (refer to Health Overview section of this Report.

The table below shows the extent of the Service's fully depreciated plant and equipment over the last three years.

At 30 June	2009	2008	2007
Total Plant and Equipment – at cost ($'000)	***204,940***	221,961	199,510
Fully Depreciated Plant and Equipment – at cost (S'000)	***92,000***	83,600	101,000
Fully depreciated Plant and Equipment as a percentage of total (%)	***45***	38	51

The Service continues to use a high proportion of fully depreciated plant and equipment.

Last year, I recommended the Service, in conjunction with the Department, review the useful lives of fully depreciated assets. The Service advised it conducted an internal review this year, which looked at:

- whether the equipment was still in use
- whether continued use of the equipment posed a risk to either patient or staff safety
- the remaining useful life of the equipment.

The review resulted in $20.0 million of assets being written off, generally for assets with an original cost of less than $10,000. Although the Service has advised it provides biomedical engineering checks on its equipment, the report provided by the Service did not include a biomedical engineering assessment of the equipment. As a result, we are unable to draw a conclusion on matters of safety to patients and staff of continued use of the equipment

Trust Funds (Repeat issue)

I recommend the Service review all special purpose and trust funds to confirm each fund's intended purpose. Where appropriate, approvals should be sought to move funds into the general purpose account where they can then be used for health services.

Last year, I recommended the Service review all special purpose and trust funds to confirm each fund's intended purpose. The Service advised it has commenced a review of trust funds however some of its special purpose and trust funds were established a number of years ago and that the source documentation was not available. The review is expected to be completed in early 2010. The Service had $6.3 million of these funds at 30 June 2009 ($6.5 million).

PERFORMANCE INFORMATION

Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.

The average length of stay in acute hospitals in the Northern Sydney and Central Coast area increased slightly to 4.4 days (4.3 days). This is well above the state average of 3.7 days and the highest in the state.

The Service's bed occupancy rate increased to 88.3 per cent (87.9 per cent). This was higher than the State average of 87.4 per cent.

The Service has met or exceeded the Department's benchmarks for timeliness in treating emergency patients in three of the five triage categories (met or exceeded three of the five triage categories in 2008). However, the Service failed to meet two benchmarks including the requirement to treat 80 per cent of imminently life threatening patients within ten minutes.

The Service's emergency admission performance reduced to 70 per cent (72 percent). This was less than its 80 per cent target.

OTHER INFORMATION

Asset Stock Take

I recommend the Service strengthen its policies and procedures in relation to plant and equipment stock takes.

In 2008-09, the Service performed a stock take of all plant and equipment with a value of greater than $10,000. A listing was made available to all cost centres detailing the assets under their control. Of the 232 cost centres, only 194 returned completed stock take sheets.

A final summary report on the results of the stock take was not prepared.

The Service should strengthen its stock take procedures over plant and equipment by:

- assigning accountability for the stock take process
- ensuring all cost centres complete and return their stock take sheets
- preparing a summary report detailing the results of the stock take
- ensuring the property, plant and equipment register and general ledger are adjusted for the results of the stock take.

Payments to Visiting Medical Officers (VMOs) and Medical Staff

The following table shows a comparison of payments to Visiting Medical Officers (VMOs) and Medical Staff.

Year ended 30 June Category	2009 $'000	2008 $'000	2007 $'000	2006 $'000
Total Medical Staff*	***190,039***	174,491	160,951	141,929
VMOs	***58,884***	57,629	49,363	46,685

* Payments to Medical Staff include: base salary, overtime, penalties, sick and other leave, annual leave and long service leave.

Source: Northern Sydney and Central Coast Area Health Service (unaudited)

VMOs are specialist medical staff working as independent contractors for an average of six to eight hours per week in the public health system to supplement staff specialists employed directly by the Service at other times they work in private practice.

VMO costs are a substantial part of overall medical costs for the Service.

Debt Write-Offs and Provisions

The table below shows the proportion of debtors considered doubtful and the value of debts that have been written off for the past three years.

At 30 June	2009	2008	2007
Total debtors ($'000)	***39,805***	39,671	33,901
Recovery doubtful ($'000)	***2,510***	4,032	2,753
Proportion of impairment to total trade debtors (%)	***6.3***	10.2	8.1
Debts written off ($'000)	***3,040***	1,522	1,101

The proportion of debtors considered doubtful has fluctuated over the past three years decreasing to 6.3 per cent in 2008-09 (10.2 per cent). The Service has a policy that debts are only written off once they are older than 120 days and have been sent to a debt collection agency.

A large portion of the debts written off by the Service are patient debts, particularly ineligible patients. Ineligible patients are overseas visitors who are not part of the Australian Medicare system.

Internal Controls

We identified other opportunities for improvement to accounting and internal control procedures and have reported them to management. The major matters included:

- Joint Venture – the Service has entered into a joint venture with the University of Sydney to form the Kolling Institute of Medical Research. We have yet to receive evidence of Ministerial and/of Treasurer's approval to enter into this joint venture
- identification of weaknesses in the maintenance of suppliers, debtors and payroll master files
- bank reconciliation review process needs improving
- payable balances not regularly reconciled to the suppliers' statements, and
- salaries and wages reconciliation process needs improving.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Employee related	***1,053,759***	1,034,244	**--**	--
Personnel services	**--**	--	***1,053,759***	1,034,244
Visiting medical officers	***58,884***	57,629	***58,884***	57,629
Other expenses	***637,287***	565,790	***637,287***	565,790
TOTAL EXPENSES	***1,749,930***	1,657,663	***1,749,930***	1,657,663
TOTAL REVENUE	***342,491***	324,220	***359,944***	344,227
Loss on disposal of non-current assets and other gains	***2,965***	2,767	***2,965***	2,767
NET COST OF SERVICES	***1,410,404***	1,336,210	***1,392,951***	1,316,203
Total government contributions	***1,402,860***	1,319,751	***1,385,407***	1,299,744
DEFICIT	***(7,544)***	(16,459)	***(7,544)***	(16,459)
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
(Decrease) in net assets from Administrative Restructure	***(14,097)***	--	***(14,097)***	--
Asset revaluation	***(30)***	111,147	***(30)***	111,147
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	**(21,671)**	94,688	**(21,671)**	94,688

Employee related expenses rose due to a four per cent award increase. Other expenses have increased mainly due to higher inter area patient outflows and the increased cost of food, pathology and radiology services. Inter area and interstate patient outflows are recognised when patients who reside within the Northern Sydney and Central Coast area are treated outside this area.

The increase in revenue reflects a rise in patient's fees and activities.

Abridged Balance Sheets

At 30 June	**Consolidated**		**Parent**	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
Current assets	***133,120***	135,787	***133,120***	135,787
Non-current assets	***1,411,184***	1,406,382	***1,411,184***	1,406,382
TOTAL ASSETS	***1,544,304***	1,542,169	***1,544,304***	1,542,169
Current liabilities	***395,645***	405,796	***395,645***	405,796
Non-current liabilities	***90,573***	56,613	***90,573***	56,613
TOTAL LIABILITIES	***486,218***	462,409	***486,218***	462,409
NET ASSETS	***1,058,086***	1,079,760	***1,058,086***	1,079,760

The increase in non-current assets is mainly due to the additions of land and buildings, and plant and equipment.

The increase in non-current liabilities is mainly due to an increase in borrowings for the construction of new buildings

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of Northern Sydney and the Central Coast through the following hospitals:

- Gosford Hospital
- Hornsby Ku-ring-gai Hospital
- Long Jetty Hospital
- Macquarie Hospital
- Manly Hospital
- Mona Vale Hospital
- Royal North Shore Hospital
- Ryde Hospital
- Woy Woy Hospital
- Wyong Hospital.

The Service also incorporates and manages the operating activities of various community health services, and is associated with several affiliated health organisations.

For further information on the Service's activities, refer to www.nsccahs.health.nsw.gov.au.

CONTROLLED ENTITY

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

Entity Name
Northern Sydney and Central Coast Area Health Service Special Purpose Service Entity

South Eastern Sydney and Illawarra Area Health Service

AUDIT OPINION

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

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

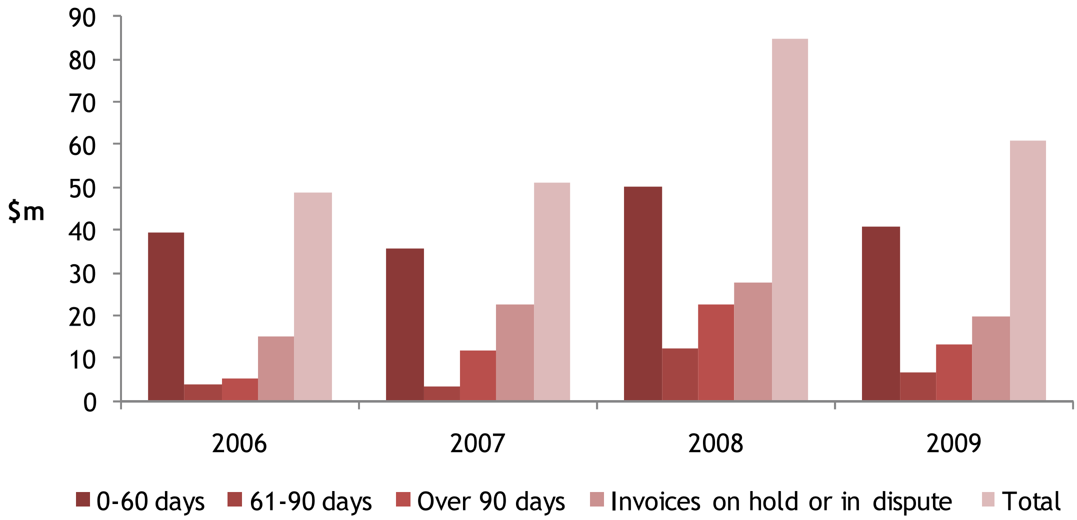
KEY ISSUES

Accounts Payable (Repeat issue)

The Service needs to ensure all purchases are supported by authorised orders, pay its creditors within agreed payment terms, and to follow up disputed invoices in a timely manner.

The following chart shows ageing of trade creditors for the past four years, and amounts on hold or in dispute.

Trade Creditors



Note: Total column is comprised of the three ageing columns, as they include the amounts for invoices on hold or in dispute.
Source: South Eastern Sydney and Illawarra Area Health Service (unaudited)

The timely payment of creditors continues to be an issue for the Service. Total trade creditors at 30 June 2009, $60.7 million, were significantly lower compared to the prior year, $84.8 million. Trade creditors over 90 days old have reduced by 41 per cent in that time. During the year, the Service received one off funding of $5.5 million from the Department of Health (the Department) to pay creditors.

In each of the past four years, invoices on hold or in dispute have constituted a material portion of total trade creditors. At 30 June 2009 around $20 million or 33 per cent of total trade creditors were either on hold or in dispute. This percentage was the same for 2008, but a decrease on 44 per cent in 2007.

A significant amount of the 2009 on hold balance, $7.7 million, was over 90 days old, and in some cases amounts on hold were more than two years old. The Service advised that invoices can be placed on hold for a number of reasons, including the lack of a Service purchase order in support of the invoice. We have reported this for the last two years, and recommended that purchases need to be accompanied by valid orders. The lack of action on this issue could give the impression, perhaps mistakenly, that this is being used as a means of deferring payments to suppliers.

Working Capital

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

The working capital position for the last four years based on the Service's financial report is shown below.

At 30 June	2009	2008	2007	2006
Current assets ($'000)	***167,497***	174,768	166,948	171,144
Current liabilities* ($'000)	***383,424***	366,809	320,084	312,141
Working capital deficit ($'000)	***215,927***	192,041	153,136	140,997
Working capital (%)	***43.7***	47.6	52.2	54.8
Number of times current liabilities exceed current assets	***2.3***	2.1	1.9	1.8

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

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

Budget to Actual Comparison

I recommend the Service improve its budget monitoring processes to ensure any potential budget overruns are addressed in a timely manner.

The Service's result for the year, a deficit of $64.8 million, was $23.3 million worse than the budgeted deficit of $41.5 million. In comparison, the 2008 result was $7.0 million worse than the budgeted deficit of $65.3 million.

The Service advised this was due in part to the deferring of some capital works projects resulting in reduced revenue from government grants being received. Although there may have been extenuating circumstances, the variance between budget and actual has continued a trend from the prior year, and should be appropriately addressed.

Fully Depreciated Plant and Equipment (Repeat issue)

The Service should liaise with the Department to ensure that it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment.

The Department advised it has engaged an independent expert to advise on options for the implementation of a Medical Equipment Asset Management program, including a pilot review of 'whole of lifecycle' management of equipment across a selection of Health Services (refer Health Overview section of this Report).

The table below shows the extent of the Service's fully depreciated plant and equipment over the last three years.

At 30 June	2009	2008	2007
Total Plant and Equipment – at cost ($'000)	***226,677***	214,814	234,079
Fully depreciated Plant and Equipment – at cost ($'000)	***68,503***	73,200	56,700
Fully depreciated Plant and Equipment as a percentage of total (per cent)	***30.2***	34.1	24.2

The Service continues to use a high proportion of plant and equipment which has been fully depreciated. Although this reduced from 34.1 per cent in 2008 to 30.2 per cent in 2009, it is still very significant.

Last year I recommended the Service, in conjunction with the Department, review the useful lives of assets that have been fully depreciated. The Service advised it conducted an internal review this year, which looked at:

- whether the equipment was still in use
- whether continued use of the equipment posed a risk to either patient or staff safety, and
- the remaining useful life of the equipment.

The review resulted in $12.6 million of assets being written off, generally for assets with an original cost of less than $10,000. The Service was not able to provide documentary evidence to support the results of the review and we were therefore unable to assess whether sufficient work was done to conclude on the safety of the equipment for continued use.

Trust Funds (Repeat issue)

I recommend the Service review all special purpose and trust funds to confirm each fund's intended purpose. Where appropriate, approvals should be sought to move funds into the general purpose account where they can then be used for health services.

Last year I recommended the Service review all special purpose and trust funds to confirm each fund's intended purpose. The nature and intended use of some funds was not apparent. The Service advised it commenced a review of trust funds in June 2009 which found that further investigative work is required. The review is expected to be completed by March 2010. The value of these funds at 30 June 2009 was $48.5 million ($53.5 million in 2007-08).

PERFORMANCE INFORMATION

Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.

The average length of stay in acute hospitals in the South Eastern Sydney and Illawarra areas decreased to 3.6 days (3.7 days) and is slightly lower than the State average of 3.7 days.

The Service's bed occupancy rate increased to 93.3 per cent (90.9 per cent). This is the highest in the State and above the State average of 87.4 per cent.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in four of the five triage categories (met or exceeded all five triage categories in 2007-08).

The Service's emergency admissions performance has reduced to 73 per cent (76 per cent). This is lower than its 80 per cent target.

OTHER INFORMATION

Asset Stock Take

I recommend the Service strengthen its policies and procedures in relation to plant and equipment stock takes.

In 2008-09 the Service performed a stock take of items of plant and equipment with a value greater than $10,000. A listing was made available to all cost centres detailing the assets under their control. Of the 924 cost centres, only 404 returned completed stock take sheets.

A final summary report on the results of the stock take was not prepared.

The Service should strengthen its stock take procedures over plant and equipment by:

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

Payments to Visiting Medical Officers (VMOs) and Medical Staff

The following table shows a comparison of payments to VMOs and Medical Staff for the last four years.

Year ended 30 June Category	2009 $'000	2008 $'000	2007 $'000	2006 $'000
Total medical staff*	***251,636***	238,092	211,174	201,749
VMOs	***67,273***	67,005	60,577	58,529

* Payments to Medical Staff include: base salary, overtime, penalties, sick and other leave, annual leave and long service leave.

VMOs are specialist medical staff working as independent contractors for an average of six to eight hours per week in the public health system to supplement staff specialists employed directly by the Service. At other times they work in private practice.

VMO costs comprise a substantial part of overall medical costs for the Service.

Debt Write-Offs and Provisions

The table below shows the proportion of debtors considered doubtful and the value of debts that have been written off for the past three years.

At 30 June	2009	2008	2007
Total debtors ($'000)	***50,410***	50,422	50,774
Recovery doubtful ($'000)	***4,329***	3,881	3,841
Proportion of doubtful debts to total debtors (per cent)	***8.6***	7.7	7.6
Debts written off ($'000)	***1,299***	1,451	1,568

The proportion of debts considered doubtful has remained fairly constant over the past three years. The Service has a policy that debts are only written off once they are older than 120 days and have been sent to a debt collection agency.

A large portion of the debts written off by the Service are patient fees, particularly for patients who are overseas visitors and are not part of the Australian Medicare system.

Internal Controls

We identified opportunities for improvement to accounting and internal control procedures and have reported them to management. The major matters included:

- Joint Ventures – the Service has entered into a joint venture with the University of Wollongong to form the Illawarra Health and Medical Research Institute. We have yet to receive evidence of Ministerial and/or Treasurer's approval to enter into this joint venture
- identification of a weakness in the maintenance of suppliers and payroll master files data
- a material part of the Service's expenditure on goods and services was not supported by approved purchase orders
- salaries and wages reconciliations need improving
- some accounting journals were not supported by appropriate documentation.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
Employee related	***1,322,930***	1,231,965	--	--
Personnel services	**--**	--	**1,322,930**	1,231,965
Visiting medical officers	***67,274***	67,005	**67,274**	67,005
Grants and subsidies	***27,484***	48,406	**27,484**	48,406
Other expenses	***909,238***	849,338	**909,238**	849,338
OPERATING EXPENSES	***2,326,926***	2,196,714	**2,326,926**	2,196,714
OPERATING REVENUE	***566,200***	530,561	**566,200**	530,561
Loss on disposal of non-current assets and other losses	***6,939***	2,416	**6,939**	2,416
NET COST OF SERVICES	***1,767,665***	1,668,569	**1,767,665**	1,668,569
Government contributions	***1,702,847***	1,603,247	**1,702,847**	1,603,247
DEFICIT	***(64,818)***	(65,322)	**(64,818)**	(65,322)
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Asset revaluation	***(13,424)***	47,700	***(13,424)***	47,700
Administrative transfers of assets to Health Support Services	***(1,203)***	267	***(1,203)***	267
Financial asset revaluation (Decrease)	***(447)***	0	***(447)***	0
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***(79,892)***	(17,355)	***(79,892)***	(17,355)

Employee related expenses increased primarily due to increases in actuarially assessed long service leave entitlements, annual leave entitlements, and award rate increases.

The decrease in grants and subsidies was due to the payment of a one off $20.0 million grant in the previous year.

The increase in revenue and other expenses was due to a general rise in activity, including increased patient fees.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***167,497***	174,768	***167,497***	174,768
Non-current assets	***1,433,295***	1,468,545	***1,433,295***	1,468,545
TOTAL ASSETS	***1,600,792***	1,643,313	***1,600,792***	1,643,313
Current liabilities	***573,766***	542,395	***573,766***	542,395
Non-current liabilities	***35,304***	29,304	***35,304***	29,304
TOTAL LIABILITIES	***609,070***	571,699	***609,070***	571,699
NET ASSETS	***991,722***	1,071,614	***991,722***	1,071,614

The increase in current liabilities is mainly due to an increase in employee entitlements.

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of the South Eastern Sydney and Illawarra area through the following hospitals:

- Bulli District Hospital
- Coledale District Hospital
- David Berry Hospital
- Garrawarra Centre
- Gower Wilson Memorial Hospital
- Kiama Hospital and Community Health Service
- Milton Ulladulla Hospital
- Port Kembla Hospital
- Prince of Wales Hospital and Community Health Services
- Royal Hospital for Women
- Shellharbour Hospital
- Shoalhaven District Memorial Hospital
- St George Hospital and Community Health Services
- Sutherland Hospital and Community Health Services
- Sydney Children's Hospital and Community Health Services
- Sydney Hospital and Sydney Eye Hospital
- Wollongong Hospital.

The Service also incorporates and manages the operating activities of various community health services, and is associated with several affiliated health organisations.

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

CONTROLLED ENTITY

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

Entity Name
South Eastern Sydney and Illawarra Area Health Service Special Purpose Service Entity

Sydney South West Area Health Service

AUDIT OPINION

The audits of the Service's and its controlled entities' financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports, except for the ANZAC Health and Medical Research Foundation Trust Fund which was qualified.

As is common for entities that have donations and fundraising as sources of revenue, it is impractical for the Trust Fund to maintain an effective system of internal control over such revenue it receives until its entry in the financial reports. This means that the audit evidence available regarding revenue from these sources is limited and our audit procedures with respect to such revenue is restricted to the amounts recorded in the financial records. This is a common issue across similar entities reliant upon discretionary revenue streams and does not represent a shortcoming by the Trust Fund's management.

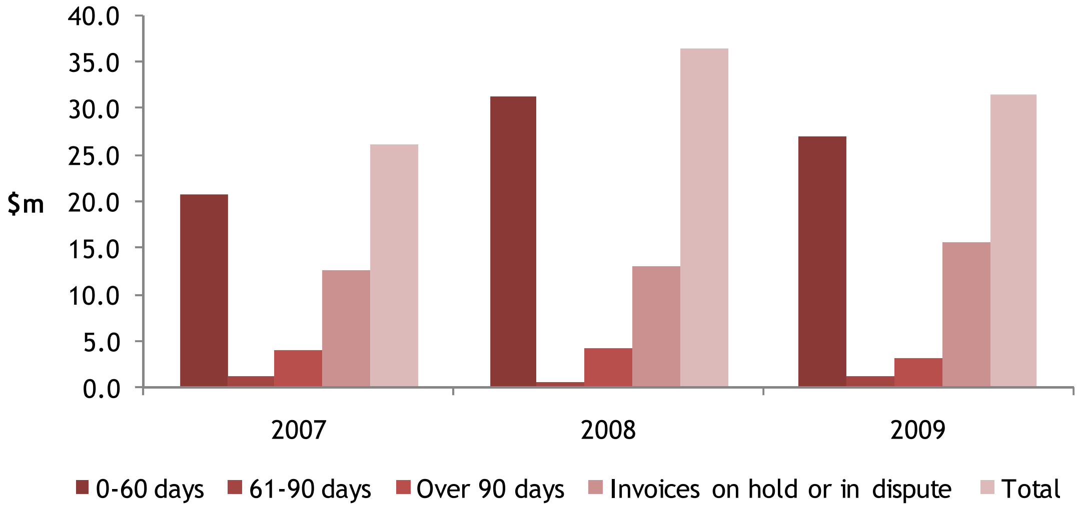
Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Payment of Creditor Invoices

The Service's total creditors at 30 June 2009 were $41.2 million. This is lower than the $50.5 million in 2008 and comparable with the 2007 figure of $41.6 million. Trade creditors are the largest component of this balance, being $31.4 million at 30 June 2009. The following chart shows ageing of trade creditors for the past three years, and amounts on hold or in dispute.

Trade Creditors



Note: Total column is comprised of the three ageing columns, as they include the amounts for invoices on hold or in dispute.
Source: Sydney South West Area Health Service (unaudited).

In each of the past three years, amounts on hold or in dispute have constituted a significant portion of total trade creditors. At 30 June 2009, $15.6 million, being 49.6 per cent of total trade creditors were either on hold or in dispute ($13.0 million and 35.7 per cent at 30 June 2008). Of this, $3.1 million was over 90 days old and the Service advises this is the portion genuinely in dispute.

The Department of Health advised that the Service met its targets for prompt payment during 2008-09.

Working Capital

The working capital ratio is a measure of an entity's liquidity and its ability to meet short term debt obligations. It is calculated by dividing current assets by current liabilities. A working capital ratio of 100 per cent or more is generally considered desirable to ensure an entity can meet its debts when they fall due.

In recent years, the Service has consistently operated well below this level. The situation is worse when current assets, restricted by externally imposed conditions are taken into account, as these assets are unavailable for working capital purposes.

The working capital position based upon the Service's financial reports is shown below.

At 30 June	2009	2008	2007	2006
Current assets ('000)	***280,728***	268,011	242,989	204,087
Current liabilities* ('000)	***406,417***	400,045	348,554	335,746
Working capital deficit ('000)	***125,689***	132,034	105,565	131,659
Working capital (%)	***69.1***	67.0	69.7	60.8
Number of times current liabilities exceed current assets	***1.4***	1.5	1.4	1.6

* Australian Accounting Standards require all unconditional employee entitlement liabilities to be reported as current liabilities irrespective of when they are expected to be settled. For our analysis we have excluded long service leave expected to be settled later than 12 months from year-end.

The Service is able to operate at a lower working capital ratio due to continuous cash contributions from the Department. However, the Service needs sufficient working capital to avoid operational problems, including its ability to pay creditors within agreed payment terms.

Budget to Actual Comparison

The Service's consolidated result for the year, a surplus of $23.5 million, was $16.9 million above the budgeted surplus of $6.6 million. This is consistent with the prior year when the deficit of $61.1 million was less than the budgeted deficit of $70.5 million.

The Service's expenditure was consistent with budget, but it achieved higher than expected levels of revenue, creating the favourable result. Revenue from the sale of goods and services and grants and contributions received were higher than budgeted.

Fully Depreciated Plant and Equipment

The Service should liaise with the Department of Health to ensure it implements recommendations from a pilot review the Department is conducting into whole of life cycle management of medical equipment.

The Department advised it has engaged an independent expert to conduct a pilot review on fully depreciated assets across a selection of Health Services (refer Health Overview section of this Report).

The Service continues to use a high proportion of fully depreciated plant and equipment. Details of the extent of fully depreciated plant equipment appear in the table below.

At 30 June	2009	2008	2007
Total Plant and Equipment – at cost ($'000)	***454,758***	453,014	447,231
Fully Depreciated Plant and Equipment – at cost ($'000)	***240,197***	230,443	225,298
Percentage of Fully depreciated Plant and Equipment to total (%)	***52.9***	50.9	50.4

The Service advised that fully depreciated plant and equipment at 30 June 2009 includes $121 million of medical equipment. This is comparable with the prior year. The Service has a policy of conducting regular inspections of equipment to ensure the safety of equipment used on patients.

The Service conducts annual stocktakes of all medical equipment with a cost over $250,000. Items not located or no longer in service are written off. The service has commenced stocktakes of other items, both medical and non-medical in 2009-10.

Trust Funds

I recommend the Service review all special purpose and trust funds to confirm their intended purpose. Where appropriate, approvals should be sought to move funds into the general purpose account where they can then be used for health services.

Last year I recommended that the Department, in conjunction with the Area Health Services, review all special purpose and trust funds to confirm their intended purpose.

The Service's special purpose and trust funds were last reviewed in August 2004. Since then, funds are monitored on an ongoing basis. The Service plans to perform a full review in the 2009-10 year. At 30 June 2009, the Service and its controlled entities held more than $200 million in special purpose and trust funds (more than $185 million in 2008).

PERFORMANCE INFORMATION

Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume. The Department advised the following performance information.

The average length of stay in acute hospitals in the Sydney South West Area was 3.7 days (3.8 days). This is equal to the State average.

The Service's bed occupancy rate was 90.7 per cent (88.9 per cent). This is higher than the State average of 87.4 per cent.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in three of the five triage categories (four triage categories in 2008). However, the Service failed to meet two benchmarks including the requirement to treat 80 per cent of imminently life threatening patients within ten minutes.

The Service's emergency admission performance reduced from 75 per cent in 2007-08 to 65 per cent in 2008-09. This is lower than the target of 80 per cent and was one of the lowest in the State.

OTHER INFORMATION

Overtime

Overtime paid to staff in 2008-09 was $55.7 million ($56.8 million). Approximately eighty per cent of this figure was paid to medical and nursing staff. This is consistent with the prior year. The number of employees paid overtime in 2008-09 is detailed below:

Year end 30 June	Staff numbers 2009
Overtime	
$150,001 to $170,000	***2***
$110,001 to $150,000	***13***
$80,001 to $110,000	***26***
$50,001 to $80,000	***82***
$20,001 to $50,000	***582***
$0 to $20,000	***8,924***
Total	***9,629***
Total $'000	***55,701***

Source: Sydney South West Area Health Service (unaudited).

Overtime costs represent only 3.6 per cent of total employee related expenditure (3.9 per cent). An analysis of the overtime paid shows that:

- 40 staff received more than 100 per cent of their current salary in overtime
- 123 staff earned more than $50,000 in overtime, with 18 earning in excess of $100,000.

The Service should examine the reasons for the high levels of overtime paid to these staff, to assess:

- occupational health and safety implications
- the adequacy of rostering processes
- the nature and prevalence of staffing issues
- the impact on sick and other leave.

Payments to Visiting Medical Officers (VMOs) and Medical Staff

The following table shows a comparison of payments to Visiting Medical Officers (VMOs) and Medical Staff.

Year ended 30 June Category	2009 $'000	2008 $'000	2007 $'000	2006 $'000
Total Medical Staff*	***282,872***	262,453	243,777	226,529
VMOs	***84,167***	84,815	77,628	73,951

* Payments to Medical Staff include: base salary, overtime, penalties, sick and other leave, annual leave and long service leave.

Source: Sydney South West Area Health Service (unaudited).

VMOs are specialist medical staff working as independent contractors for an average of six to eight hours per week in the public health system to supplement staff specialists employed directly by the Service. At other times they work in private practice.

VMO costs are a substantial portion of medical costs. However, there is a reducing trend in VMO costs in comparison to medical staff.

Major Capital Projects

Phase two of the Liverpool Hospital redevelopment is underway with completion scheduled in late 2011. The redeveloped Liverpool Hospital will feature 855 beds, 23 operating rooms, 60 intensive care beds, extended cancer treatment facilities, a major new ambulatory care centre, an additional rooftop helipad, additional parking, new education facilities, and an elevated road and separate pedestrian bridge over the railway linking the eastern and western campuses.

At 30 June 2009, $98.2 million of project costs had been incurred. The forecast total cost on completion is $396 million. This is in line with the budget.

This project is being managed by Health Infrastructure Services.

Debt Write-Offs and Provisions

The table below shows the proportion of debtors considered doubtful and the value of debts that have been written off for the past three years.

At 30 June	2009	2008	2007
Total debtors at 30 June ($'000)	***54,527***	59,122	49,841
Recovery doubtful ($'000)	***9,478***	9,460	9,344
Proportion of doubtful debts to total trade debtors (%)	***17.4***	16.0	18.8
Debts written off during the year ($'000)	***5,520***	4,811	4,432

The proportion of debtors considered doubtful has remained consistent over the past three years. The Service has a policy that debts are only written off once a debt collection agency advises that all action has been taken to recover the debt and it is irrecoverable or not economic to pursue.

A large portion of the debts written off by the Service are patient debts, particularly for patients who are overseas visitors who are not part of the Australian Medicare system.

INTERNAL CONTROLS

We identified opportunities to improve internal control and will shortly report them to management.

FINANCIAL INFORMATION

Key Income and Expenses recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Employee related	***1,560,517***	1,449,670	**--**	--
Personnel services	--	--	***1,556,877***	1,446,676
Visiting medical officers	***84,167***	84,816	***84,167***	84,816
Other expenses	***908,556***	859,894	***905,628***	857,178
OPERATING EXPENSES	***2,553,240***	2,394,380	***2,546,672***	2,388,670
OPERATING REVENUE	***553,283***	498,521	***566,382***	517,819
Other losses	***5,861***	5,506	***5,861***	5,506
NET COST OF SERVICES	***2,005,818***	1,901,365	***1,986,151***	1,876,357
Add government contributions	***2,029,282***	1,840,177	***2,004,116***	1,814,728
SURPLUS/(DEFICIT)	***23,464***	(61,188)	***17,965***	(61,629)
INCOME RECOGNISED DIRECTLY IN EQUITY				
Asset revaluation	***91,169***	4,450	***91,165***	4,384
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***115,163***	(58,738)	***109,130***	(57,245)

The increase in employee related expenses was largely due to a four per cent award rate increase and increases in staff numbers. The increase in visiting medical officers expense is also largely due to an increase in the remuneration rate.

The Service revalued its land and buildings during 2008-09. This accounts for the significant income recognised directly in equity during the year.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***280,728***	268,011	***261,704***	253,945
Non-current assets	***1,787,228***	1,654,630	***1,777,890***	1,648,763
TOTAL ASSETS	***2,067,956***	1,922,641	***2,039,594***	1,902,708
Current liabilities	***620,900***	595,232	***619,553***	594,291
Non-current liabilities	***33,015***	28,521	***30,972***	28,478
TOTAL LIABILITIES	***653,915***	623,753	***650,525***	622,769
NET ASSETS	***1,414,041***	1,298,888	***1,389,069***	1,279,939

The increase in non-current assets is mainly due to the revaluation of land and buildings during the year. Increases in employee entitlements account for the growth in liabilities.

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of the Sydney South West area through the following hospitals:

- Balmain Hospital
- Bankstown Hospital
- Bowral and District Hospital
- Camden Hospital
- Campbelltown Hospital
- Canterbury Hospital
- Concord Repatriation General Hospital
- Fairfield Hospital
- Liverpool Hospital
- Royal Prince Alfred Hospital
- Sydney Dental Hospital
- Thomas Walker Hospital.

The Service also incorporates and manages the operating activities of various community health services, and is associated with several affiliated health organisations.

For further information on the Service, refer to www.sswahs.nsw.gov.au.

CONTROLLED ENTITIES

The Service has three controlled entities, including two research institutes.

ANZAC Health and Medical Research Foundation

The Foundation should obtain approval for a loan entered into in 2009.

During 2008-09, the Foundation entered into long term leasing arrangements for additional facilities within the new Bernie Banton Centre located on the Concord Hospital campus. The arrangements provide additional research facilities for the Foundation.

To secure the long term lease, the Foundation contributed to the construction of Centre. This contribution was partly funded via a loan. Under the *Public Authorities (Financial Arrangements) Act 1987*, New South Wales Government agencies require approval to borrow funds.

Ingham Health Research Institute

During the year the Commonwealth Government announced that it will provide $46.9 million of funding in coming years to the Ingham Health Research Institute to construct a new research facility located at Liverpool Hospital.

For further financial and other information on these entities we have listed the entities' websites.

Entity Name	Website
ANZAC Health and Medical Research Foundation and ANZAC Health and Medical Research Foundation Trust Fund	www.anzac.edu.au
Ingham Health Research Institute	*
Sydney South West Area Health Service Special Purpose Service Entity	www.sswahs.nsw.gov.au

* This entity does not have a website.

Sydney West Area Health Service

AUDIT OPINION

The audits of the Service and its controlled entity's financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

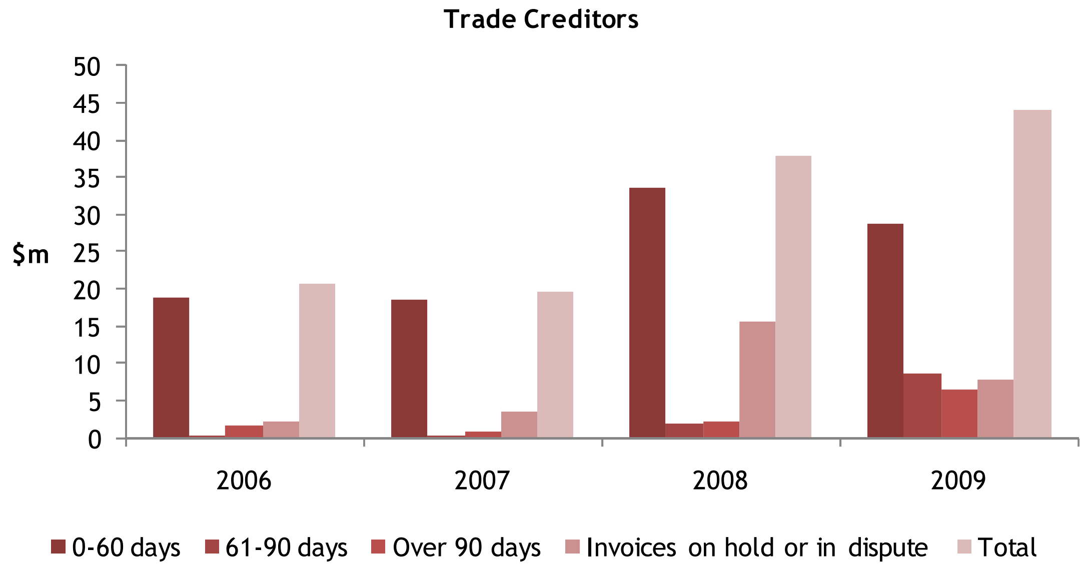
Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Accounts Payable (Repeat issue)

> The Service needs to pay its creditors within agreed payment terms, ensures purchases are supported by authorised purchase orders and to follow up disputed invoices in a timely manner.

The following chart shows ageing of trade creditors for the past four years, and amounts on hold or in dispute.



Note: the Total column is comprised of the three ageing columns, as they include the amounts for invoices on hold or in dispute.
Source: Sydney West Area Health Service (unaudited).

The timely payment of accounts continues to be an issue for the Service. Total trade creditors increased by 15.9 per cent from $37.9 million at 30 June 2008 to $43.9 million at 30 June 2009. The Service advised that the increase was reflective of the increased levels of activity across the Service. The Service managed to clear the backlog of invoices on hold or in dispute resulting in a 50.4 per cent reduction in these accounts from 2008 to 2009.

The Service advised that invoices can be placed on hold for a number of reasons, including the lack of a Service purchase order in support of the invoice.

Working Capital

The working capital ratio is a measure of an entity's liquidity and its ability to meet short term debt obligations. It is calculated by dividing current assets by current liabilities. A working capital ratio of 100 per cent or more is generally considered desirable to ensure an entity can meet its debts when they fall due.

The working capital position for the last four years, based on the Service's financial reports, is shown below.

At 30 June	2009	2008	2007	2006
Current assets ($'000)	***187,641***	213,013	213,814	222,236
Current liabilities* ($'000)	***320,672***	302,761	238,755	221,882
Working capital deficit ($'000)	***133,031***	89,748	24,941	354
Working capital (%)	***58.5***	70.4	89.6	100.2
Number of times current liabilities exceed current assets	***1.7***	1.4	1.1	1.0

* Australian Accounting Standards require all unconditional employee entitlement liabilities to be reported as current liabilities irrespective of when they are expected to be settled. For our analysis we have excluded long service leave liabilities to be settled later than 12 months from year-end.

Working capital has reduced in the current financial year to 58.5 per cent (70.4 per cent in 2007-08). The reasons for this reduction include a decrease in receivables and an increase in employee entitlements due to wage increases.

The Service is able to operate at a lower working capital ratio due to continuous cash contributions from the Department. Although the Service is funded by grants from the Department, the declining trend should be addressed to ensure sufficient funding is on hand for the timely payment of creditors and to avoid operational problems.

Budget to Actual Comparison

I recommend the Service improve its budget monitoring processes to ensure any potential budget overruns are addressed in a timely manner.

The Service's result for the year is a deficit of $60.5 million. This is a deterioration of $43.0 million than the budgeted deficit of $17.5 million. Total expenditure increased by $49.4 million mainly due to increases in employee expenses of $8.6 million, Visiting Medical Officers' expenses of $7.6 million and other operating expenses of $34.3 million. The trend of budget over-runs during the last three years should be appropriately addressed, even if there are extenuating circumstances.

Fully Depreciated Plant and Equipment (Repeat Issue)

The Service should liaise with the Department of Health to ensure it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment.

The Department advised it has engaged an independent expert to advise on options for the implementation of a Medical Equipment Asset Management program including a pilot review of 'whole of lifecycle' management of equipment across a selection of Health Services (refer to Health Overview section of this report).

The table below shows the extent of the Service's fully depreciated plant and equipment over the last three years.

At 30 June	2009	2008	2007
Total Plant and Equipment – at cost ($'000)	***250,692***	217,379	303,310
Fully Depreciated Plant and Equipment – at cost ($'000)	***37,850***	47,844	143,564
Fully depreciated Plant and Equipment to total (%)	***15.1***	22.0	47.3

The Service continues to use fully depreciated plant and equipment. Although this reduced from 22 per cent in 2007-08 to 15.1 per cent in 2008-09, it is still significant.

Last year I recommended the Service, in conjunction with the Department, review the appropriateness of continued use of fully depreciated plant and equipment. The Service advised that it conducted an internal review this year, which looked at:

- whether the equipment was still in use
- the remaining useful life of the equipment.

The review resulted in fully depreciated assets of $19.5 million being written off.

The Service advised that it conducts routine reviews to ensure that the use of equipment does not pose a risk to either patient or staff safety.

Trust Funds (Repeat issue)

I recommend the Service review all special purpose and trust funds to confirm each fund's intended purpose. Where appropriate, approvals should be sought to move funds into the general purpose account where they can then be used for health services.

Last year I recommended the Service review all special purpose and trust funds to confirm each fund's intended purpose, as the nature and purpose of some funds was not readily apparent. The value of these funds at 30 June 2009 was $127 million ($124 million in 2007-08).

The Service has advised the review of special purpose and trust funds by an independent authority has commenced. The review is expected to be completed early in 2010.

PERFORMANCE INFORMATION

Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume. Unless otherwise indicated all data is based on statistics provided by Department of Health.

The average length of stay in acute hospitals in the Sydney West area was 3.5 days (3.7 days) and is lower than the State average of 3.7 days.

The Service's bed occupancy rate increased significantly to 92.8 per cent (87.7 per cent). This was above the State average of 87.4 per cent.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in four of the five triage categories. This is consistent with 2007-08.

The Service's emergency admission performance reduced to 69 per cent (75 per cent). This was less than its 80 per cent target and was one of the lowest in the State.

OTHER INFORMATION

Asset Stock Take

I recommend the Service strengthen its policies and procedures in relation to plant and equipment stock takes.

In 2008-09, the Service did not perform a stock take of all items of plant and equipment.

The Service should strengthen its stock take procedures by:

- assigning accountability for the stock take process
- requiring all cost centres to complete and return stock take sheets
- preparing a summary report detailing the result of the stock take
- ensuring the property, plant and equipment register and general ledger are adjusted for the results of the stock take.

Payments to Visiting Medical Officers (VMOs) and Medical Staff

The following table shows a comparison of payments to Visiting Medical Officers (VMOs) and Medical Staff for the last four years.

Year ended 30 June Category	2009 $'000	2008 $'000	2007 $'000	2006 $'000
Total Medical Staff*	***215,520***	**	177,169	160,918
VMOs	***47,172***	47,577	40,349	36,630

* Payments to Medical Staff include: base salary, overtime, penalties, sick and other leave, annual leave and long service leave.
** An accurate figure for the payments to medical staff for 2008 cannot be obtained due to a change in the chart of accounts that occurred part way through that year.

VMOs are specialist medical staff working as independent contractors for an average of six to eight hours per week in the public health system to supplement staff specialists employed directly by the Service. At other times they work in private practice.

VMO costs are a substantial portion of overall medical costs for the Service.

Debt Write-Offs and Provisions

The table below shows the proportion of debtors considered doubtful and the value of debts that have been written off for the past three years.

At 30 June	2009	2008	2007
Total debtors ($'000)	***65,824***	89,360	76,887
Recovery doubtful ($'000)	***3,525***	3,069	2,933
Proportion of doubtful debts to total trade debtors (%)	***5.4***	3.4	3.8
Debts written off ($'000)	***2,972***	561	484

The proportion of debtors considered doubtful has remained consistent over the past three years, increasing slightly to 5.4 per cent at 30 June 2009 (3.4 per cent). The Service has a policy that debts are only provided for once they are older than 120 days and have been sent to a debt collection agency.

A large portion of the debts written off by the Service are patient debts, particularly patients who are overseas visitors who are not part of the Australian Medicare system.

Internal Controls

We identified other opportunities for improvement to accounting and internal control procedures and have reported them to management. The major matters reported relate to:

- management of excessive recreation leave balances
- weaknesses in relation to the inventory stock take at Westmead Hospital Inpatient Pharmacy
- use of fully depreciated assets
- the recognition of Justice Precinct land at Parramatta
- failure to complete an annual stock take of plant and equipment
- the reconciliation process for intra-health balances with other area health services
- the management of charitable fund raising activities.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Employee related	***1,186,182***	1,116,948	--	--
Personnel services	**--**	--	***1,186,182***	1,116,948
Visiting medical officers	***47,172***	47,577	***47,172***	47,577
Grants and subsidies	***17,599***	13,985	***17,599***	13,985
Other expenses	***762,277***	653,934	***762,277***	653,934
OPERATING EXPENSES	***2,013,230***	1,832,444	***2,013,230***	1,832,444
OPERATING REVENUE	***329,531***	313,941	***351,591***	***336,618***
Loss on disposal of non-current assets	***13,064***	3,025	***13,064***	3,025)=
Impairment of receivables	***3,428)=***	697	***3,428***	697
NET COST OF SERVICES	***1,700,191***	1,522,225	***1,678,131***	1,499,548
Government contributions	***1,639,737***	1,508,594	***1,617,677***	1,485,917
DEFICIT	***60,454***	13,631	***60,454***	13,631
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Asset revaluation	***(1,814)***	15,090	***(1,814)***	15,090
Administrative transfers of assets to Health Support Services	***(326)***	(1,089)	***(326)***	(1,089)
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***(62,594)***	370	***(62,594)***	370

Employee related expenses increased due mainly to increases in the award rates, annual leave and long service leave expenses.

The increase in grants and subsidies is mainly due to increase in payments for mental health and research programs.

Other expenses increased due to increased expenditure on hospital ambulance transportation, special services department, medical and surgical supplies expense, general expenses, and information management. There was also an increase in inter-area patient outflows.

Inter-area patient outflows are recognised when patients who reside within the Sydney West area are treated at outside this area. These flows have increased as a result of a rise in the number of patients treated and an increase in the associated costs.

The increase in revenue reflects a general rise in activity, an increase in patient fees and infrastructure fees, and an increase in use of ambulance facilities.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***187,641***	213,013	***187,641***	213,013
Non-current assets	***1,475,732***	1,472,754	***1,475,732***	1,472,754
TOTAL ASSETS	***1,663,373***	1,685,767	***1,663,373***	1,685,767
Current liabilities	***489,606***	456,293	***489,606***	456,293
Non-current liabilities	***59,592***	52,705	***59,592***	52,705
TOTAL LIABILITIES	***549,198***	508,998	***549,198***	508,998
NET ASSETS	***1,114,175***	1,176769	***1,114,175***	1,176,769

Current assets decreased mainly due to a reduction in debtors. The increase in current liabilities is mainly due to increases in the liabilities for employee annual leave and long service leave. This is due to staff attaining the seven year service period for long service leave and increases in the actuarial adjustment and award rates.

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of Western Sydney, including the localities of Parramatta up to the Blue Mountains through the following hospitals:

- Auburn Hospital
- Blacktown Hospital
- Blue Mountains District ANZAC Memorial Hospital
- Cumberland Hospital
- Lithgow Integrated Health Service
- Mt Druitt Hospital
- Nepean Hospital
- Portland Tabulam Health Centre
- Springwood Hospital
- Westmead Hospital.

The Service also incorporates and manages the operating activities of various community health services and is associated with several affiliated health organisations.

For further information on the Service's activities, refer to www.wsahs.nsw.gov.au.

CONTROLLED ENTITY

The following controlled entity has not been reported on separately as it is not considered material by its size or the nature of its operations to the consolidated entity.

Entity Name
Sydney West Area Health Service Special Purpose Service Entity

Cancer Institute NSW

AUDIT OPINION

The audits of the Institute and its controlled entity's financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

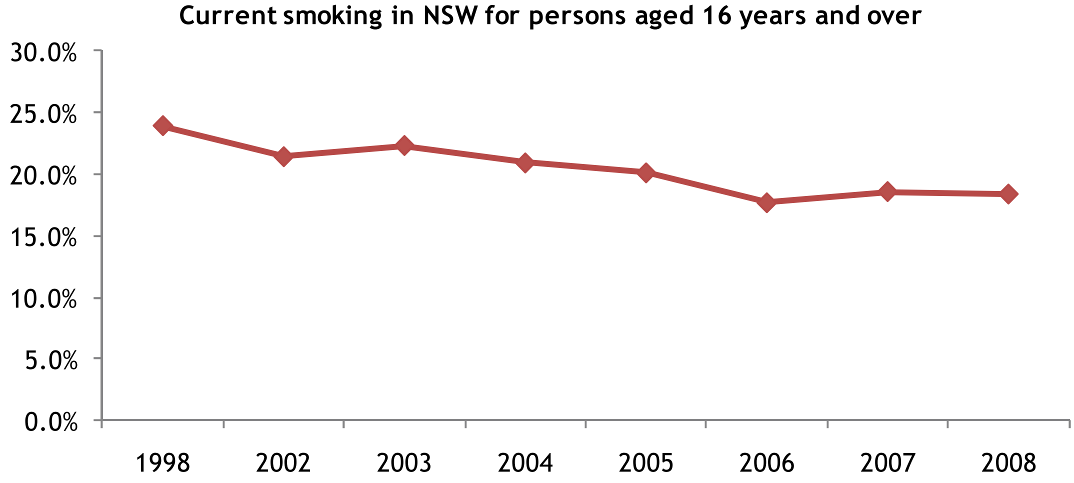
Unless otherwise stated, the following commentary relates to the consolidated entity.

PERFORMANCE INFORMATION

The Institute provided the following information regarding its performance.

Smoking Rates

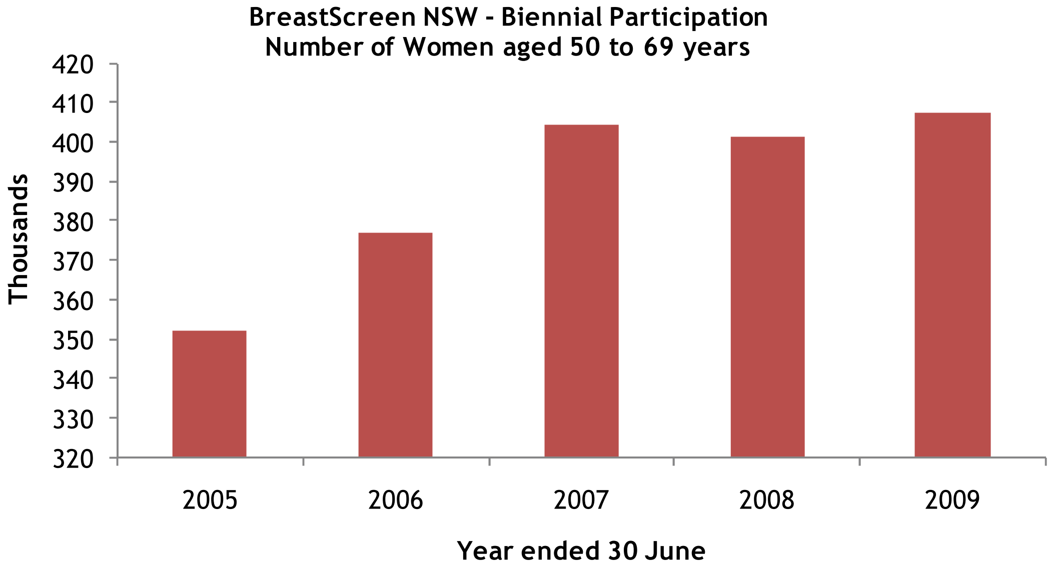
One of the strategies implemented by the Institute in preventing cancer is to contribute to the decrease in smoking rates through anti smoking campaigns. Smoking patterns over the past ten years for persons aged 16 years and over in New South Wales, as provided by Department of Health survey 2008 (unaudited), were:



The NSW State Plan, the NSW Tobacco Action Plan 2005-2009 and the NSW Cancer Plan 2007-2010 aim to reduce smoking rates by one per cent per year to 2010 and then by 0.5 per cent per year to 2016. Over the past decade, smoking prevalence has been trending downwards from 22.3 per cent in 2003 to 18.4 per cent in 2008. The forecast for 2009 is approximately 17.7 per cent based on the NSW Health Survey Program monthly estimates.

Biennial Breast Screen Participation Rates

The Institute is the program manager for the BreastScreen NSW Program, which provides free biennial screening mammograms for asymptomatic women, especially targeting women aged 50-69 years. The number of women aged 50-69 years participating in biennial breast screening in New South Wales over the past five years as provided by Breast Screen NSW (unaudited), were:



The Institute reported a participation rate of 54.7 per cent among women aged 50 to 69 years in New South Wales for 2008-09. The Institute's aim is to continue to increase the biennial participation rate to eventually achieve a 70 per cent biennial participation rate of women in mammography screening in the target age group.

OTHER INFORMATION

Internal Controls

We identified some opportunities for improvement to accounting and internal control procedures and have reported them to management.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
REVENUE				
Grants from New South Wales Health	***146,292***	134,622	***146,292***	134,622
Other	***4,372***	4,117	***4,372***	4,117
OPERATING REVENUE	***150,664***	138,739	***150,664***	138,739
EXPENSES				
Grants to New South Wales Area Health Services	***59,675***	56,810	***59,675***	56,810
Research grants to hospitals and institutions	***26,592***	24,902	***26,592***	24,902
Prevention campaigns and advertising	***17,357***	17,517	***17,357***	17,517
Other	***41,351***	36,275	***42,064***	36,656
OPERATING EXPENSES	***144,975***	135,504	***145,688***	135,885
SURPLUS	***5,689***	3,235	***4,976***	2,854
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Superannuation actuarial losses	***713***	381	--	--
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***4,976***	2,854	***4,976***	2,854

Other expenses increased mainly due to additional capital grants of $4.3 million paid for the digital mammography project during 2008-09.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
Current assets	***39,125***	40,936	***39,125***	40,936
Non-current assets	***2,929***	1,706	***2,929***	1,706
TOTAL ASSETS	***42,054***	42,642	***42,054***	42,642
Current liabilities	***8,216***	13,899	***8,256***	13,942
Non-current liabilities	***425***	306	***385***	263
TOTAL LIABILITIES	***8,641***	14,205	***8,641***	14,205
NET ASSETS	***33,413***	28,437	***33,413***	28,437

Non-current assets increased this year due to the development of a new grants application system and preparation of new premises costing $1.9 million.

Current liabilities decreased mainly due to a decrease in accruals for grants and subsidies.

INSTITUTE ACTIVITIES

The Institute was established by the *Cancer Institute (NSW) Act 2003*. Its principal objectives are to increase the survival rate for cancer patients; reduce the incidence of cancer in the community; improve the quality of life of cancer patients and their carers; and to operate as a source of expertise on cancer control for the government, health service providers, medical researchers and the general community.

CONTROLLED ENTITY

The controlled entity has not been reported on separately as it is not considered material by its size or nature of its operations to the consolidated entity.

Entity Name
Cancer Institute Division

Health Administration Corporation

AUDIT OPINION

The audits of the Corporation and its controlled entity's financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Timely Receipt of Financial Report

Last year we reported the Corporation had again not met its statutory deadline for completing its financial report. We noted a significant and commendable improvement in this area this year. As a result, the Corporation complied with its statutory obligations for the completion of its financial report, and there was a marked improvement in the quality of its supporting working papers.

Finalisation of Service Partnership Agreements (Repeat Issue)

> Health Support Services (HSS) should finalise its new framework for developing Service Partnership Agreements (SPAs) with its customers as soon as possible.

HSS provides financial, payroll, linen, food, information systems and other support services to the health sector.

For the last two years we have noted that not all SPAs had been finalised with HSS customers, and this is also the case as at 30 June 2009. SPAs should be finalised as early as possible, to ensure accountabilities and responsibilities between HSS and its customers are clearly defined and understood. HSS has advised that it is reviewing the SPA structure and terms with input from customer Health Services, to develop a document that can be more readily agreed between the parties. It anticipates revised agreements will be in place for 2010-11.

Management Letter Repeat Issues

> I have reported the following control deficiencies to the Corporation for the past two years which have not been addressed. They should be actioned as a matter of priority.

The following control weaknesses have been identified either at one or both of the HSS service centres for at least the past two years:

- insufficient controls to ensure all customer transactions are processed
- HSS does not always ensure payment approvals comply with customer delegations
- payroll master file changes are not reviewed on a regular basis and are not always reviewed by an independent officer
- final termination payments are not being made in a timely manner to terminated customer employees.

HSS advises it is standardising processes and controls across its service centres to address these issues.

PERFORMANCE INFORMATION

Key Performance Measures

HSS should further develop its Key Performance Indicators (KPIs) to ensure they include qualitative indicators as well as quantitative indicators. It needs to measure these indicators against appropriate targets.

Below are a number of KPIs HSS identified and monitored for Service Centre operations.

Key Performance Indicators - June 2009 Statistics	Parramatta Service Centre (%)	Newcastle Service Centre (%)
Payroll inquiries resolved on the same business day	*	97
Employee services inquiries resolved on the same business day	94	100
New starters established in system within 2 business days	89	99
Purchase orders raised within 2 business days	89	86
Invoices raised within 2 business days	61	100
Journals received by 4 pm posted on the same day	100	100
Vendor cheques despatched within 2 business days	100	100
Vendor EFT payments made within 1 business day following approval	100	100

Source: HSS internal reports (unaudited).
* Parramatta Service Centre does not have a resolution rate, as all calls were not logged into the Payroll Service desk tool.

HSS does not currently have targets against which it measures its performance. It needs to develop targets that it believes are realistic and achievable. The Service Centres are now monitoring the percentage and dollar value of overpayments that have occurred in payroll as a result of HSS error.

It is important that HSS report further on KPIs that measure outcomes and quality of service, for example even though processes referred to in the SPAs are being performed within agreed timeframes, there should also be some measurement of, say:

- number of errors made in processing of accounts payable transactions
- time taken to recover overpayments to suppliers and customer employees
- number of complaints in a month made by customers, and how long it took to satisfactorily address those complaints.

We understand that the development of a new SPA framework will incorporate more qualitative KPIs.

Cost benefit analysis for HSS

> I recommend that a cost benefit analysis be performed to assess whether efficiencies and cost savings expected from the introduction of HSS have been realised.

HSS was set up to centralise services including information systems support, financial transaction processing, payroll processing and food and linen services. HSS has been performing these activities for a number of Health Services for some years. Linen services have been performed for all health services for three years. Financial transaction and payroll services have transitioned from Health Services over the past two years, except for one Health Service as at 30 June 2009.

HSS is progressively standardising its processes and systems for service delivery to its customers, to maximise the benefits and savings that can be achieved from the shared services arrangement. Nevertheless, it is appropriate for HSS to now undertake a cost benefit analysis to determine whether the planned outcomes and savings have been achieved, and to determine where further standardisation is required to improve outcomes.

The Department has advised it intends to complete an ‘end to end’ review of HSS by early to mid 2010.

OTHER INFORMATION

Measures Taken by HSS to Address Overpayment of Accounts

HSS implemented a Continuous Control Monitoring (CCM) tool in April 2009 as a preventive and detective control procedure to limit overpayment of invoices. HSS advised this tool was successful in identifying a significant number of overpayments which have been or are being recovered, as well as identifying duplicate supplier invoices.

Ambulance Service Employee Benefit Provisions

Provisions were raised in the Ambulance Service’s accounts that did not comply with accounting standards, including an amount of $6.2 million ostensibly for a long service leave provision, and an amount of $2.0 million for a health and wellness provision. These transactions related to an under spend in the Ambulance Service budget, and did not meet the definition of liabilities. The transactions were corrected in the financial report.

Control deficiencies identified

We identified other opportunities for improvement to the Corporation’s accounting and internal control procedures and will report them to management. These included:

- a number of receivables and payables balances between divisions of the Corporation and Area Health Services (AHS) could not be confirmed
- inadequate review and lack of segregation of duties for certain journals
- inappropriate system access levels for some HSS staff (HSS has advised that access levels have now been reduced where appropriate, and that a periodical review will occur in the future)
- an excessive number of purchase orders were raised by HSS without a customer purchase requisition
- manual timesheet approvals were not always checked at HSS to ensure they are approved by delegated officers.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the year

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Employee related	***581,232***	443,923	**--**	--
Personnel services	**--**	--	***581,232***	443,923
Other expenses	***387,751***	295,291	***387,751***	295,291
OPERATING EXPENSES	***968,983***	739,214	***968,983***	739,214
OPERATING REVENUE	***489,793***	324,126	***503,505***	335,132
Other losses	***23,588***	20,204	***23,588***	20,204
NET COST OF SERVICES	***502,778***	435,292	***489,066***	424,286
Government contributions	***542,000***	435,108	***528,288***	424,102
(DEFICIT)/SURPLUS	***39,222***	(184)	***39,222***	(184)
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Net Increase in Property, Plant and Equipment Asset Revaluation Reserve	***11,800***	6,954	***11,800***	6,954
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***51,022***	6,770	***51,022***	6,770

The increase in expenses, revenues and government contributions is mainly due to the transfer of more customer health entities and operations to HSS during the year.

Abridged Consolidated Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***247,496***	120,813	***247,496***	120,813
Non-current assets	***434,891***	365,621	***434,891***	365,621
TOTAL ASSETS	***682,387***	486,434	***682,387***	486,434
Current liabilities	***358,124***	217,037	***358,124***	217,037
Non-current liabilities	***12,782***	11,295	***12,782***	11,295
TOTAL LIABILITIES	***370,906***	228,332	***370,906***	228,332
NET ASSETS	***311,481***	258,102	***311,481***	258,102

Current assets increased mainly due to an increase in cash and cash equivalents, and an increase in receivables as a result of more customers during the year.

Non-current assets increased mainly because of an increase in assets associated with IT projects, including the Human Resource Information System (HRIS) system.

Current liabilities increased as a result of an increase in staff, and an increase in Health Infrastructure payables for major projects.

The following table provides a summary of financial information for 2008-09 by business unit:

Year ended 30 June	Ambulance Service		Other business units*	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Expenses	***587,520***	523,532	***381,463***	215,682
Revenue	***176,351***	157,599	***313,442***	166,527
Net cost of services	***432,206***	383,911	***70,572***	51,381
Government contributions	***416,841***	366,000	***125,159***	69,108
(Deficit)/surplus	***(15,365)***	(17,911)	***54,587***	17,727
Total assets	***282,072***	249,222	***400,315***	237,212
Total liabilities	***182,426***	145,745	***188,480***	82,587
Net assets	***99,646***	103,477	***211,835***	154,625

* Ambulance Service is reported separately as it is the largest Corporation unit, and provides an individual service to the health sector. Other business units comprise Health Support Services, Health Infrastructure, and the NSW Institute of Medical Education and Training.

CORPORATION ACTIVITIES

Health Administration Corporation consists of a number of units established under the Public Health System Support Division, in accordance with the provisions of the *Health Services Act 1997*. These units are as follows:

- Health Support Services, which provides financial, payroll, linen, food, information systems and other support services to the health sector
- NSW Institute of Medical Education and Training, which provides medical education and training support to the health sector
- Ambulance Service of New South Wales, transferred to Health Administration Corporation on 17 March 2006 after the *Ambulance Service Act 1990* was repealed
- Health Infrastructure, established 1 July 2007 to undertake major capital projects in connection with public health organisations.

For further information on the Health Administration Corporation, refer to the Department of Health website at www.health.nsw.gov.au.

CONTROLLED ENTITY

The following controlled entity has not been reported on separately as it is not considered material by its size or the nature of its operations to the consolidated entity.

Entity Name
Health Administration Corporation Special Purpose Service Entity

Health Care Complaints Commission

AUDIT OPINION

The audit of the Health Care Complaints Commission and its controlled entity's financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

Unless otherwise stated, the following commentary relates to the consolidated entity.

PERFORMANCE INFORMATION

Formal Complaints and Investigations

In 2008-09, the Commission received 3,360 complaints (3,128 in 2007-08) and finalised 3,462 (2,986). Of the 3,360 complaints received, 1,270 (1,357) related to Health Organisations and 2,090 (1,771) related to individual health practitioners.

In the same period, 270 (260) complaints were referred for investigation and 261 (338) investigations were finalised.

The following table provides a summary of the total complaints received and finalised by the Commission during the last three financial years.

	2009		2008		2007	
	Received	Finalised*	Received	Finalised*	Received	Finalised*
Total	***3,360***	***3,462***	3,128	2,986	2,722	3,164

Source: Health Care Complaints Commission (unaudited).
* Includes complaints received in previous years.

Average Time to Finalise all Complaints Received

The following table shows the days taken to finalise complaints.

	Actual Days		
	2009	2008	2007
Non-investigative	***86***	86	85
Investigative	***354***	339	314

Source: Health Care Complaints Commission (unaudited).

The number of complaints about Public Hospitals received and finalised follows.

	2009		2008		2007	
	Received	Finalised*	Received	Finalised*	Received	Finalised*
Greater Southern AHS	***45***	***54***	47	35	28	27
Greater Western AHS	***35***	***48***	63	49	24	25
Hunter New England AHS	***84***	***102***	102	79	59	66
North Coast AHS	***38***	***62***	81	55	36	31
Northern Sydney and Central Coast AHS	***84***	***99***	121	102	73	66
South Eastern Sydney and Illawarra AHS	***115***	***122***	137	130	106	106
Sydney South West AHS	***122***	***119***	106	89	92	91
Sydney West AHS	***97***	***94***	104	91	90	93
Other	--	--	2	2	--	--
Total	***620***	***700***	763	632	508	505

Source: Health Care Complaints Commission (unaudited).
* Includes complaints received in prior years.
AHS: Area Health Service.

The number of complaints about Public Hospitals fell in 2008-09. Management advised the large number of complaints in 2007-08 followed media coverage of matters such as the Special Commission of Inquiry into Acute Care in New South Wales Public Hospitals.

The complaints received about Public Hospitals, as a percentage of total complaints about Health Organisations, decreased from 56.2 per cent in 2007-08 to 48.8 per cent in 2008-09.

FINANCIAL INFORMATION

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Personnel related expenses	***7,662***	7,359	***7,662***	7,359
Other expenses	***3,754***	3,439	***3,754***	3,439
OPERATING EXPENSES	***11,416***	10,798	***11,416***	10,798
OPERATING REVENUE	***402***	590	***402***	590
NET COST OF SERVICES	***11,014***	10,208	***11,014***	10,208
Government contributions	***10,043***	9,966	***10,043***	9,966
DEFICIT	***971***	242	***971***	242
NET ASSETS	***1,067***	2,038	***1,067***	2,038

The 2008-09 deficit is mainly attributed to:

- two unusual and complex prosecution cases lasting over a two year period
- lower than anticipated awarded legal costs recovered.

Abridged Service Group Information

The Commission's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget $'000	2009 Actual $'000	2008 Actual $'000	2009 Actual $'000	2008 Actual $'000
Complaints Assessment and Resolution	***4,271***	***6,057***	5,614	***531***	996
Investigation and Prosecution of Serious Cases	***6,175***	***4,957***	4,594	***536***	1,042
Total all service groups	***10,446***	***11,014***	10,208	***1,067***	2,038

The Commission has identified that is needs to review its methodology for producing the Service Group information. This review will be conducted in 2009-10.

COMMISSION ACTIVITIES

The Commission aims to protect the public from substandard health services provided by health organisations or individual health practitioners in New South Wales by assessing and trying to resolve complaints. The Commission also investigates complaints that raise serious issues of public health and safety and prosecutes the most serious complaints about registered health practitioners.

The Commission was established under the *Health Care Complaints Act 1993*.

For further information on the Commission, refer to www.hccc.nsw.gov.au.

CONTROLLED ENTITY

The following controlled entity has not been reported on separately as it is not considered material by its size or the nature of its operations to the consolidated entity.

Entity Name
Office of the Health Care Complaints Commission

New South Wales Health Foundation

AUDIT OPINION

The audit of the Foundation's financial report for the year ended 30 June 2009 resulted in an unqualified Independent Auditor's Report.

FINANCIAL INFORMATION

Year ended 30 June	2009 $'000	2008 $'000
Revenue	***628***	374
Expenses	***976***	442
Deficit	***348***	68
Net assets (at 30 June)	***50,086***	47,146

The increase in revenue is mainly a result of an increase in grants.

The increase in expenses related mainly to a grant of $340,576 provided to the Ambulance Service of New South Wales.

Net assets have increased as a result of a $3.3 million revaluation of land and buildings.

FOUNDATION ACTIVITIES

The Foundation was established under the *Health Administration Act 1982*. It is managed by the Department of Health on behalf of the Minister. The Foundation accepts bequests and provides financial and other support for any purpose connected with providing health services. Through the *Walker Trusts (Amendment) Act 1983*, the Foundation owns and has a custodial role over the Thomas Walker Convalescent Hospital.

Registration of Health Professionals

REGISTRATION BOARDS

The following Boards are currently responsible for administering the registration of health professionals in New South Wales:

- Chiropractors Registration Board
- Dental Board of New South Wales
- Dental Technicians Registration Board
- New South Wales Medical Board
- Nurses and Midwives Board
- Optical Dispensers Licensing Board
- Optometrists Registration Board
- Osteopaths Registration Board
- Pharmacy Board of New South Wales
- Physiotherapists Registration Board
- Podiatrists Registration Board
- Psychologists Registration Board.

In March 2008, the Council of Australian Governments (COAG) signed an Intergovernmental Agreement to create a single national health professionals' registration and accreditation system.

AUDIT OPINIONS

The audits of the Boards' financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

The Dental Board of New South Wales and the Pharmacy Board of New South Wales prepare financial reports for the year ended 30 September. These audits have not been finalised at this time. Results of these audits will be included in a later Volume of the Auditor-General's Report to Parliament.

The Optical Dispensers Licensing Board's Independent Auditor's Report drew attention to the fact that the Optical Dispensers Licensing Board will be wound up on 30 June 2010.

The other Boards' Independent Auditor's Reports drew attention to significant uncertainty that existed at the time about the future of the Boards. The significant uncertainty arose because aspects of the transition to the National Registration Scheme for health professionals, due to occur on 1 July 2010, were still unresolved.

KEY ISSUES

Future of the Boards

Ten health professions will be included in the national registration scheme due to commence from 1 July 2010. These are: chiropractors, dentists (including dental hygienists, dental prosthetists and dental therapists), medical practitioners, nurses and midwives, optometrists, osteopaths, pharmacists, physiotherapists, podiatrists, and psychologists.

Four more professions will be added to the national scheme from 1 July 2012: Aboriginal and Torres Strait Islander health practice, Chinese medicine, medical radiation practice and occupational therapy. The optical dispenser's profession will not be included in the national registration scheme. From 1 July 2010, there is no requirement for optical dispensers to be licensed.

The national registration boards will not deal with complaints about matters occurring in New South Wales. New South Wales will substantially retain its current health complaints system.

BOARDS' ACTIVITIES

Each Board operates under its own legislation and maintains a register of health care professionals qualified to practise in New South Wales. The Minister for Health has administrative control and direction of the Boards.

For further information on the Boards, refer to:

Entity Name	Website	Year Ended
Chiropractors Registration Board	www.chiroreg.health.nsw.gov.au	30 June 2009
Dental Board of New South Wales	www.dentalboardnsw.org.au	30 September 2009
Dental Technicians Registration Board	www.dtechreg.health.nsw.gov.au	30 June 2009
New South Wales Medical Board	www.nswmb.org.au	30 June 2009
Nurses and Midwives Board	www.nmb.nsw.gov.au	30 June 2009
Optical Dispensers Licensing Board	www.opticalreg.health.nsw.gov.au	30 June 2009
Optometrists Registration Board	www.optomreg.health.nsw.gov.au	30 June 2009
Osteopaths Registration Board	www.osteoreg.health.nsw.gov.au	30 June 2009
Pharmacy Board of New South Wales	www.pbnsw.org.au	30 September 2009
Physiotherapists Registration Board	www.physioreg.health.nsw.gov.au	30 June 2009
Podiatrists Registration Board	www.podreg.health.nsw.gov.au	30 June 2009
Psychologists Registration Board	www.psychreg.health.nsw.gov.au	30 June 2009

Royal Alexandra Hospital for Children

AUDIT OPINION

The audits of the Hospital and its controlled entity's financial reports for the year ended 30 June 2009 resulted in a qualified Independent Auditor's Report for the Hospital and an unqualified Independent Auditor's Report for the controlled entity. It is impractical for the Hospital to maintain an effective system of internal controls over fundraising revenue and voluntary donations it receives until the initial entry in the financial records. Accordingly, I was unable to express an opinion as to whether all fundraising revenue and voluntary donations received by the Hospital were recorded.

Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Working Capital

The working capital position for the last four years based on the Hospital's financial report is shown below.

At 30 June	2009	2008	2007	2006
Current assets ($'000)	***82,485***	56,814	56,606	53,757
Current liabilities* ($'000)	***60,443***	57,313	52,103	51,998
Working capital/(deficit) ($'000)	***22,042***	(499)	4,503	1,759
Working capital (%)	***136.5***	99.1	108.6	103.4
Number of times current assets exceed current liabilities	***1.4***	1.0	1.1	1.0

* Australian Accounting Standards require all unconditional employee entitlement liabilities to be reported as current liabilities irrespective of when they are expected to be settled. For our analysis we have excluded long service leave liabilities expected to be settled later than 12 months from year-end.

Working capital has increased in the current financial year to 136.5 per cent (99.1 per cent at 30 June 2008). However, working capital is negative when assets of $62.4 million whose use is restricted by externally imposed conditions, is taken into account as these assets are unavailable for working capital purposes.

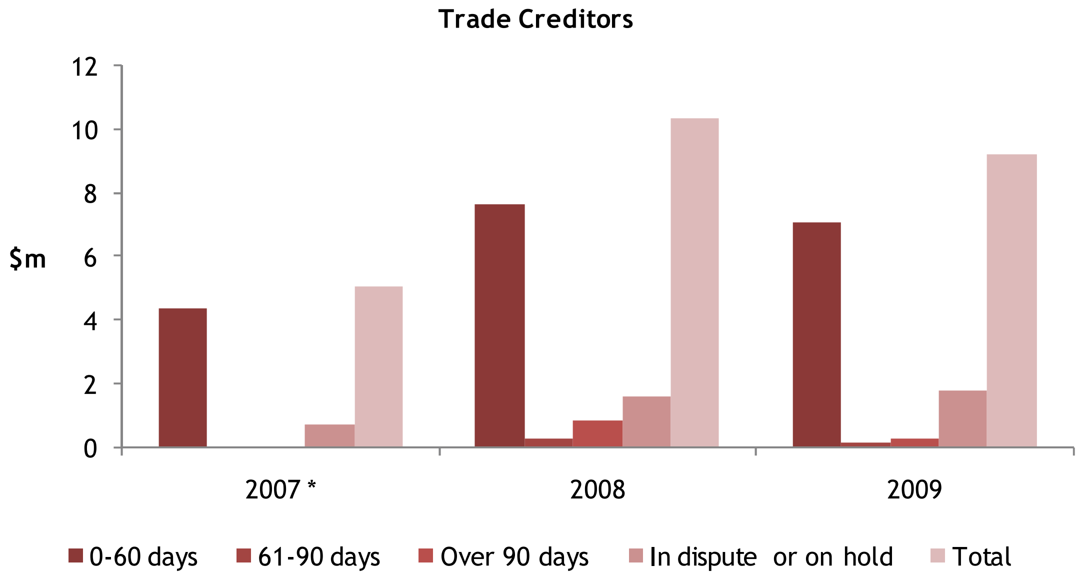
The working capital ratio is a measure of an entity's liquidity and its ability to meet its short term debt obligations. It is calculated by dividing current assets by current liabilities. A working capital ratio of 100 per cent or more is generally considered desirable to ensure an entity can meet its debts as they fall due. Negative working capital means that current liabilities exceed current assets (i.e. working capital is less than 100 per cent).

The Hospital is able to operate at a lower working capital ratio due to continuous cash contributions from the Department. However, the Hospital needs sufficient working capital to avoid operational problems and to ensure it is able to pay its creditors within agreed payment terms.

Accounts Payable

> I recommend the Hospital pay its creditors within agreed payment terms ensure purchases are supported by authorised purchase orders and follow up disputed invoices in a timely manner.

The following chart shows total trade creditors for the last three years; ageing of creditors; and amounts on hold or in dispute.



* There were no outstanding creditors aged over 60 days in the 2007.

The timely payment of creditors continues to be an issue for the Hospital, although the amount over 90 days has reduced from last year. Total creditors at 30 June 2009, $9.2 million, was significantly lower than the prior year, $10.6 million. Creditors over 90 days old have reduced to $274,000 in 2009. During the year, the Hospital received one-off funding of $5.3 million from the Department of Health (the Department) to pay creditors.

In each of the past three years, amounts on hold or in dispute have constituted a significant portion of total trade creditors. At 30 June 2009, $1.8 million of invoices were either on hold or in dispute ($1.6 million). The Hospital has advised that invoices can be placed on hold for a number of reasons, including the lack of a Hospital purchase order in support of the invoice.

Asset Management

The Hospital should liaise with the Department to ensure it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment.

The Department advised it has engaged an independent expert to advise on options for the implementation of a Medical Equipment Asset Management program including a pilot review of "whole of lifecycle" management of equipment across a selection of Health Services (refer to Health Overview section of this Report).

The table below shows the extent of the Hospital's fully depreciated plant and equipment over the last three years.

At 30 June	2009	2008	2007
Total Plant and Equipment – Cost value ($'000)	***105,418***	118,624	133,981
Fully Depreciated Plant and Equipment – Cost value ($'000)	***56,066***	72,219	79,058
Fully depreciated Plant and Equipment to total (%)	***53.2***	60.9	59.0

In prior years, I reported that the Hospital continued to use a significant number of items of fully depreciated plant and equipment. The Hospital conducted an internal review of these assets to determine the appropriateness of continued use. Adjustments flowing from the review, such as the write off of obsolete assets, have been reflected in the Hospital's asset and accounting records.

We will continue to monitor and review the extent of fully depreciated assets held by the Hospital in the future.

Special Purpose and Trust Funds

I recommend the Hospital complete its review of all special purpose and trust funds to confirm each fund's intended purpose.

Last year, I recommended the Department of Health and its controlled entities review all special purpose and trust funds to confirm each fund's intended purpose. The nature of some funds and what they can be used for is not readily apparent.

At the time of my recommendation, the Hospital had already commenced a review of its Special Purpose and Trust Funds, which is still ongoing. The Hospital expects to complete the review in 2009-10.

PERFORMANCE INFORMATION

Treatment of Patients

The average length of stay in the Hospital for 2009 decreased to 3.3 days (3.4 days). This is below the State average of 3.7 days.

The bed occupancy rate for the Hospital was 89.1 per cent (91.0 per cent). This is above the State average of 87.4 per cent.

The Hospital met or exceeded benchmarks for timeliness in treating the two most urgent triage categories of emergency patients in 2009 (T1 and T2), as well as the less urgent cases T4 and T5 category benchmark. The Hospital was below the benchmark for the remaining triage category (T3).

The Hospital's emergency admission performance was 80 per cent, which equalled the State target.

OTHER INFORMATION

Debt Write-Offs and Provisions

The table below shows the proportion of debtors considered doubtful and the value of debts that have been written off for the past three years.

At 30 June	2009	2008	2007
Total debtors ($'000)	***9,359***	12,108	8,811
Recovery doubtful ($'000)	***655***	1,830	871
Proportion of doubtful debts to total trade debtors (%)	***7.0***	15.1	9.9
Debts written off ($'000)	***1,328***	413	278

The proportion of doubtful debts has decreased in the current year to seven per cent (15.1 per cent). The prior year's impairment was higher as a result of a significant doubtful debt that has been written off in the current year. The Hospital has a policy that debts are only written off once they are older than 120 days and have been sent to a debt collection agency.

A large portion of the debts written off by the Hospital are patient fees, particularly for patients who are overseas visitors and are not part of the Australian Medicare system.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Employee related	***236,918***	218,053	**--**	--
Personnel services	**--**	--	***236,918***	218,053
Visiting medical officers	***5,538***	4,913	***5,538***	4,913
Grants and Subsidies	***1,181***	564	***1,181***	564
Other expenses	***99,427***	90,247	***99,427***	90,247
OPERATING EXPENSES	***343,064***	313,777	***343,064***	313,777
OPERATING REVENUE	***293,181***	216,992	***296,707***	220,936
Loss on disposal on non-current assets	***275***	402	***275***	402
Other losses	***140***	1504	***140***	1,504
NET COST OF SERVICES	***50,298***	98,691	***46,772***	94,747
Total government contributions	**40,594**	78,855	**37,068**	74,911
DEFICIT	***(9,704)***	(19,836)	***(9,704)***	(19,836)
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY				
Asset revaluation	***17,807***	28,867	***17,807***	28,867
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***8,103***	9,031	***8,103***	9,031

Employee related expenses rose because of an increase in the number of employees and an annual award wage increase of 3.9 per cent in July 2008.

Operating revenue rose predominantly because of an increase in inter-area patient flows from $143 million in the prior year to $203 million in the current year. Inter-area patient flows are revenues recognised for the treatment of patients who reside in other Health Service areas. These flows have increased as a result of a rise in the number of patients treated and an increase in the associated costs. There was also a significant increase of $10.9 million in research grants and fundraising revenue from industry contributions and donations received in the current year.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***82,485***	56,814	***82,485***	56,814
Non-current assets	***390,204***	398,367	***390,204***	398,367
TOTAL ASSETS	***472,689***	455,181	***472,689***	455,181
Current liabilities	***99,059***	90,412	***99,059***	90,412
Non-current liabilities	***5,389***	4,631	***5,389***	4,631
TOTAL LIABILITIES	***104,448***	95,043	***104,448***	95,043
NET ASSETS	***368,241***	360,138	***368,241***	360,138

Current assets increased as a result of increased donations and contributions received, and from a change in investment management strategy that resulted in $14.1 million moving out of long-term investments into short-term deposits.

Non-current assets decreased largely for the same reason, but this was partially offset by a net increase in land, buildings and infrastructure assets of $7.3 million.

The increase in current liabilities is mainly due to an increase in employee benefits provisions resulting from increases in actuarial adjustments, the number of employees and award rates.

HOSPITAL ACTIVITIES

For further information on the Hospital, refer to www.chw.edu.au.

CONTROLLED ENTITIES

The following controlled entity has not been reported separately as it is not considered material by its size or the nature of its operations to the consolidated entity.

Entity Name
Royal Alexandra Hospital for Children Special Purpose Service Entity

Appendix

Appendix 1
Agencies not reported elsewhere in this Volume

Appendix 1 – Agencies not reported elsewhere in this Volume

The following audits resulted in unqualified independent auditor's reports and did not identify any significant issues or risks.

Entity Name	Website	Period/Year Ended
New South Wales Institute of Psychiatry	www.nswiop.nsw.edu.au	30 June 2009

Index

A

Page

A.C.N. 093 230 374 Pty Limited .... Vol 9 2009
Aboriginal Affairs, Department of .... Vol 6 2009
Aboriginal Affairs, Minister for .... Vol 6 2009
Aboriginal Housing Office .... Vol 6 2009
Aboriginal Housing Office Group of Staff .... Vol 6 2009
Aboriginal Land Council, New South Wales .... Vol 6 2009
Access Macquarie Limited .... Vol 2 2009
accessUTS Pty Limited .... Vol 2 2009
ACN 125 694 546 Pty Limited .... Vol 2 2009
Acyte Biotech Pty Ltd .... Vol 2 2009
Adult Migrant English Service, NSW .... Vol 9 2009
Ageing, Minister for .... Vol 6 2009
Ageing, Disability and Home Care,
Department of .... Vol 6 2009
Agencies not reported elsewhere in this Volume 125
Agricultural Business Research Institute .... Vol 2 2009
Agricultural Scientific Collections Trust .... Vol 10 2009
AGSM Limited .... Vol 2 2009
Ambulance Service of New South Wales 109
ANZAC Health and Medical Research Foundation 91
ANZAC Health and Medical Research Foundation
Trust Fund 91
Architects Registration Board, NSW .... Vol 6 2009
Art Gallery of New South Wales Foundation .... Vol 9 2009
Art Gallery of New South Wales Trust .... Vol 9 2009
Arts Education Foundation Trust .... Vol 9 2009
Arts, Minister for the .... Vol 9 2009
Arts, Sport and Recreation, Department of the ... Vol 9 2009
Asbestos Diseases Research Foundation, The ...... Vol 5 2008
Attorney General .... Vol 8 2009
Attorney General's Department .... Vol 8 2009
Audio Nomad Pty Ltd .... Vol 2 2009
Aus Health International Pty Limited .... Vol 6 2007
Australian Centre for Advanced Computing and
Communications Pty Ltd .... Vol 6 2009
Australian Education Consultancy Limited .... Vol 2 2009
Australian Institute of Asian Culture and Visual
Arts Limited, The .... Vol 9 2009
Australian Museum Trust .... Vol 9 2009
Australian Plant DNA Bank Limited .... Vol 2 2009
Australian Proteome Analysis Facility Limited .... Vol 2 2009
Australian School of European Aviation
(JAA) Pty Ltd .... Vol 2 2009
Australian Technology Park Precinct
Management Ltd .... Vol 5 2008
Australian Water Technologies Pty Ltd .... Vol 7 2009
AWT International (Thailand) Limited .... Vol 7 2009

B

Banana Industry Committee .... Vol 10 2009
Belgenny Farm Agricultural Heritage Centre
Trust .... Vol 1 2009
Biobank Pty Limited .... Vol 2 2009
Board of Studies, Office of the .... Vol 9 2009
Board of Studies, The .... Vol 9 2009
Board of Studies Casual Staff Division .... Vol 9 2009
Board of Surveying and Spatial Information .... Vol 6 2009
Board of Vocational Education and Training,
NSW .... Vol 4 2008
Border Rivers-Gwydir Catchment Management
Authority .... Vol 7 2009
Bosch Institute, The .... Vol 2 2009
Boxing Authority of New South Wales .... Vol 9 2009
Brett Whiteley Foundation, The .... Vol 9 2009
Building and Construction Industry Long Service
Payments Corporation .... Vol 5 2009
Building Insurers' Guarantee Corporation .... Vol 6 2009
Building Professionals Board .... Vol 10 2009
Buroba Pty Ltd .... Vol 5 2009
Bush Fire Co-ordinating Committee .... Vol 8 2009
Businesslink Pty Ltd, NSW .... Vol 6 2009

C

C.B. Alexander Foundation .... Vol 10 2009
CADRE Design Pty Limited .... Vol 2 2009
CADRE Design Unit Trust .... Vol 2 2009
Cancer Institute NSW 100
Cancer Institute Division 103
Casino, Liquor and Gaming Control Authority ...... Vol 9 2009
CCP Holdings Pty Limited .... Vol 3 2009
Centennial Park and Moore Park Trust .... Vol 9 2009
Centennial Parklands Foundation .... Vol 9 2009
Central West Catchment Management Authority .. Vol 7 2009
Centre for United States Studies Pty Limited ...... Vol 2 2009
Cessnock Uni-Clinic Trust .... Vol 2 2009
Charles Sturt Foundation Limited .... Vol 2 2009
Charles Sturt Foundation Trust .... Vol 2 2009
Charles Sturt Services Limited .... Vol 2 2009
Charles Sturt University .... Vol 2 2009
Chief Investigator of the Office of Transport
Safety Investigations .... Vol 10 2009
Children, Office for .... Vol 9 2009
Chipping Norton Lake Authority .... Vol 6 2009
Citizenship, Minister for .... Vol 9 2009
Chiropractors Registration Board 115
City West Housing Pty Limited .... Vol 6 2009
Climate Change and the Environment,
Minister for .... Vol 7 2009
Clinical Excellence Commission 34
Clinical Excellence Commission Special
Purpose Service Entity 34
CMBF Limited .... Vol 2 2009
Cobar Water Board .... Vol 7 2009
Cobar Water Board Division .... Vol 7 2009
Cobbora Coal Unit Trust .... Vol 3 2009
Cobbora Management Company Pty Limited .... Vol 3 2009
Cobbora Unincorporated Joint Venture .... Vol 3 2009
Coffs Harbour Technology Park Limited .... Vol 9 2009
Commerce, Department of .... Vol 6 2009
Commerce, Minister for .... Vol 6 2009
Commission for Children and Young
People, NSW .... Vol 6 2009
Community Relations Commission, Office of the .. Vol 9 2009
Community Relations Commission for a
Multicultural New South Wales .... Vol 9 2009
Community Services, Department of .... Vol 6 2009
Community Services, Minister for .... Vol 6 2009
Cooks Cove Development Corporation .... Vol 5 2008
Corporate Governance Arrangements
in Large Government Agencies and
Universities .... Vol 2 2009
Corporation Sole 'Minister Administering the
Environmental Planning and Assessment
Act, 1979' .... Vol 10 2009
Corporation Sole 'Minister Administering the
Heritage Act, 1977' .... Vol 10 2009
Corrective Services, Department of .... Vol 8 2009
Corrective Services, Minister for .... Vol 8 2009
Country Energy .... Vol 3 2009
Country Energy Gas Pty Limited .... Vol 3 2009
Cowra Japanese Garden Maintenance
Foundation Limited .... Vol 8 2009
Cowra Japanese Garden Trust .... Vol 8 2009
Crime Commission, New South Wales .... Vol 8 2009
Crime Commission, Office of the New South
Wales .... Vol 8 2009
Crime Commission Division, New South Wales ..... Vol 8 2009
Crown Employees (NSW Fire Brigades
Firefighting Staff, Death and Disability)
Superannuation Fund .... Vol 5 2009
Crown Entity .... Vol 5 2009
Crown Lands Homesites Program .... Vol 6 2009
Crown Leaseholds Entity .... Vol 5 2008
Cystemix Pty Limited .... Vol 2 2009

D

Dams Safety Committee .... Vol 7 2009
Delta Electricity.. Vol 3 2009
Delta Electricity Australia Pty Ltd .... Vol 3 2009
Dental Board of New South Wales 115
Dental Technicians Registration Board 115
Director of Public Prosecutions, Office of the .... Vol 8 2009
Downtown Utilities Pty Limited .... Vol 3 2009
Dumaresq-Barwon Border Rivers Commission ..... Vol 7 2009
Duquesne Utilities Pty Ltd............................ Vol 5 2009

E

Education and Training, Department of............ Vol 9 2009
Education and Training, Minister for................ Vol 9 2009
Education Training Community Television
(ETC TV) Limited .... Vol 2 2009
Elastagen Pty Limited .... Vol 2 2009
Election Funding Authority of New South Wales .. Vol 8 2009
Electoral Commission, New South Wales........... Vol 8 2009
Electricity Industry Overview .... Vol 3 2009
Electricity Tariff Equalisation Ministerial
Corporation .... Vol 5 2009
Emergency Services, Minister for.................... Vol 8 2009
Emergency Services Overview .... Vol 8 2009
Energy, Minister for .... Vol 3 2009
Energy Industries Superannuation Scheme......... Vol 5 2009
Energy Investment Fund .... Vol 5 2009
EnergyAustralia... Vol 3 2009
EnergyAustralia Pty Limited.......................... Vol 3 2009
Environment and Climate Change,
Department of..................................... Vol 7 2009
Environment Protection Authority .... Vol 7 2009
Environmental Trust................................... Vol 7 2009
Eraring Energy.. Vol 3 2009
Events New South Wales Pty Limited .... Vol 8 2009

F

Fair Trading Administration Corporation........... Vol 6 2009
Festival Development Corporation.................. Vol 3 2009
Film and Television Office, New South Wales..... Vol 9 2009
Finance, Minister for .... Vol 6 2009
Financial Counselling Trust Fund.................... Vol 6 2009
Financial Reports Not Received by Statutory
Date (as at 24 November 2009)................ Vol 10 2009
Financial Reports Received but Audit Incomplete by
Statutory Date (as at 24 November 2009).... Vol 10 2009
Fire Brigades, New South Wales..................... Vol 8 2009
Fire Brigades Superannuation Pty Limited,
NSW .... Vol 5 2009
Food Authority, NSW .... Vol 10 2009
Food Authority, Office of the NSW .... Vol 10 2009
Forestry Commission of New South Wales
(Trading as Forests NSW) .... Vol 10 2009
Forestry Commission Division .... Vol 10 2009
Foundation for the Historic Houses Trust
of New South Wales............................... Vol 9 2009
Foundation for the Historic Houses Trust
of New South Wales Limited .... Vol 9 2009

G

Game Council of New South Wales................. Vol 10 2009
Game Council Division .... Vol 10 2009
Gaming and Racing, Minister for .... Vol 9 2009
Gosford Water Supply Authority..................... Vol 7 2009
Government Telecommunications Authority
(Telco), New South Wales .... Vol 6 2009
GraduateSchool.com Pty Limited .... Vol 2 2009
Grants to the Transport Workers Union
and related parties .... Vol 10 2009
Greater Southern Area Health Service 35
Greater Southern Area Health Service
Special Purpose Service Entity 42
Greater Western Area Health Service 43
Greater Western Area Health Service
Special Purpose Service Entity 51
Greyhound and Harness Racing Regulatory
Authority.. Vol 5 2008
Greyhound and Harness Racing Regulatory
Authority Division................................. Vol 5 2008

H

Hamilton Rouse Hill Trust .... Vol 9 2009
Hawkesbury-Nepean Catchment Management
Authority.. Vol 7 2009
Health Administration Corporation 104
Health Administration Corporation
Special Purpose Service Entity......................... 109
Health Care Complaints Commission 110
Health Care Complaints Commission,
Office of the 112
Health Foundation, New South Wales..................... 113
Health, Department of 31
Health, Minister for 29
Health Overview 3
HealthQuest 34
HealthQuest Special Purpose Service Entity 34
HepatoCell Therapeutics Pty Ltd .... Vol 2 2009
Historic Houses Trust of New South Wales .... Vol 9 2009
Home Care Service of New South Wales .... Vol 6 2009
Home Care Service Division........................... Vol 6 2009
Home Purchase Assistance Fund .... Vol 7 2009
Housing, Minister for.................................. Vol 7 2009
Housing NSW .... Vol 6 2009
Hunter Development Corporation.................... Vol 4 2008
Hunter New England Area Health Service 52
Hunter New England Area Health Service
Special Purpose Service Entity.......................... 59
Hunter Uni-Clinics Pty Limited .... Vol 2 2009
Hunter Water Australia Pty Limited. .... Vol 7 2009
Hunter Water Corporation .... Vol 7 2009
Hunter-Central Rivers Catchment Management
Authority.. Vol 7 2009

I

Illawarra Technology Corporation Limited .... Vol 2 2009
Independent Commission Against Corruption ...... Vol 8 2009
Independent Pricing and Regulatory Tribunal ..... Vol 8 2009
Independent Pricing and Regulatory Tribunal
Division .... Vol 8 2009
Independent Transport Safety and Reliability
Regulator .... Vol 10 2009
Independent Transport Safety and Reliability
Regulator Division .... Vol 10 2009
Industrial Relations, Minister for..................... Vol 5 2009
Infrastructure Implementation Corporation........ Vol 8 2009
Ingham Health Research Institute........................... 91
Insearch Limited .... Vol 2 2009
Institute for Magnetic Resonance Research .... Vol 2 2009
Institute of Psychiatry, New South Wales 125
Institute of Sport, New South Wales................. Vol 9 2009
Institute of Sport Division .... Vol 9 2009
Institute of Teachers, NSW .... Vol 9 2009
Institute of Teachers, Office of the .... Vol 9 2009
Integral Energy Australia .... Vol 3 2009
Internal Audit Bureau of New South Wales .... Vol 6 2009
Internal Audit Bureau Division........................ Vol 6 2009
International Livestock Resources and Information
Centre Ltd .... Vol 2 2009
ITC (Europe) Ltd .... Vol 2 2009
ITC (Middle East) Ltd.................................. Vol 2 2009
ITC (New Zealand) Limited .... Vol 2 2009
ITC Education Ltd .... Vol 2 2009
ITC Emirates Limited.................................. Vol 2 2009

J

Jenolan Caves Reserve Trust .... Vol 7 2009
Jenolan Caves Reserve Trust Division .... Vol 7 2009
John Lewis and Pamela Lightfoot Trust............. Vol 2 2009
Judicial Commission of New South Wales........... Vol 8 2009
Justice Health.. Vol 1 2009
Justice Health Special Purpose Service Entity ..... Vol 1 2009

Juvenile Justice, Department of .... Vol 6 2009
Juvenile Justice, Minister for .... Vol 6 2009

L

Lachlan Catchment Management Authority........ Vol 7 2009
Lake Illawarra Authority .... Vol 6 2009
LAMS Foundation Limited .... Vol 2 2009
LAMS International Pty Limited .... Vol 2 2009
Land Development Working Account................ Vol 6 2009
Landcom ....Vol 10 2009
Lands, Department of .... Vol 6 2008
Lands, Minister for .... Vol 9 2009
Law and Order Overview............................. Vol 8 2009
Legal Aid Commission of New South Wales .... Vol 8 2009
Legal Aid Commission, Office of the .... Vol 8 2009
Legal Aid Temporary Staff Division................. Vol 8 2009
Legal Opinions Provided by the Crown Solicitor .. Vol 4 2009
Legal Profession Admission Board .... Vol 8 2009
Legislature, The .... Vol 8 2009
Legislature (Audit of Members' Additional Entitlements), The .... Vol 2 2009
Liability Management Ministerial Corporation..... Vol 5 2009
Library Council of New South Wales .... Vol 9 2009
Lifetime Care and Support Authority of New South Wales .... Vol 5 2009
Liquor Administration Board .... Vol 5 2008
Local Government, Department of.................. Vol 8 2009
Local Government, Minister for...................... Vol 8 2009
Lord Howe Island Board .... Vol 7 2009
Lotteries Corporation, New South Wales........... Vol 5 2009
Lower Murray-Darling Catchment Management Authority .... Vol 7 2009
Luna Park Reserve Trust ....Vol 10 2009

M

Macquarie Generation................................. Vol 3 2009
Macquarie Graduate School of Management Pty Limited... Vol 2 2009
Macquarie University Medical Research Foundation Limited .... Vol 2 2009
Macquarie University Medical Research Trust ..... Vol 2 2009
Macquarie University Private Hospital Trust....... Vol 2 2009
Macquarie University Professorial Superannuation Scheme .... Vol 2 2009
Macquarie University Property Investment Company No. 2 Pty Limited...................... Vol 2 2009
Macquarie University Property Investment Company Pty Limited............................ Vol 2 2009
Macquarie University Property Investment Trust .... Vol 2 2009
Macquarie University .... Vol 2 2009
Marine Parks Authority .... Vol 7 2009
Maritime Authority of NSW .... Vol 5 2008
Maritime Authority of NSW Division .... Vol 5 2008
Medical Board, New South Wales 115
Mid West Primary Pty Ltd............................. Vol 3 2009
Midwest Development Corporation Pty Limited... Vol 3 2009
Milk Marketing (NSW) Pty Limited ....Vol 10 2009
Mine Subsidence Board ....Vol 10 2009
Mineral Resources, Minister for ....Vol 10 2009
Minerals Industry/University of New South Wales Education Trust, The New South Wales Vol 2 2009
Ministerial Corporation for Industry................Vol 10 2009
Mitchell Services Limited .... Vol 2 2009
Motor Accidents Authority of New South Wales... Vol 5 2009
Motor Accidents Authority of New South Wales, Office of the .... Vol 5 2009
Motor Vehicle Repair Industry Authority .... Vol 6 2009
MU Private Hospital Pty Limited..................... Vol 2 2009
MUPH Clinic Pty Limited .... Vol 2 2009
MUPH Clinic Sub-Trust................................. Vol 2 2009
MUPH Hospital Pty Limited .... Vol 2 2009
MUPH Hospital Sub-Trust .... Vol 2 2009
MUPI Holding Trust No. 1 .... Vol 2 2009
MUPI Holding Trust No. 2 .... Vol 2 2009
MUPI Holding Trust No. 3 .... Vol 2 2009
MUPI Holding Trust No. 4..............................Vol 2 2009
MUPI Holding Trust No. 5..............................Vol 2 2009
MUPI Holding Trust No. 6..............................Vol 2 2009
MUPIT Sub-Trust No. 1 ....Vol 2 2009
MUPIT Sub-Trust No. 2 ....Vol 2 2009
MUPIT Sub-Trust No. 3 ....Vol 2 2009
MUPIT Sub-Trust No. 4 ....Vol 2 2009
Murray Catchment Management Authority ....Vol 7 2009
Murrumbidgee Catchment Management Authority ....Vol 7 2009

N

Namoi Catchment Management Authority..........Vol 7 2009
National Marine Science Centre Pty Ltd ....Vol 2 2009
Natural Resources Commission ....Vol 8 2009
Natural Resources Commission Division ....Vol 8 2009
Newcastle Innovation Limited ....Vol 2 2009
Newcastle International Sports Centre Trust.......Vol 3 2009
Newcastle Port Corporation...........................Vol 5 2008
Newcastle Showground and Exhibition Centre Trust ....Vol 1 2009
NewSouth Eight Pty Ltd................................Vol 2 2009
NewSouth Five Pty Ltd.................................Vol 2 2009
NewSouth Four Pty Ltd ....Vol 2 2009
NewSouth Global (Thailand) Limited ....Vol 2 2009
NewSouth Innovations Pty Ltd........................Vol 2 2009
NewSouth One Pty Ltd ....Vol 2 2009
NewSouth Seven Pty Ltd...............................Vol 2 2009
NewSouth Six Pty Ltd ....Vol 2 2009
Norsearch Limited ....Vol 2 2009
North Coast Area Health Service 60
North Coast Area Health Service Special Purpose Service Entity.......................... 67
Northern Rivers Catchment Management Authority ....Vol 7 2009
Northern Sydney and Central Coast Area Health Service... 68
Northern Sydney and Central Coast Area Health Service Special Purpose Service Entity... 75
NorthPower Energy Services Pty Limited ....Vol 3 2009
Nurses and Midwives Board..................................115

O

Ombudsman's Office ....Vol 8 2009
Optical Dispensers Licensing Board........................115
Optometrists Registration Board 115
Osteopaths Registration Board..............................115
Ovine Johne's Disease Transaction Based Contribution Scheme, NSW..................... Vol 10 2009

P

Pacific Industry Services Corporation Pty LimitedVol 10 2009
Pacific Power (Subsidiary No. 1) Pty Ltd............Vol 3 2009
Pacific Solar Pty Limited ....Vol 3 2009
Parklands Foundation Limited ....Vol 9 2009
Parliamentary Contributory Superannuation Fund ....Vol 5 2009
Parramatta Park Trust ....Vol 9 2009
Parramatta Stadium Trust.............................Vol 2 2009
Parramatta Stadium Trust Division ....Vol 2 2009
Payments to other Government Bodies under the control of the Minister ....Vol 6 2009
Pharmacy Board of New South Wales......................115
Physiotherapists Registration Board 115
Planning, Department of .... Vol 10 2009
Planning, Minister for .... Vol 10 2009
Podiatrists Registration Board 115
Police Force, NSW ....Vol 8 2009
Police Integrity Commission ....Vol 8 2009
Police Integrity Commission Division ....Vol 8 2009
Police, Minister for ....Vol 8 2009
Police, Ministry for ....Vol 8 2009
Port Kembla Port Corporation ....Vol 5 2008
Ports and Waterways, Minister for...................Vol 5 2008
Premier..Vol 8 2009

Premier and Cabinet, Department of .... Vol 8 2009
Primary Industries, Department of .... Vol 10 2009
Primary Industries, Minister for .... Vol 10 2009
Probiotic Health Pty Limited .... Vol 2 2009
Protective Commissioner – Common Fund,
Office of the .... Vol 2 2009
Protective Commissioner and Public Guardian,
Office of the .... Vol 8 2009
Psychologists Registration Board 115
Public Transport Ticketing Corporation .... Vol 10 2009
Public Transport Ticketing Corporation
Division .... Vol 10 2009
Public Trustee NSW .... Vol 8 2009
Public Trustee NSW – Common Fund .... Vol 8 2009

Q

Qualified Independent Audit Reports Issued ...... Vol 10 2009
Qucor Pty Ltd .... Vol 2 2009

R

Rail Corporation New South Wales .... Vol 10 2009
Rail Infrastructure Corporation .... Vol 10 2009
Redfern and Waterloo, Minister for .... Vol 5 2008
Redfern-Waterloo Authority .... Vol 5 2008
Redfern Waterloo Authority, Office of the .... Vol 5 2008
Remarkspdf Pty Ltd .... Vol 2 2009
Rental Bond Board .... Vol 6 2009
Rental Housing Assistance Fund .... Vol 6 2009
Residual Business Management Corporation .... Vol 3 2009
Responsible Gambling Fund .... Vol 5 2008
Rice Marketing Board for the State of
New South Wales .... Vol 10 2009
Risk Frontiers Flood (Australia) Pty Limited .... Vol 2 2009
Risk Frontiers Group Pty Limited .... Vol 2 2009
Riverina Citrus .... Vol 10 2009
Rivservices Limited .... Vol 2 2009
Roads and Traffic Authority of New South Wales Vol 10 2009
Roads and Traffic Authority Division .... Vol 10 2009
Rocky Point Holdings Pty Ltd .... Vol 3 2009
Rouse Hill Hamilton Collection Pty Limited .... Vol 9 2009
Royal Alexandra Hospital for Children 116
Royal Alexandra Hospital for Children
Special Purpose Service Entity 121
Royal Botanic Gardens and Domain Trust .... Vol 7 2009
Rural Assistance Authority, New South Wales .... Vol 10 2009
Rural Assistance Authority, Office of the .... Vol 10 2009
Rural Fire Service, NSW .... Vol 8 2009

S

SAS Trustee Corporation .... Vol 5 2009
SAS Trustee Corporation - Pooled Fund .... Vol 5 2009
SAS Trustee Corporation Division of
the Government Service of NSW .... Vol 5 2009
Self Insurance Corporation, NSW .... Vol 5 2009
Services UNE Ltd .... Vol 2 2009
Sesquicentenary of Responsible Government
Trust Fund .... Vol 8 2009
SGSM Limited .... Vol 2 2009
Small Business, Minister for .... Vol 10 2009
Small Business Development Corporation
of New South Wales .... Vol 10 2009
South Eastern Sydney and Illawarra Area Health
Service 76
South Eastern Sydney and Illawarra Area Health
Service Special Purpose Service Entity 83
Southern Cross University .... Vol 2 2009
Southern Rivers Catchment Management
Authority .... Vol 7 2009
Sport and Recreation, Minister for .... Vol 9 2009
Sporting Injuries Committee .... Vol 5 2009
Sports Knowledge Australia Pty Limited .... Vol 2 2009
State and Regional Development, Department of Vol 10 2009
State Council of Rural Lands Protection Boards ... Vol 3 2009
State Council of Rural Lands Protection Boards
Division .... Vol 3 2009
State Development, Minister for .... Vol 10 2009
State Emergency Service .... Vol 8 2009
State Library of New South Wales Foundation ..... Vol 9 2009
State Plan .... Vol 2 2009
State Property Authority .... Vol 6 2009
State Property Authority, Office of the .... Vol 6 2009
State Rail Authority Residual Holding
Corporation .... Vol 5 2009
State Records Authority of New South Wales ...... Vol 6 2009
State Rescue Board .... Vol 8 2009
State Sports Centre Trust .... Vol 9 2009
State Sports Centre Trust Division .... Vol 9 2009
State Super Financial Services Australia Limited .. Vol 5 2009
State Transit Authority of New South Wales ..... Vol 10 2009
State Transit Authority Division .... Vol 10 2009
State Water Corporation .... Vol 7 2009
Statement of the Budget Result .... Vol 4 2009
Superannuation Administration Corporation
(trading as Pillar Administration) .... Vol 5 2009
Sydney 2009 World Masters Games Organising
Committee .... Vol 9 2009
Sydney 2009 World Masters Games Organising
Committee Division .... Vol 9 2009
Sydney 2009 World Masters Games Organising
Committee, Office of the .... Vol 9 2009
Sydney Business School Pty Ltd .... Vol 2 2009
Sydney Catchment Authority .... Vol 7 2009
Sydney Catchment Authority Division .... Vol 7 2009
Sydney Cricket and Sports Ground Trust .... Vol 9 2009
Sydney Cricket and Sports Ground Trust
Division .... Vol 9 2009
Sydney Desalination Plant Pty Limited .... Vol 7 2009
Sydney Educational Broadcasting Limited .... Vol 2 2009
Sydney Ferries .... Vol 10 2009
Sydney Harbour Foreshore Authority .... Vol 5 2008
Sydney Harbour Foreshore Authority,
Office of the .... Vol 5 2008
Sydney Harbour Foreshore Authority
Casual Staff Division, ... Vol 5 2008
Sydney Institutes of Health and Medical
Research, The .... Vol 2 2009
Sydney International Film School Pty Limited ..... Vol 2 2009
Sydney Metro .... Vol 10 2009
Sydney Metro Division .... Vol 10 2009
Sydney Metropolitan Catchment Management
Authority .... Vol 7 2009
Sydney Olympic Park Authority .... Vol 9 2009
Sydney Olympic Park Authority, Office of the ..... Vol 9 2009
Sydney Olympic Park Authority Sydney
Olympic Park Aquatic and Athletic Centres
Division .... Vol 9 2009
Sydney Opera House Trust .... Vol 9 2009
Sydney Pilot Service Pty Ltd .... Vol 5 2008
Sydney Ports Corporation .... Vol 5 2008
Sydney South West Area Health Service 84
Sydney South West Area Health Service
Special Purpose Service Entity 91
Sydney Talent Pty Limited .... Vol 2 2009
Sydney Water Corporation .... Vol 7 2009
Sydney West Area Health Service 92
Sydney West Area Health Service Special
Purpose Service Entity 99
Sydney West International College Pty Limited ... Vol 2 2009
SydneyLearning Pty Limited .... Vol 2 2009

T

Taronga Conservation Society Australia .... Vol 7 2009
Taronga Conservation Society Australia Division .. Vol 7 2009
TCorp Nominees Pty Limited .... Vol 5 2009
Teacher Housing Authority of New South Wales ... Vol 6 2009
Technical and Further Education Commission,
New South Wales .... Vol 9 2009
Technical and Further Education Commission
Division, New South Wales .... Vol 9 2009
Technical Education Trust Funds .... Vol 2 2009
Television Sydney (TVS) Limited .... Vol 2 2009
Total State Sector Accounts .... Vol 4 2009

Tourism, Minister for .... Vol 10 2009
TransGrid .... Vol 3 2009
Transport, Minister for .... Vol 10 2009
Transport, Ministry of .... Vol 10 2009
Transport Infrastructure Development
Corporation .... Vol 10 2009
Transport Services Overview .... Vol 10 2009
Treasurer .... Vol 6 2009
Treasury, The .... Vol 5 2009
Treasury Corporation, New South Wales .... Vol 5 2009
Treasury Corporation Division of the
Government Service .... Vol 5 2009
Trustees of the ANZAC Memorial Building .... Vol 2 2009
Trustees of the Farrer Memorial Research
Scholarship Fund .... Vol 3 2009
Trustees of the Museum of Applied Arts
and Sciences .... Vol 9 2009
TVS Limited .... Vol 2 2009

U

U@MQ Limited .... Vol 2 2009
Ucom Fifteen Pty Limited .... Vol 2 2009
Ucom Sixteen Pty Limited .... Vol 2 2009
UNE Partnerships Pty Limited .... Vol 2 2009
UNE Vision Pty Ltd .... Vol 2 2009
UniCentre Conferences and Functions Pty Limited Vol 2 2009
UNILINC Limited .... Vol 2 2009
Uniprojects Pty Limited .... Vol 5 2008
United States Studies Centre Limited .... Vol 2 2009
Universities Admissions Centre (NSW & ACT)
Pty Limited .... Vol 5 2008
Universities Overview .... Vol 2 2009
University of New England .... Vol 2 2009
University of New England Professorial
Superannuation Fund .... Vol 2 2009
University of New England Sports Association .... Vol 2 2009
University of New South Wales .... Vol 2 2009
University of New South Wales Foundation .... Vol 2 2008
University of New South Wales Foundation
Limited .... Vol 2 2009
University of New South Wales International
House Limited .... Vol 2 2009
University of New South Wales Press Limited .... Vol 2 2009
University of Newcastle .... Vol 2 2009
University of Sydney, The .... Vol 2 2009
University of Sydney Professorial Superannuation
System .... Vol 2 2009
University of Technology, Sydney .... Vol 2 2009
University of Western Sydney .... Vol 2 2009
University of Western Sydney Foundation
Limited .... Vol 2 2009
University of Western Sydney Foundation Trust .. Vol 2 2009
University of Wollongong .... Vol 2 2009
University of Wollongong Recreation
Aquatic Centre Limited .... Vol 2 2009
UNSW & Study Abroad – Friends and U.S.
Alumni, Inc. .... Vol 2 2009
UNSW (Thailand) Limited .... Vol 2 2009
UNSW Asia School Limited .... Vol 2 2009
UNSW Global (Singapore) Pte Limited .... Vol 2 2009
UNSW Global India Private Limited .... Vol 2 2009
UNSW Global Pty Limited .... Vol 2 2009
UNSW Hong Kong Foundation Limited .... Vol 2 2009
UNSW Hong Kong Limited .... Vol 2 2009
UTSM Services (Malaysia) Sdn Bhd .... Vol 2 2009
UON Foundation Ltd .... Vol 2 2009
UON Foundation Trust .... Vol 2 2009
UON Services Limited .... Vol 2 2009
UON, Singapore Pte Ltd .... Vol 2 2009
Upper Parramatta River Catchment Trust .... Vol 7 2009
Upper Parramatta River Catchment Trust
Division .... Vol 7 2009
UWS College Pty Limited .... Vol 2 2009
UWS Conference and Residential Colleges Limited Vol 2 2009
uwsconnect Limited .... Vol 2 2009

V

Valley Commerce Pty Limited .... Vol 5 2009
Veterinary Practitioners Board .... Vol 10 2009
Vocational Education and Training
Accreditation Board, NSW .... Vol 4 2008

W

Warren Centre for Advanced Engineering
Limited, The .... Vol 2 2009
Waste Recycling and Processing Corporation .... Vol 2 2009
Water and Energy, Department of .... Vol 7 2009
Water Industry Overview .... Vol 7 2009
Water, Minister for .... Vol 7 2009
Wayahead Pty Limited .... Vol 2 2009
Wentworth Annexe Limited .... Vol 2 2009
Wentworth Park Sporting Complex Trust .... Vol 9 2009
Western Catchment Management Authority .... Vol 7 2009
Western Research Institute Limited .... Vol 2 2009
Western Sydney, Minister for .... Vol 9 2009
Western Sydney Buses Division .... Vol 10 2009
Western Sydney Parklands Trust .... Vol 9 2009
Whitlam Institute Within the University of
Western Sydney Limited .... Vol 2 2009
Whitlam Institute Within the University of
Western Sydney Trust .... Vol 2 2009
Wild Dog Destruction Board .... Vol 2 2009
Wild Dog Destruction Board Division .... Vol 2 2009
Wine Grapes Marketing Board .... Vol 2 2009
Wollongong Sportsground Trust .... Vol 9 2009
Wollongong Sportsground Trust Division .... Vol 9 2009
Wollongong UniCentre Limited .... Vol 2 2009
WorkCover Authority, Office of the .... Vol 6 2008
WorkCover Authority of New South Wales .... Vol 6 2008
Workers Compensation Commission of
New South Wales .... Vol 6 2008
Workers Compensation Nominal Insurer
(trading as The NSW WorkCover Scheme) .... Vol 1 2009
Workers' Compensation (Dust Diseases) Board .... Vol 5 2008
World Youth Day Co-ordination Authority .... Vol 2 2009
World Youth Day Co-ordination Authority,
Office of .... Vol 2 2009
Wyong Water Supply Authority .... Vol 7 2009

Y

Youth, Minister for .... Vol 9 2009

AUDITOR-GENERAL'S REPORT
FINANCIAL AUDITS

Volume Twelve 2009

AUDITOR-GENERAL
NEW SOUTH WALES

The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

Pursuant to the *Public Finance and Audit Act 1983,* I present Volume Twelve of my 2009 Report.

Peter Achterstraat

Peter Achterstraat
Auditor-General

Sydney
December 2009

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 contains a Special Review. Section Two provides comments on financial audits of government agencies. It is divided into ministerial portfolios, each containing one or more government agencies. Section Three incorporates a Performance Audit review.

Each agency’s comment begins with a summary of our **Audit Opinion.** This is a key result of each audit. An ‘unqualified Independent Auditor’s Report’ means we are satisfied that the agency has prepared its financial report in accordance with Australian Accounting Standards (and other mandatory requirements). It also means we believe the report has no material misstatements and the scope of our audit has not been limited. If any of these aspects are not met we issue a ‘qualified Independent Auditor’s Report’ and explain why we did this.

The next part of the comment outlines any **Key Issues** we identified during the audit. These are matters such as:

- recommendations to Parliament
- significant findings or outcomes of the audit
- any major developments impacting on the agency’s role or activities
- key repeat findings.

The **Audit Opinion** and the **Key Issues** represent the more important findings. By targeting these, readers can quickly understand the major issues facing a particular agency, or glance through a number of reports to assess the financial health of a portfolio.

Performance Information covers key financial and operational statistics we have identified that help understand how well the agency is performing. Wherever possible we include comparisons with similar agencies interstate.

The next two parts of the comment contain analysis of issues we identified during our audit. While many of these will include suggestions for improvement, these are not as significant as the issues outlined in the first two parts of the agency comment.

Other Information summarises any other matters noted during the audit of the agency that warrant inclusion in this Report.

Financial Information summarises the essential information from each agency’s financial report. While this is sufficient for a broad understanding of the agency’s financial position, readers can access more detailed financial statements in the agency's annual report or website.

Agency Activities summarises the agency’s purpose, services, structure, relevant legislation, and its web address.

While some ‘agency comments’ in this Volume will have all of the headings outlined here, this will vary depending on the size of the organisation and the findings of our audit.

The **Agency Response** appears where the head of an agency does not believe that the commentary in our Report adequately reflects the agency's position or actions taken. As we discuss our proposed comments with agency staff during the drafting process, few agencies ask for a formal response to be included.

Appendix 1 contains the names of agencies not reported elsewhere in this Volume. These agencies received unqualified audit opinions and have no significant issues to report.

Contents

Significant Items ... iii

SECTION ONE

Compliance Review Report - Total Asset Management ... vii

SECTION TWO – Commentary on Government Agencies

Minister for Education and Training ... 3

Minister for Energy ... 5

Delta Electricity Australia Pty Limited ... 7

Minister for Gaming and Racing ... 9

Minister for Lands ... 11

Department of Lands ... 13

Minister for Planning ... 23

Barangaroo Delivery Authority ... 25

Sydney Harbour Foreshore Authority ... 28

Minister for Ports and Waterways ... 35

Maritime Authority of NSW ... 37

Newcastle Port Corporation ... 40

Port Kembla Port Corporation ... 43

Sydney Ports Corporation ... 47

Minister for Redfern Waterloo ... 51

Redfern-Waterloo Authority ... 53

Treasurer ... 57

Crown Leaseholds Entity ... 59

APPENDIX

Appendix 1 – Agencies not reported elsewhere in this Volume ... 65

INDEX ... 67

Significant Items

	Page
Compliance Review Report - Total Asset Management	
Action is required by agencies and central agencies, including Treasury, to improve Total Asset Management processes.	vii
Delta Electricity Australia Pty Limited	
The company, a subsidiary of Delta Electricity, has breached a covenant on a loan of $67.7 million and is discussing options to trade out of its financial difficulties with its financiers. The company is a party in a renewable energy joint venture that uses sugar cane waste to generate electricity in Northern New South Wales.	7
Department of Lands	
Since 2007, I have reported that there is no centralised inventory of all Crown land in New South Wales. Funding has now been received to establish such an inventory, which the Department expects to complete by June 2012.	13
Significant progress has been made on developing a Government Property Register, but the register, which records all property held by New South Wales Government agencies, is still incomplete.	14
Land, valued at $968 million, granted to Aboriginal Land claimants has not been transferred because of delays in transferring legal title. At the current rate of transfer, it may take more than 20 years to clear all current granted claims.	15
Sydney Harbour Foreshore Authority	
The Authority transferred assets of $411 million and liabilities of $272 million to the new Barangaroo Delivery Authority.	30
Newcastle Port Corporation	
Trade through the port was 95,840 tonnes in 2008-09, an increase of 14.7 per cent over the last five years, and is mainly due to increasing coal exports to Asia.	40
Sydney Ports Corporation	
Total trade for 2008-09 was 27,800 tonnes compared to 29,200 tonnes in 2007-08. The decrease is attributed to the global financial crisis.	47

Section One

Compliance Review Report

Total Asset Management

Compliance Review Report - Total Asset Management

Assets are very important to the State as they enable it to provide many different services to the public. To enable services to be provided to the highest quality, it is imperative that public sector assets are properly managed and maintained.

TAM Policy aims at ensuring efficient allocation of resources for required service delivery in New South Wales. It requires agencies to develop, maintain and update asset plans, and submit the plans to The Treasury of New South Wales (Treasury) as required.

With these thoughts in mind, I have reviewed 12 major New South Wales agencies' compliance with the Government's Total Asset Management (TAM) policy requirements. I reviewed the 2008-09 ('proposed' and 'agreed') and the 2009-10 ('proposed') TAM information submitted to Treasury over the period from 5 November 2007 to 6 February 2009.

OVERALL OPINION

None of the agencies I reviewed fully complied with the Government's TAM requirements. I identified material exceptions, which resulted in qualification of my compliance review report for each agency.

COMPLIANCE CRITERIA

We reviewed agency compliance with the following Treasury policies:

- Total Asset Management (TAM) requirements for updating the NSW State Infrastructure Strategy (SIS) (TPP08-2)
- Total Asset Management (TAM) Requirements for Updating the State Infrastructure Strategy (NSWTC 08/06)
- Revised Project Size/Risk Thresholds for the Submission of Business Cases and Gateway Reports (NSWTC 08/07).

There are inherent limitations in undertaking an engagement of this nature. Our work was conducted as a review engagement, not an audit and consequently our procedures were not designed to detect all instances of non-compliance. Our review was undertaken to determine whether matters came to our attention causing us to believe the selected agency had not complied, in all material respects, with the Government's TAM requirements. This means I may not have found all instances of non-compliance.

KEY ISSUES

> Action by agencies and central agencies, including Treasury, is needed to improve TAM submission processes.

Treasury's ability to make informed decisions to plan the funding of State wide asset expenditures for the next ten years was significantly diminished by late, incomplete, poor quality and unreliable submissions. We understand Treasury had to adopt alternative, time-consuming measures to collect the required information from key agencies.

The volume of qualification matters indicates widespread non compliance. In addition to these key issues, a further 61 matters of lesser significance will be communicated in management letters to the agencies responsible.

The following material non-compliance matters were identified:

1. Deficiencies in the development and submission of Asset Strategies, including:
   - failure to submit the asset strategy as part of the proposed TAM
   - failure to document how the agency identified and aligned investment strategies with relevant regional and sub regional strategies
   - failure to document agency consultations with local governments.

   Seven agencies did not comply.
2. Deficiencies in submitting strategic gateway reports and final business cases, including:
   - late submission of required business cases and strategic gateway reports
   - failure to submit required business cases and strategic gateway reports for projects exceeding designated thresholds
   - estimating capital requirements by grouping broad expenditure categories rather than estimating expenditure on planned projects.

   Six agencies did not comply.
3. Failure to provide all required TAM data because some agencies:
   - incorrectly used the previous year's table format, which meant important information, such as work in progress, location of capital projects and maintenance measures, was not provided
   - had difficulty extracting, collating and supplying information so they did not complete the tables or supply the required data, nor did they seek formal exemptions from complying with the reporting requirements
   - felt they did not need to comply with the reporting requirements as information had been supplied elsewhere, or they felt the information requested was unimportant, not useful, or could be misconstrued. They did not confirm this by seeking formal exemptions from complying with the reporting requirements
   - overlooked providing required information, such as property disposal information.

   Eleven agencies did not comply.
4. Failure to meet deadlines occurred because:
   - submission dates were considered as targets rather than hard deadlines
   - internal restructures, difficulties in securing Board approvals, onerous workloads or external pressures, such as the mini budget, delayed collation of the information. No agencies sought formal exemptions from complying with the reporting requirements
   - 'draft' or unsigned TAM submissions were thought to comply with the reporting requirements even when these submissions were made after the due date. These agencies did not formally confirm this view with Treasury
   - agencies believed discussions with Treasury analysts constituted agreement that agreed or proposed TAMs could be submitted after the due date.

   Ten agencies did not comply.

5. Failure to obtain both Ministerial and CEO sign offs prior to submitting TAMs occurred because:
   - the requirement to sign the TAM submission was overlooked or considered unnecessary because CEO approval was minuted in agency records
   - Ministerial sign off was obtained after the 'draft' TAM was submitted. Some agencies believed that because the Minister did not require any changes to the submission it was unnecessary for the submission to be signed by the Minister
   - an agency did not believe proposed TAMs needed to be signed
   - an agency submitted a 'draft' TAM because it was unable to secure the Minister's agreement or sign off for the capital investment strategy
   - CEO and Ministerial sign off was only obtained after the 'draft' unsigned TAM was submitted. The signed version was only submitted with the Statement of Business Intent, much later in the year.

   Eight agencies did not comply.

6. Failure to submit proposed TAM and asset strategies in the required format thereby omitting important information.

   One agency did not comply.

Recommendations

1. Review and simplify the requirements

I recommend the need for the information required in TAM submissions be reviewed. Such a review should consider allowing aggregated data, and varying reporting thresholds, particularly for infrastructure heavy agencies and projects outside the forward estimates period. Such variations should be confirmed by Treasury in writing as part of a formalised exemption process.

Treasury and other central agencies (State Property Authority (SPA) and New South Wales Government Asset Management Committee (GAMC)) seeking information through TAM submissions should review and confirm the strategic value of the information requested. Information fields should be deleted if omission of this information will not materially impact planning models and decision making processes.

It is undesirable to make the process overly bureaucratic or prescriptive, but to the greatest extent possible, all mandatory requirements of Treasury Policy Pronouncements and Circulars should be included clearly and unambiguously in the reporting templates or referenced from the template.

The reporting requirements and format should be simplified, with mandatory fields clearly marked, and error messages that appear if a mandatory field is left blank.

TAM requirements have evolved since the GAMC was established in 1998. We noted that superseded TAM requirements had not been removed from central agency internet sites and appeared alongside the current TAM requirements of applicable Treasury Pronouncements and Circulars. The TAM requirements are complex, and this made it difficult for agencies to understand what was required of them, including which forms to use. This issue was also identified by Treasury and the superseded requirements have since been removed from the respective internet sites.

Most mandatory fields in the TAM reporting template are highlighted, however, some are not or are in the form of attachments to the template. Failure to comply with these requirements was the most common cause of non compliance.

Many agencies indicated that the TAM submission process was unduly complex and onerous. They believed the reporting thresholds for business cases and strategic gateway reports were burdensome, particularly for large infrastructure heavy agencies.

Central agencies (SPA and GMAC) were unable to confirm, unequivocally, whether all information requested in the TAM template had a material impact on strategic decision making.

2. Improve administration of the TAM submission process

I recommend Treasury train its analysts to provide consistent advice and directions to agencies.

'Draft', unsigned and clearly deficient submissions should be promptly returned to the responsible agency for rectification. Returned submissions should be accompanied with a covering letter advising the agency that lodgement will only be recorded when a compliant submission is received.

Communications, particularly verbal communications, should be confirmed in writing and filed in a central repository, which can be easily accessed.

Treasury should maintain and monitor milestones for key submission dates and send reminders to agencies where they have failed to achieve a milestone or have not been granted a formal exemption or an extension of time.

Treasury should ensure its website only includes the latest and most current information and guidance about TAM requirements.

Treasury provides considerable support to help agencies comply with the TAM requirements. This support includes information on its website and access to analysts. Agencies, however, do not appear to be using these support mechanisms effectively, as evidenced by agencies:

- failing to confirm their understanding of some requirements
- using superseded reporting formats
- making unilateral decisions about the strategic importance of information fields
- not providing required information
- providing poor quality information.

Treasury, at times, found it difficult to confirm facts and retrieve details of communications with agencies.

3. Formalise the exemptions process

I recommend agency requests for exemptions from TAM requirements be initiated by the Chief Executive Officer (CEO) or Director General (DG). The approval of requests to vary TAM reporting requirements should be restricted to senior Treasury staff responsible for TAM submissions. Approved exemptions should be confirmed in writing, clearly stating the nature of the exemption and any substituted reporting requirements.

Where Government policy decisions impact the agency's ability to comply with TAM reporting requirements, Treasury should similarly grant formal exemptions to affected agencies.

Treasury should maintain a log of exemptions granted and confirm these with agencies prior to submission dates.

In our preliminary discussions with Treasury we were informed that no agencies were exempt from complying with TAM requirements.

There was considerable misunderstanding by all agencies reviewed as to whether compliance with all elements of the TAM strategy was required. Many genuinely believed they had obtained valid exemptions from various reporting requirements or extensions of time.

Treasury acknowledges that the mini budget and the stimulus package made it difficult for some agencies to provide all of the data within the timeframes required by the original TAM strategy. However, no agencies applied for or were granted formal exemptions, extensions or other dispensations from complying with the TAM requirements.

As a result, Treasury was provided with late, unapproved, deficient and poorly supported information.

4. Obtain Ministerial and CEO sign-offs

I recommend all agencies and Ministers agree on proposed asset strategies before the required due date.

Treasury should develop and communicate guidance on what constitutes 'significant' changes to a proposed TAM submission so agencies are better able to judge if fresh approvals are needed. If Treasury determines changes from a proposed TAM submission are significant, the agreed TAM should be returned to the agency indicating Ministerial approval is required.

This process should be logged through a milestone reporting process.

Ministerial and CEO sign-offs are an essential step in the TAM process. Sign-offs confirm the commitment of the two parties to be bound by and honour an agency's asset strategy.

If one party dissents from or disputes key elements of the strategy and withholds signing the TAM, departure from the plan is considered likely. Such departures may not represent best and highest use of limited State resources and may mean essential, higher priority projects are unnecessarily deferred.

Treasury did not require 'Agreed' TAM submissions be signed by the Minister or the CEO where there was no 'significant' change from the proposed TAM. 'Significant' was not defined.

5. Develop Better Asset Strategies and TAM submissions

I recommend agencies review and strengthen internal controls that ensure compliance with Treasury policies for TAM. Agency staff responsible for preparing TAM submissions should be appropriately trained in the current TAM requirements. If in doubt, agency staff should seek clarification with Treasury prior to preparing submissions.

Treasury Policy Pronouncements should provide guidance to agencies on appropriate internal controls to ensure compliance with TAM submission requirements such as review by Audit and Risk Committees.

All agencies provided information to Treasury that was deficient in some respect. In addition to the key issues previously detailed, other deficiencies included:

- not linking project priorities to identified risks, service delivery outcomes and asset gaps or identifying the risk to service delivery if major projects are not funded
- not prioritising proposed expenditure between asset expansion, asset renewal and maintenance of existing assets
- not referencing measures of existing and future asset utilisation to support proposed disposals
- not considering cross-agency projects. Agencies incorrectly assumed other parties to multi agency projects had included the project in their submissions
- general, non-specific narratives were substituted where hard factual data was required
- uncertainty about reporting obligations resulting in under provision of information.

If agencies assign priorities to projects, Treasury can more readily identify which projects to progress if additional funding becomes available.

Because Asset Strategies were generally not well developed, the information provided to Treasury was not as valuable as it could have been, and confidence in its use for State wide strategic asset planning was diminished.

6. Co-ordinate activities with other agencies and layers of government

> I recommend TAM templates highlight requirements for consultations with local governments and consider the Department of Planning's regional and sub regional strategies.
>
> Ideally, such processes should be integrated with the development of business cases and strategic gateway reports, so the TAM submissions can reference to the more detailed responses in these documents or provide summarised information.

Agencies are responsible for ensuring they do not duplicate or conflict with the activities of other Government agencies and local governments. Very few agencies documented consultations with local governments, or how they considered the Department of Planning's regional and sub-regional strategies when developing their asset strategies.

Unless agencies conduct appropriate enquiries and consultations, there is no alternative mechanism for co-ordinating asset expenditure between the various layers of government. This is an important process and should not be overlooked.

Consideration of the Department of Planning's regional and subregional strategies and consultations with local governments will help to avoid duplication of effort, waste and other non-productive activities by different Government agencies.

Many local governments have been charged with increasing the densities of populations within their boundaries. Their plans are impacted by Government agency plans for providing services and infrastructure to support population growth.

Consultation will enable Government agencies to consider and accommodate community concerns. It also helps local governments make and time local planning decisions so they are supported by Government asset strategies.

RESPONSE FROM THE TREASURY NSW

Key Issues:

Treasury acknowledges the findings identified in this report and supports steps taken to improve the TAM process. Treasury has already resolved many of the issues raised in this report. The TAM submission process was significantly modified for information requested in November 2009, for the 2010-11 Budget. The 2010-11 TAM data tables are more streamlined and user-friendly, with overall requirements tailored according to agency capital budget risk. In addition, Treasury has scheduled a complete review in 2010 of all elements of the TAM process.

Issue 1: Review and simplify the requirements

Treasury had identified many of these issues and has taken steps to address them.

The TAM data tables were substantially modified for initial 2010-11 Budget data collection in November 2009. Data requirements were streamlined and rationalised to support a risk-based approach to monitoring agency capital expenditure. The 19 October 2009 Budget Process Letters and 2010-11 TAM template contained guidance on all Treasury requirements and how to complete the TAM data tables.

Issue 2: Improve administration of the TAM submission process

Treasury has resolved these issues for initial 2010-11 Budget data collection (October 2009):

- *Treasury monitors compliance for key submission dates; and*
- *Treasury updated its website for the 2010-11 TAM process so that it only includes the latest and most current information and guidance about TAM requirements.*

Issue 3: Formalise the exemptions process

Currently, agencies that approach Treasury for an exemption are instructed to make a formal request in writing, stating the nature and reasons for any proposed substituted or alternative reporting requirements. Treasury then provides formal, written responses to these agencies.

Issue 4: Obtain Ministerial and CEO sign-offs

The 2010-11 TAM process requires all agencies to prepare only one annual TAM submission, unless otherwise notified by Treasury. Ministers and CEOs are only required to sign this single TAM submission. The notion of "significant" becomes redundant as agencies make only one TAM submission.

Issue 5: Develop Better Asset Strategies and TAM submissions

Agreed.

Issue 6: Co-ordinate activities with other agencies and layers of government

Treasury identified this issue and has amended the 2010-11 TAM data tables. The amended tables require agencies to:

- *indicate where projects support a Department of Planning urban release area, major urban infill site, or employment lands area and the corresponding region*
- *whether the project will receive funding via infrastructure levy, voluntary planning agreement project.*

TAM Policy guidance also requires agencies to reference any consultation with local government on proposed capital projects in the Asset Strategy.

Section Two

Commentary on Government Agencies

Minister for Education and Training

Refer to Appendix 1 for:

Uniprojects Pty Limited

Universities Admissions Centre (NSW & ACT) Pty Limited

Minister for Energy

Delta Electricity Australia Pty Limited

Delta Electricity Australia Pty Limited

Delta Electricity Australia Pty Limited (the Company) is a wholly owned subsidiary of Delta Electricity. I reported on the audits of Delta Electricity and its controlled entities' financial reports for the year ended 30 June 2009 in Volume Three of my 2009 Report to Parliament.

The following is an update on a significant matter that has emerged within the Company since I last reported.

Update on the financial status of the Company

At 30 June 2009, the Company had a bank loan of $67.7 million secured over the Company's property. The loan is not guaranteed by Delta Electricity. The Company breached a loan covenant attached to this loan in November 2009. The breach gave the Company's financiers the option of declaring the loans to be repayable on demand or immediately due and payable.

Delta Electricity's management advised that the Company's financiers have agreed to a three month period of forbearance. Within this period the Company, its joint venture partner, the financiers, and The Treasury will explore options to enable the Company and joint venture to trade through the current financial difficulties.

These events have resulted in increased going concern risks for the Company and may have implications for the recoverability of the loan from Delta Electricity to the Company of $50.2 million at 30 June 2009.

The Company's directors will need to ensure the Company does not trade while insolvent.

Events that led to the breach

Management advised that the Company's and joint venture's financial difficulties resulted primarily from:

- the price of renewable energy certificates being lower than forecast
- a lower than forecast spot price for electricity
- lower than forecast amounts of fuel (bagasse) for the co-generation plants to burn
- the commissioning of the plant taking longer than planned.

Background

In 2002 Delta Electricity, through its controlled entity Delta Electricity Australia Pty Ltd, entered into a joint development to design, construct and operate two 30 megawatt renewable energy electricity co-generation plants at Condong and Broadwater in northern New South Wales. Construction reached practical completion in October and November 2008 for Condong and Broadwater respectively.

These plants predominately burn bagasse, the waste material left after crushing sugar cane, to produce electricity to power the adjoining sugar mills and regional communities.

Following completion of the plants, the joint venture began earning revenue from electricity and steam sales. The joint venture also earns income from the sale of renewable energy certificates obtained from the production of renewable energy.

For further information see the Delta Electricity comment in my Volume Three Report.

Minister for Gaming and Racing

Refer to Appendix 1 for:

Responsible Gambling Fund

Minister for Lands

Department of Lands

Department of Lands

AUDIT OPINIONS

The audit of the Department's financial report for the year ended 30 June 2009 resulted in an unqualified Independent Auditor's Report.

Land and Property Information New South Wales (LPI) is a commercial activity within the Department of Lands that is required to prepare a separate financial report. The audit of LPI's financial report for the year ended 30 June 2009 also resulted in an unqualified Independent Auditor's Report.

KEY ISSUES

Land and Property Management Authority

On 27 July 2009, the 'Public Sector Employment and Management (Departmental Amalgamations) Order 2009' established the Land and Property Management Authority and transferred all branches of the Department of Lands to the Authority. The Department of Lands was abolished.

Inventory of Crown Land (Repeat Issue)

I recommend the Authority establish an appropriate centralised record of all Crown land in New South Wales in order to meet its responsibilities under the *Crown Lands Act 1989*.

The Authority is responsible for establishing a programme of assessment of all Crown land in New South Wales in accordance with the *Crown Lands Act 1989*. The assessment must include an inventory of Crown land; an assessment of the capabilities of the land; and the identification of suitable uses for the land indicating, where practicable, the preferred use or uses for the land.

In 2007, I reported that whilst the Department of Lands had information on the State's Crown lands, it did not have a centralised inventory of all Crown land in New South Wales, or a mechanism to record all required information. As a result, the Department cannot demonstrate it has fulfilled its responsibilities under the *Crown Lands Act 1989*.

I have issued qualified audit opinions on the Total State Sector Accounts (TSSA) and Crown Entity since 2004, as I have been unable to obtain all information required to form an opinion on the value of those Crown reserves that should have been recognised as land in the TSSA and Crown Entity financial reports.

The Authority has received funding from The Treasury to establish a centralised record of all Crown lands, which it expects to complete by June 2012.

Government Property Register

I recommend the Authority develops a strategic framework to guide the future maintenance, development and use of the Government Property Register.

I also recommend the limitations identified in the Government Property Register be resolved so that it can be relied upon as a complete record of New South Wales Government property assets.

A 2002 performance audit on the Government Property Register (GPR) noted that despite being on the agenda for many years (formally, at least since 1988), there was no comprehensive record of all government property assets in New South Wales. While significant progress has been made with developing the GPR since the 2002 performance audit, the Government still does not have a complete record of all property held by New South Wales Government agencies.

Whilst individual government agencies have responsibility for managing property assets they control, the law requires that a central register of government property be kept. Development and maintenance of the GPR by the Authority provides the means of achieving compliance with the law.

The 2002 performance audit on the GPR also noted the following limitations with the register, which still exist today:

- changes in control or ownership are not always recorded
- much of the land held by RailCorp has no title
- some Crown Land is still unidentified
- some agencies are excluded from the legal requirements to provide information for the register (eg State owned corporations)
- many agencies have unique property identifiers which may relate to a part of, one or many lots.

A complete and accurate GPR can be used to:

- validate the property agencies own or control
- establish property usage
- identify under-utilised property
- support strategic land use decision making.

I understand there is currently no strategic framework in place to support future development, maintenance and use of the GPR. Such a framework would:

- assist in providing clarity around the vision for the GPR
- provide a clearer articulation of the intended use of the GPR so that relevant guidance and promotion of the GPR to key users is enhanced
- articulate the responsibilities of the Authority and agencies in fully populating the register and maintaining it
- guide future developments to the GPR.

I recommend the Authority works with agencies in achieving an annual reconciliation of the GPR with agency records commencing in 2010.

The Authority relies on agencies to advise it of certain property transfers to maintain the accuracy of the GPR, but this has not been actively enforced by the Authority in recent years. We also note that agency records and the GPR are not regularly reconciled to confirm all transfers and other changes in property records have been captured.

Since discussing this with the Authority, the Authority has advised agencies of its requirement to perform an annual reconciliation commencing in 2010.

Aboriginal Land Claims (Repeat Issue)

I recommend the Authority significantly reduces the time taken to process Aboriginal Land Claims and transfer legal title to successful claimants.

The Authority investigates Aboriginal Land Claims made under the *Aboriginal Land Rights Act 1983*. Under the Act, claims can be made over claimable Crown land, being lands that can be lawfully sold or leased, or are reserved or dedicated for any purpose under the *Crown Lands Act 1989* or *Western Lands Act 1901* and are not required for an essential purpose, nor for residential land, nor are not lawfully used and/or occupied.

Of the 18,139 Aboriginal Land claims lodged under the Act to 30 June 2009, 10,048 (55.4 per cent) were unresolved as at 30 June 2009, with 963 claims unresolved for more than ten years.

During the year, 2,056 (502 in 2007-08) claims were lodged with 12 granted and 1,052 refused. Most of the claims lodged in 2008-09 were over freehold land. Claims over freehold land cannot be granted under the *Aboriginal Land Rights Act 1983*, and these claims do not require further investigation.

The Crown Leaseholds Entity holds land valued at $968 million that has been granted to Aboriginal Land claimants, but has not been transferred because legal title has not yet passed. Legal title cannot pass until the land has been surveyed and recorded on the State's Digital Cadastral Database. Once this has occurred, formal title can pass to the relevant local Aboriginal Land Council. Claimants cannot fully access or use the land until title has passed. Based on current survey resourcing capacity, it may take more than 20 years for all current granted claims to be cleared. We initially reported this matter in 2005.

On 13 July 2009, the Premier wrote a letter to the Minister of Lands notifying him that all current outstanding claims submitted between 1983 and 1993 must be determined, as a matter of priority, by 31 December 2009. The Premier also set a target to reduce the current number of outstanding land claims by 65 per cent over the next 12 months.

Reserve Trusts (Repeat Issue)

I recommend the Authority centrally records the receipt and reviews of all reserve trusts annual reports to help it effectively monitor compliance with the requirements of the *Crown Lands Act 1989*.

The responsibility for monitoring and following up annual reports of reserve trusts, as required by the *Crown Lands Act 1989* and Regulation, is performed by the Authority's regional offices. As I have reported for the past three years, the Authority has not been able to readily advise how many annual reports it receives.

An on-line information system is being developed, which will enable reserve trusts to electronically submit annual reports and for the Authority to more effectively monitor reserve trusts. The project is expected to be completed by March 2010.

Soil Conservation Services Treasurer's Advance

At 30 June 2008, the Department recorded an interest bearing loan of $3.2 million for Treasurer's Advances made between 1956 and 1987, which could not be supported by appropriate documentation. For the past four years, we reported that given the rate of repayments, it would take 605 years to fully repay the loan principle and interest totalling $25.3 million. We previously recommended the Department and the Treasury agree and document reasonable repayment terms. On 8 April 2009, the Treasurer approved the write off of the balance of this loan.

Administering Domestic Waterfront Tenancies

I examined how well the Land and Property Management Authority (former Department of Lands) and the Maritime Authority of NSW are effectively administering domestic waterfront tenancies. My report *Administering Domestic Waterfront Tenancies* was released on 23 September 2009.

The two agencies separately administer more than 8,000 domestic waterfront tenancies broadly in line with government policy, but a lack of collaboration between the agencies is contributing to poor customer services.

Inconsistencies with applying the IPART report recommendations and operational differences between the two agencies result in different rents and conditions for tenants administered by the two agencies. The differences are having a significant impact on customer service.

For more information on the report refer to www.audit.nsw.gov.au.

PERFORMANCE INFORMATION

Land and Property Information NSW

LPI provides mapping, titling, valuation, survey and related land information services to organisations and individuals throughout New South Wales and Australia. The prime objective of LPI is to be recognised as the leading provider of land and property information for New South Wales.

The following table summarises the financial performance of LPI:

Year ended 30 June**	Target*	Actual				
	2009	2009	2008	2007	2006	2005
Earnings before interest and tax ($m)	***18.7***	***25.3***	43.6	35.1	32.9	42.9
Return on equity (%)	***20.0***	***(76.5)***	51.6	29.3	47.1	(253.7)
Return on assets (%)	***12.0***	***14.6***	25.0	18.0	21.8	30.6
Target contribution to Consolidated Fund payable ($m)	***11.2***	***11.4***	19.0	16.5	14.6	25.8
Capital expenditure ($m)	***16.5***	***16.7***	19.0	19.6	14.7	15.8

* Source: LPI Statement of Business Intent 2008-09.
** Superannuation actuarial gains/losses have been excluded from the results in accordance with Treasury Circular 09/01 'Accounting for Superannuation'.

In 2008-09, earnings before interest and tax decreased from a $43.6 million to $25.3 million, predominantly due to an increase in employee related expenses of $12.9 million.

The decrease in earnings also effected return on equity and assets. The equity balance fell to negative $33.1 million in 2008-09 (positive $84.6 million) mainly due to superannuation actuarial losses of $138 million ($50.6 million).

The largest source of LPI's revenue comes from its titling business, which includes document registrations, plan registrations and title copies. Land valuations also provide a significant portion of LPI's revenue. The following table provides information on LPI's activity in these areas:

Year ended 30 June	Target*	Actual				
	2009	2009	2008	2007	2006	2005
Title copies ('000s)	***4,200***	***4,064***	4,496	4,400	4,271	4,253
Document registrations ('000s)	***815***	***821***	799	794	810	807
Plan registrations ('000s)	***11***	***10***	11	11	12	13
Total valuations ('000s)	***2,400***	***2,417***	2,404	2,389	2,373	2,357

* Source: LPI Statement of Business Intent 2008-09 (unaudited).

OTHER INFORMATION

We identified opportunities for improvement in some internal procedures. These will be reported to management.

Torrens Assurance Fund

The Torrens Assurance Fund was established to meet claims for losses arising out of fraud or Authority error and is funded by a $4 fee to the Registrar-General for any land dealing lodged. This charge raised $2.9 million in 2008-09 ($3.2 million) for the Fund. The balance of the Fund as at 30 June 2009 totalled $16.5 million ($18.4 million).

The Registrar-General paid claims totalling $4.8 million ($2.3 million) during the year from the Fund. These costs included compensation payments and disbursements such as counsels' fees. As at 30 June 2009, there were 47 (19) unresolved claims with a total estimated value of $13.9 million ($16.0 million). Unresolved claims are disclosed as contingent liabilities in the Department's financial report.

Major Projects

The Authority has a number of projects integral to meeting its purpose of providing quality, timely and reliable geospatial information, and land management products and services. We have included details below on the current status of projects with forecast costs exceeding $3.0 million:

At 30 June 2009	Original Forecasted Cost $'000	Current Forecasted Cost $'000	Original Completion Date	Current Completion Date
Crown Parcels Conversion	4,802	11,332	2009	2012
Government Property Interests IT Systems	2,000	3,171	2009	2010
National Electronic Conveyancing System	4,000	4,448	2010	2011
Aerial Digital Camera	3,484	3,233	2010	2010
Digitisation of Historical Plans	4,000	3,683	2006	2011
Survey Infrastructure Project	3,050	7,246	2011	2014

The Crown Parcels Conversion project was extended to 2012 and the budget increased by $6.5 million as a result of unexpected complexities delaying the assessment of the inventory of Crown Land, as mentioned earlier in this report.

The remaining projects that have increased forecast costs and/or extended completion dates are largely due to expansion of scope since initial commencement of the projects. The Digitisation of Historical Plans project revised and extended to 2011 due to higher priority projects.

National Electronic Conveyancing System

The National Electronic Conveyancing System (NECS) is to be a single national facility serving industry and government needs in all State and Territory jurisdictions. It aims to provide a convenient electronic means for legal practitioners, conveyancers, banks and mortgage processors to:

- prepare instruments and related documents to register changes in property ownership and interests
- settle financial transactions, including payment of duties, taxes and disbursements
- comply with the tax and duty requirements of the relevant State and Territory Revenue Office
- lodge their instruments with the relevant State or Territory Land Registry
- receive confirmation of the lodgement and registration of instruments.

Initially, it was expected that the work required to specify the legal framework, supporting business practices and systems requirements for NECS would be completed in 2007.

In July 2008, the Council of Australia Governments (COAG) announced a commitment to implement the NECS with the commencement of a new e-conveyancing system targeted by March 2010.

In March 2009, the agreement was extended and confirmed through the National Partnership Agreement to deliver a Seamless National Economy, which schedules the introduction of the NECS by the end of 2011.

> I recommend the Authority work closely with other jurisdictions and industry participants to establish the new entity and funding of the NECS project as soon as possible.

The NECS project has been overseen by a National Steering Committee of government and industry representatives since 2005. They are implementing the plan for the NECS through the National Electronic Conveyancing Office (NECO) until the new entity is established and operational. LPI is the host administrative agency for the NECO and therefore:

- maintains its financial records
- provides the default funding source
- administers its expenses
- provides periodic financial reports to the NECS National Steering Committee.

LPI has funded the NECO administration and NECS work program totalling $4.5 million over four years.

Year ended 30 June	**Total $'000**	**2009 $'000**	**2008 $'000**	**2007 $'000**	**2006 $'000**
NECO Administration	2,718	***825***	647	661	585
National NECS Work Program	2,940	***1,172***	800	968	--
Total Expenditure	**5,658**	***1,997***	**1,447**	**1,629**	**585**
Grants from third parties	1,160	--	120	730	310
Funding provided by LPI	**4,498**	***1,997***	**1,327**	**899**	**275**

* Source: LPI (unaudited).

Grants from third parties, including other States and industry participants, were zero in 2008-09. After COAG's announcement of its commitment to implement the NECS in July 2008, it was expected by the Authority that the Commonwealth would facilitate funding for NECS replacing jurisdiction and stakeholder grant contributions. This has not occurred resulting in the Authority providing most of the funding. The resolution of the governance and funding issues are critical to moving the project forward.

In New South Wales, LPI is also conducting a NECS Readiness program of work to prepare and implement the business practices, operational systems, legislation and stakeholder communication in New South Wales. The program is designed to support implementation of national electronic conveyancing by 2010-11. For details of expenditure on this program refer to earlier comment on major projects.

In late 2008, LPI commissioned an independent Economic Appraisal of the implementation of NECS in New South Wales. The appraisal identified opportunities for industry to achieve substantial operational efficiencies, including:

- a yearly saving of $49.8 million in conveyancing costs in New South Wales
- an average saving of $170 per property sale or refinancing transaction
- a positive net present value of $164 million over the period to 2020 for the estimated $30.0 million New South Wales proportion of industry, government and NECS setup costs.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	2009 $'000	2008 $'000
Employee related	***146,233***	128,905
Grants and subsidies	***10,937***	9,171
Other expenses	***113,805***	110,230
OPERATING EXPENSES	***270,975***	248,306
OPERATING REVENUE	***226,116***	212,844
Gain/(loss) on disposal	***47***	(2,675)
Other losses	***(848)***	(350)
NET COSTS OF SERVICES	***45,660***	38,487
Government appropriations	***70,953***	68,950
SURPLUS	***25,293***	30,463
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY		
Property, plant and equipment revaluation	***16,261***	--
Superannuation actuarial losses	***(144,618)***	(53,727)
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***(103,064)***	(23,264)

The increase in employee related expenses was mainly due to increased salaries and wages of $10.6 million, primarily resulting from a 4 per cent salary increase from July 2008 plus additional staff, increased expenses for superannuation ($3.5 million) and long service leave ($2.9 million).

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***71,087***	78,221
Non-current assets	***212,535***	201,289
TOTAL ASSETS	***283,622***	279,510
Current liabilities	***92,973***	100,591
Non-current liabilities	***149,927***	25,909
TOTAL LIABILITIES	***242,900***	126,500
NET ASSETS	***40,722***	153,010

Land and buildings were revalued in 2008-09 resulting in a net increase in value of $16.3 million. This increase in non-current assets was partially offset from a reduction in prepaid superannuation of $7.0 million. Non-current liabilities increased mainly due to a $128 million unfavourable movement in superannuation liabilities.

Abridged Service Group Information

The Department's net cost of services and net assets on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget $'000	2009 Actual $'000	2008 Actual $'000	2009 Actual $'000	2008 Actual $'000
Crown Lands	***50,156***	***50,163***	57,255	***57,788***	56,582
Soil Conservation Service and Rural Services	***2,184****	***180***	1,141	***16,072***	11,851
Not attributable**	--	***(4,683)***	(19,909)	***(33,138)***	84,577
Total all service groups	***52,340***	***45,660***	38,487	***40,722***	153,010

* The budget figure excludes the $13.2 million budgeted payment to LPI for Community Service Obligation
** Not attributable includes transactions and net assets associated with LPI which has not been defined as a separate Service Group

The variance in the 2009 net cost of services for Soil Conservation Service and Rural Services from budget and prior year actual is predominantly due to an additional $1.1 million received in grants and contributions.

The increase in net assets for Soil Conservation Service and Rural Services is mainly due to a net increase in property, plant and equipment of $8.0 million combined with the $3.2 million write off of the Soil Conservation Services Treasurer's Advance, offset by a $6.8 million increase in provisions.

DEPARTMENT ACTIVITIES

The Department consists of commercial, semi commercial and non-commercial units. LPI provides information about property on a commercial basis, including surveying, mapping, titling, valuations and related geospatial information. Soil Conservation Services provides conservation and land management services on a semi commercial basis. Non-commercial activities include the sustainable management of Crown lands, and the administration of Aboriginal Land Claims and Native Title applications.

The Department's non-commercial activities are funded from the Consolidated Fund.

For further information on the Department, refer to www.lpma.nsw.gov.au.

Minister for Planning

Barangaroo Delivery Authority

Sydney Harbour Foreshore Authority

Refer to Appendix 1 for:

Festival Development Corporation

Hunter Development Corporation

Barangaroo Delivery Authority

AUDIT OPINION

The audits of the Authority and its controlled entity's financial reports for the period ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUE

Financial Report

The Authority commenced operation on 1 April 2009 and recorded a loss of $4.5 million for the three months to 30 June 2009. At balance date, its current liabilities of $4.5 million exceeded current assets of $2.9 million. The Board has determined that the Authority is a going concern because its borrowings are guaranteed by the Government and it has received a letter of financial support from The Treasury.

PERFORMANCE INFORMATION

The Authority provided the following information regarding its performance.

The Government approved a $3.0 billion Barangaroo site (22 hectare) development concept plan in February 2007. It announced three proponents for the 12 year development in September 2008.

This development will deliver a maximum of 508,300 square metres of commercial, residential, tourist, retail and community space in the development zone and 11,500 square metres in the public domain.

The Authority received bids for Stage one of the development and expects to recommend a successful proponent in early 2010.

OTHER INFORMATION

Barangaroo Delivery Authority

On 31 March 2009, The Government passed legislation creating the Barangaroo Delivery Authority. The Authority was established to manage the development of the Barangaroo Site. Sydney Harbour Foreshore Authority transferred the Barangaroo site related assets of $411 million and liabilities of $272 million to the Authority on 31 March 2009.

We identified opportunities for improvement to accounting and internal control procedures and have reported them to management.

FINANCIAL INFORMATION

Abridged Income Statements for the Period 1 April to 30 June 2009

Period ended 30 June 2009	Consolidated 2009 $'000	Authority 2009 $'000
Other revenues	*12*	*12*
OPERATING REVENUE	*12*	*12*
Employee related	*324*	*324*
Finance costs	*1,821*	*1,821*
Other expenses	*2,334*	*2,334*
OPERATING EXPENSES	*4,479*	*4,479*
DEFICIT	*4,467*	*4,467*

The revenue generating operations of the Authority have not started. Operating expenses represent establishment and interest expenses.

Abridged Balance Sheets

At 30 June	Consolidated 2009 $'000	Authority 2009 $'000
Current assets	*2,853*	*2,853*
Non-current assets	*410,028*	*410,028*
TOTAL ASSETS	*412,881*	*412,881*
Current liabilities	*4,490*	*4,490*
Non-current liabilities	*274,195*	*274,195*
TOTAL LIABILITIES	*278,685*	*278,685*
NET ASSETS	*134,196*	*134,196*

Total assets represent the value of the Barangaroo site. Total liabilities include provisions for property development and other payable to a government agency.

AUTHORITY ACTIVITIES

The Authority is a statutory body under the *Barangaroo Delivery Authority Act 2009*.

Its principal role is to manage the development of Barangaroo site as a vibrant, commercial, sustainable location for national and global business.

For further information on the Authority, refer to www.barangaroo.com

CONTROLLED ENTITY

The following controlled entity has not been reported on separately as it is not considered material by its size or the nature of its operations to the consolidated entity.

Entity Name
Office of the Barangaroo Delivery Authority

Sydney Harbour Foreshore Authority

AUDIT OPINION

The audits of the Authority and its controlled entities' financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

Unless otherwise stated, the following commentary relates to the consolidated entity.

PERFORMANCE INFORMATION

The Authority provided the following information regarding its performance.

Property Management

Year ended 30 June	Target*	2009	2008	*2007*	2006	2005
Value of rental properties $m	--	***598.0***	516.0	487.0	461.0	448.0
Rental revenue ($m)	--	***53.3***	52.7	54.7	56.9	60.7
Return on rental properties (%)	--	***8.9***	10.2	11.2	12.3	13.5
Commercial Vacancy Rate (%)**	***9.9***	***17.9***	15.9	2.3	na	na
Retail Vacancy Rate (%)**	***5.3***	***1.6***	1.8	4.1	na	na

* Target is set by management
** Source: Sydney Harbour Foreshore Authority (unaudited)
na: not available.

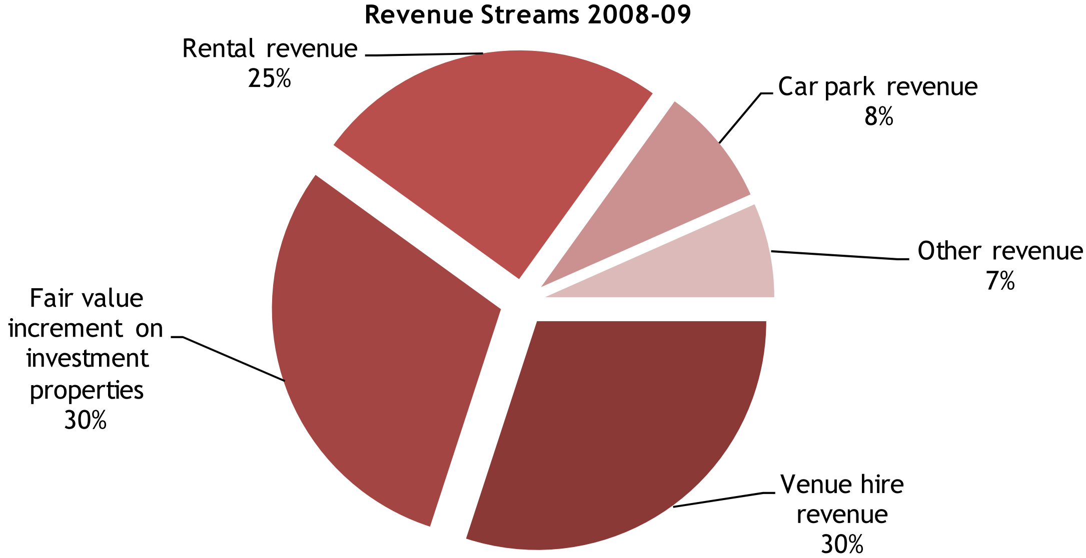
The increase in the value of rental properties was due to market valuations.

The decreasing trend in rental revenue over the past five years is largely due to the disposal of a major property over that time. This has also contributed to the decline in the return on rental properties.

The increase in the commercial vacancy rate is largely attributable to two heritage listed properties in The Rocks becoming vacant. The downturn in the economy from the global financial crisis has contributed to the increase in commercial vacancy rate.

Revenue Streams

The following graph shows the Authority's sources of revenue for 2008-09.



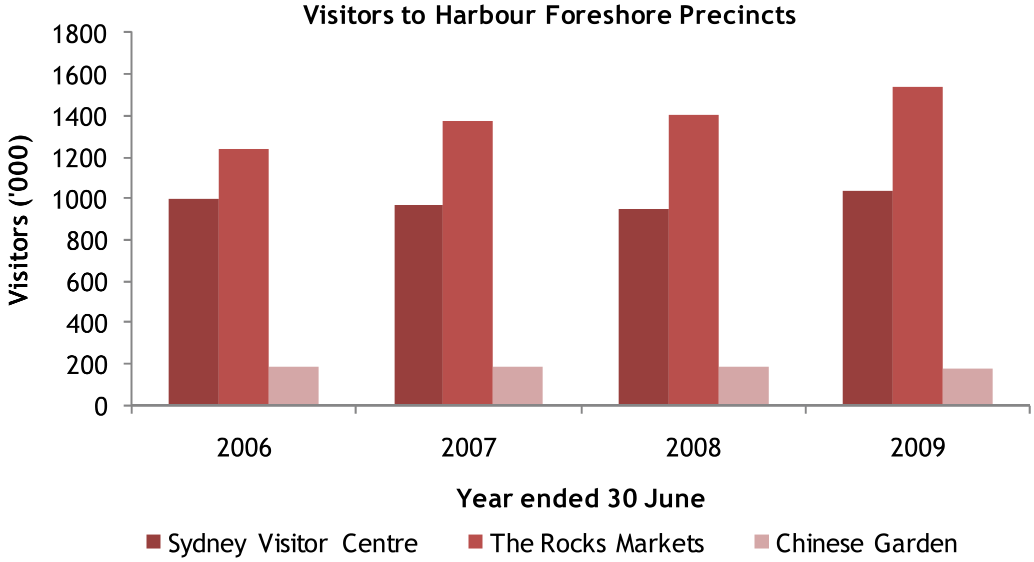
Conferences and Exhibitions

Year ended 30 June	Target*	2009	2008	2007	2006	2005
International events	***31***	***26***	23	31	25	30
Attendance ('000s)	***22***	***22***	23	24	21	43
National conferences	***450***	***538***	524	495	422	471
Attendance ('000s)	***1,052***	***837***	1,027	969	1,040	1,032
Contribution to NSW's economy ($m)	***493***	***466***	474	478	482	539

Source: Sydney Harbour Foreshore Authority (unaudited).
* Target is set by management.

Visitors to Harbour Foreshore Precincts

The graph below illustrates the trend in the number of visitors to the Harbour Foreshore Precincts.



Source: Sydney Harbour Foreshore Authority (unaudited).

OTHER INFORMATION

Proposed Divestment of Commercial Leases

The Government's Mini-Budget in 2008 included a proposal to divest a number of the Authority's commercial assets in Darling Harbour and The Rocks by way of 99 year leases. The total fair value of these properties at balance date was $299 million. The proposed divestment is expected to occur by September, 2010.

Barangaroo Site

On 31 March 2009, the Government passed legislation to create a new agency, the Barangaroo Delivery Authority to manage the development of the Barangaroo Site in Darling Harbour. As required by the legislation, the Authority transferred the assets and liabilities relating to the Barangaroo site to the new agency. The transfer decreased the Authority's assets by $411 million and liabilities by $272 million.

Darling Walk Development

On 20 August 2008, the Authority contracted with a private entity for a $560 million redevelopment of the Darling Walk site. The redevelopment will provide 58,000 square metres of commercial office space. The construction is expected to be completed in 2011.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
REVENUE				
Venue hire revenue	***64,113***	68,476	***64,113***	68,476
Gain on investment properties	***64,011***	40,881	***64,011***	40,881
Rental revenue	***53,262***	52,687	***53,262***	52,687
Car park revenue	***18,033***	14,095	***18,033***	14,095
Other	***14,199***	24,263	***14,199***	24,263
OPERATING REVENUE	***213,618***	200,402	***213,618***	200,402
EXPENSES				
Property related expenses	***70,643***	71,227	***70,643***	71,227
Employee related expenses	***29,220***	27,486	***33,791***	28,904
Depreciation and amortisation	***18,380***	17,656	***18,380***	17,656
Other expenses	***58,142***	37,478	***58,142***	37,478
OPERATING EXPENSES	***176,385***	153,847	***180,956***	155,265
SURPLUS BEFORE INCOME TAX	***37,233***	46,555	***32,662***	45,137
Income tax equivalent expense	--	262	--	262
SURPLUS	***37,233***	46,293	***32,662***	44,875
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY				
Superannuation actuarial losses	***(4,571)***	(1,418)	--	--
Other (losses)/gains	***(55,109)***	230,112	***(55,109)***	230,112
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***(22,447)***	274,987	***(22,447)***	274,987

Sydney Convention and Exhibition hire revenue decreased by $4.4 million in 2008-09 due to a change in the mix of venues hired out to customers. A fall in the number of larger venues hired to customers was offset by an increase in smaller venues hired to customers. However, the lower rates charged for smaller venues resulted in the net decrease in overall revenue from this source.

The gain on investment properties increased by $23.1 million due to the market appreciation for commercial properties in 2008-09.

Car park revenue rose by $3.9 million due to parking levy adjustment from prior years.

The drop in other revenue was mainly due to a profit of $7.9 million on sale of an investment property recognised in 2007-08.

Following the transfer of the Barangaroo site, the Authority reassessed its capital works in progress for appropriateness. As a result, the Authority transferred $21.9 million to expenses. This transfer contributed to the increase in other expenses.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
Current assets	***64,208***	100,204	***64,208***	100,204
Non-current assets	***1,215,315***	1,535,800	***1,215,315***	1,535,800
TOTAL ASSETS	***1,279,523***	1,636,004	***1,279,523***	1,636,004
Current liabilities	***53,211***	64,594	***53,211***	64,594
Non-current liabilities	***441,914***	625,902	***441,914***	625,902
TOTAL LIABILITIES	***495,125***	690,496	***495,125***	690,496
NET ASSETS	***784,398***	945,508	***784,398***	945,508

The transfer of the Barangaroo site assets of $411 million and liabilities of $272 million decreased the total assets and liabilities.

OTHER INFORMATION

We identified opportunities for improvements to accounting and internal control procedures and have reported them to management.

AUTHORITY ACTIVITIES

The Authority's roles are to:

- protect and enhance the natural and cultural heritage of the foreshore area
- promote, coordinate, manage, undertake and secure the orderly and economic development and use of the foreshore area, including the provision of infrastructure
- promote, coordinate, organise, manage, undertake, secure, provide and conduct cultural, educational, commercial, tourist, recreational, entertainment and transport activities and facilities.

The Authority owns and manages land within its precincts, including most Sydney Harbour foreshore land. The Authority also manages the Cooks Cove project in Arncliffe and the Luna Park Reserve Trust.

The Authority provides place management services on behalf of other organisations including the Circular Quay and King Street Wharf promenades, Blackwattle Bay and the Sydney Conservatorium of Music.

The Authority was established under the *Sydney Harbour Foreshore Authority Act 1998*.

For further information on the Authority, refer to www.shfa.nsw.gov.au.

CONTROLLED ENTITIES

Cooks Cove Development Corporation

In January 2006, the Corporation contracted with a private entity for a development project at the Cooks Cove site. In April 2009, the contracted developer went into voluntary administration. Management advised that there are no significant financial exposures to the Authority from this project.

The following controlled entities have not been reported on separately as they are not considered material by their size or the nature of their operations to the consolidated entity.

Entity Name
Office of the Sydney Harbour Foreshore Authority
Sydney Harbour Foreshore Authority Casual Staff Division

Minister for Ports and Waterways

Maritime Authority of NSW

Newcastle Port Corporation

Port Kembla Port Corporation

Sydney Ports Corporation

Maritime Authority of NSW

AUDIT OPINION

The audits of the Authority and its controlled entity's financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

Unless otherwise stated, the following commentary relates to the consolidated entity.

PERFORMANCE INFORMATION

The Authority provided the following information regarding its performance:

Year ended 30 June	2009	2008	2007	2006	2005
Boating licences issued	***483,649***	451,696	445,736	445,158	441,719
Registered recreational vessels	***222,322***	217,074	213,387	209,382	203,260
Waste recovered from Sydney Harbour (cubic metres)	***2,737***	3,183	3,471	3,681	3,686
Fatalities per 100,000 total registered or licensed vessels	***5.2***	9.3	10.3	4.1	7.6
Safety compliance rate*:					
- recreational vessels (%)	***88.3***	87.1	87.4	89.5	91.0
- commercial vessels (%)	***91.0***	93.4	89.8	93.9	89.0

Source: Maritime Authority of New South Wales (unaudited)

* The safety compliance rate reports the proportion of random vessel checks that do not result in infringement or formal warning notices being issued.

The increase in the number of boating licences for the current year was predominantly due to new licensing procedures introduced from 1 June 2009. The changes required compulsory completion of a log book under the guidance of an experienced skipper or to attend a practical course.

The Authority introduced a 15 knot speed limit in the Sydney Harbour Bridge vicinity in June 2007 to address the number of fatalities occurring in that vicinity.

FINANCIAL INFORMATION

Abridged Operating Statement

Year ended 30 June	2009 $'000	2008 $'000
Boating revenue	***43,787***	41,244
Rent revenue	***40,045***	38,707
Channel fees	***7,872***	7,666
Investment income	***3,384***	4,020
Other revenue	***10,629***	17,403
OPERATIONAL REVENUE	***105,717***	109,040
Employee related expenses	***36,759***	32,433
Service contractors	***22,011***	22,438
Administration expenses	***9,009***	9,040
Interest expenses	***7,855***	7,955
Revaluation decrement on Investment property	***3,942***	--
Depreciation and amortisation	***9,773***	8,264
Other expenditure	***10,357***	8,557
OPERATIONAL EXPENSES	***99,706***	88,687
SURPLUS	***6,011***	20,353
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY		
Superannuation actuarial losses	***(21,591)***	(3,025)
Other gains	***8,831***	399,824
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***(6,749)***	417,152

The increase in rent revenue was due to gradual rental increases recommended by the Independent Pricing and Regulatory Tribunal from 2007.

The decrease in other revenue was mainly due to a drop in market values of investment properties. The increase in employee related expenses was due to a three and a half per cent award rate rise and a rise in full time equivalent employees from 335 to 355.

The decrease in other gains was due to a significant increase in the valuation of harbour dredged assets in 2007-08.

Superannuation actuarial losses significantly increased due to changes in actuarial assumptions arising from the global financial crisis.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***102,919***	137,994
Non-current assets	***1,151,121***	1,121,948
TOTAL ASSETS	***1,254,040***	1,259,942
Current liabilities	***85,250***	110,375
Non-current liabilities	***385,471***	342,992
TOTAL LIABILITIES	***470,721***	453,367
NET ASSETS	***783,319***	806,575

Payments for asset purchases decreased cash assets and increased the land and buildings in non-current assets.

Non-current liabilities increased due to the recognition of liabilities for:

- a long term lease of $24.0 million
- superannuation of $14.8 million.

AUTHORITY ACTIVITIES

The Authority is responsible for marine safety and environmental protection of navigable New South Wales' waterways. It also ensures the appropriate development and use of wetlands and associated maritime assets.

The *Ports and Maritime Administration Act 1995* established the Authority in July 1995.

For further information on the Authority, refer to www.maritime.nsw.gov.au.

CONTROLLED ENTITY

The following controlled entity has not been reported on separately as it is not considered material by its size or the nature of its operation to the consolidated entity.

Entity Name
Maritime Authority of NSW Division

Newcastle Port Corporation

AUDIT OPINION

The audit of the Corporation's financial report for the year ended 30 June 2009 resulted in an unqualified Independent Auditor's Report.

PERFORMANCE INFORMATION

The Corporation provided the following information regarding its performance:

Trade Volumes

Year ended 30 June	Target*	Actual				
	2009	2009	2008	2007	2006	2005
Total trade ('000 tonnes)	***98,835***	***95,840***	93,314	85,603	85,572	83,560
Total chargeable vessel visits	***1,633***	***1,560***	1,519	1,403	1,418	1,447
Total chargeable vessel gross tonnage ('000s)	***66,681***	***63,506***	61,223	56,989	57,443	56,167

Source: Newcastle Port Corporation (unaudited)
* Target agreed with shareholder Ministers in the Statement of Corporate Intent.

The total trade volume continues to trend upwards mainly due to increasing coal exports to Asia. The Corporation did not achieve its target as the rate of increase of coal exports slowed in 2009 due to the downturn in the Asian economies from the global financial crisis.

Financial Performance

Year ended 30 June	Target*	Actual				
	2009	2009	2008	2007	2006	2005
Return on equity (%)	***10.4***	***6.5***	7.8	11.2	11.6	7.3
Return on average assets (%)	***8.6***	***5.9***	6.7	9.8	12.0	8.2
Interest cover (times)	***17.5***	***na***	na	na	9.1	19.5
Debt to equity ratio (%)	***20.6***	***19.8***	22.0	22.3	31.0	32.8
Dividend to Government ($m)	***4.4***	***2.0***	4.7	3.8	6.0	3.1

Source: Newcastle Port Corporation (unaudited)
* Target agreed with shareholder Ministers in the Statement of Corporate Intent.
na: not applicable due to nil borrowings

The targets for 2009 included the expected impact of the transfer of parcels of land from the State Property Authority to the Corporation. The transfers were deferred until 2009-10.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June 2009	2009 $'000	2008 $'000
Port revenue	***44,771***	41,501
Interest	***2,265***	2,920
Other revenue	***5,857***	5,434
OPERATING REVENUE	***52,893***	49,855
Employee benefits expense	***14,013***	12,851
Borrowing costs	***1,833***	2,085
Other expenses	***25,651***	20,862
OPERATING EXPENSES	***41,497***	35,798
PROFIT BEFORE TAX	***11,396***	14,057
Income tax equivalent expense	***3,718***	4,481
PROFIT	***7,678***	9,576
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY		
Superannuation actuarial losses net of tax	***671***	1,112
Other gains	***8,945***	--
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***15,952***	8,464

The increase in port revenue reflects the general increase in trade volumes. Other expenses increased mainly due to a higher level of planned maintenance of major port assets in 2008-09. Other gains represent the revaluation of property, plant and equipment.

Abridged Balance Sheet

At 30 June 2009	2009 $'000	2008 $'000
Current assets	***38,796***	50,204
Non-current assets	***158,753***	127,106
TOTAL ASSETS	***197,549***	177,310
Current liabilities	***18,554***	17,795
Non-current liabilities	***53,885***	48,552
TOTAL LIABILITIES	***72,439***	66,347
NET ASSETS	***125,110***	110,963

Capital expenditure of $19.5 million reduced cash assets and increased non-current assets. The increase in non-current liabilities was due to the deferred tax liabilities arising from the revaluation of properties.

CORPORATION ACTIVITIES

The Corporation is a statutory State owned corporation incorporated under the *Ports and Maritime Administration Act 1995.*

The Corporation's principal objectives, as amended by the *Ports and Maritime Administration Amendment (Port Competition and Co-ordination) Act 2008 No 89,* are to:

- operate at least as efficiently as any comparable businesses
- maximise the net worth of the State's investment in the Port Corporation
- exhibit a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate these when able to do so
- promote and facilitate trade through port facilities
- ensure port safety functions are carried out properly
- promote and facilitate a competitive commercial environment in port corporations and
- improve productivity and efficiency in the ports and the port related supply chain

For further information on the Corporation, refer to www.newportcorp.com.au

Port Kembla Port Corporation

AUDIT OPINION

The audit of the Corporation's financial report for the year ended 30 June 2009 resulted in an unqualified Independent Auditor's Report.

PERFORMANCE INFORMATION

The Corporation provided the following information regarding its performance:

Trade Volumes

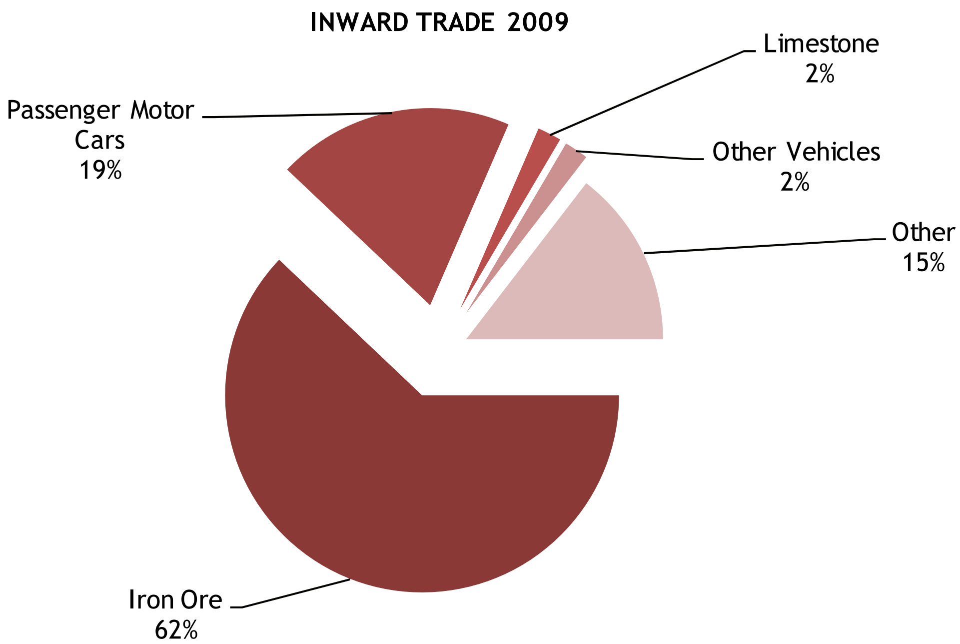
Year ended 30 June	Target	Actual				
	2009	2009	2008	2007	2006	2005
Operational Performance						
Total Trade ('000 tonnes)	***28,840***	***26,400***	27,309	25,413	25,900	24,400
Total Chargeable vessel visits	***932***	***862***	760	607	591	624
Total Chargeable vessel gross tonnage ('000s)	***32,074***	***29,665***	23,219	17,987	17,575	17,900

Source: Port Kembla Port Corporation (unaudited)

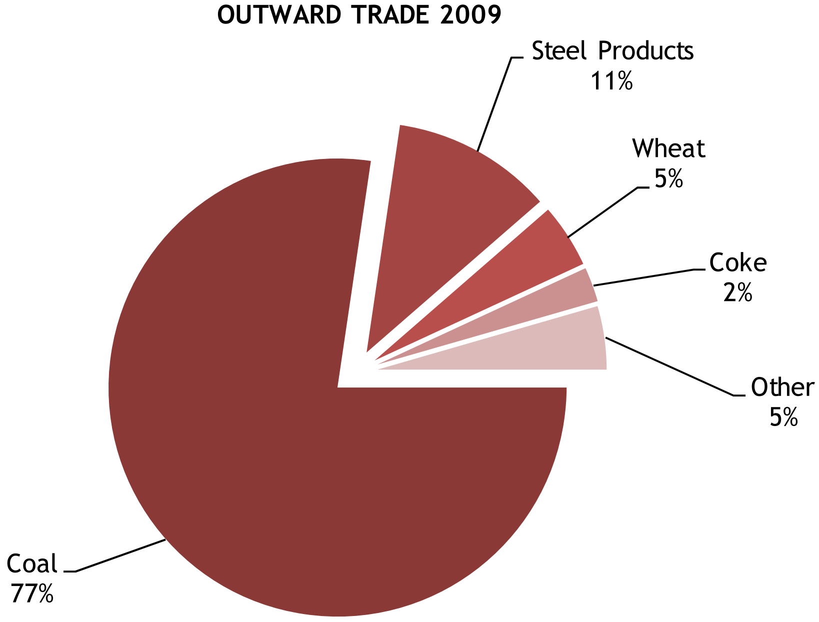
The Government's decision to transfer the car import trade from Sydney to Port Kembla contributed to the increase in vessel visits over the previous year. However, the impact from the global financial crisis decreased total trade.

Trade Volume of Commodities

The Corporation's trade volume of commodities for the year was:



Source: Port Kembla Port Corporation (unaudited)



Source: Port Kembla Port Corporation (unaudited)

Financial Performance

Year ended 30 June	Target	Actual				
	2009	2009	2008	2007	2006	2005
Return on equity (%)	***28.3***	***16.7***	9.5	9.5	7.8	9.0
Return on assets (%)	***19.7***	***13.2***	8.1	7.7	6.7	4.4
Interest cover (times)	***8.0***	***12.4***	6.3	4.1	2.8	2.0
Debt to equity ratio (%)	***48.0***	***19.9***	26.5	44.3	56.6	60.2
Dividend to government ($m)	**--**	**--**	--	--	--	6.2

Source: Port Kembla Port Corporation (unaudited)

A large increase in net profit before tax was the main reason for the improved return on equity and assets for 2009 compared to 2008.

Increases in the value of property plant and equipment and the impacts from the global financial crisis resulted in the return on equity and assets for the year being lower than target.

There were no significant movements in debts. This contributed to the lower debt to equity ratio.

OTHER INFORMATION

Relocation of Corporate Office

The Corporation relocated to its new premises (Maritime Centre) on Foreshore Road, Port Kembla in August 2009. The cost of construction of the premises was $6.8 million. It expects to finalise the sale of a portion of this building (27 per cent) to the Maritime Authority of New South Wales.

The former corporate office was disposed of in September 2009 at an accounting loss of $1.8 million.

Inner Harbour Development

The Corporation completed its Inner Harbour Development project at a cost of $97.3 million (budget $86.0 million). Management advised that the budget overrun was mainly due to price escalation and project enhancements. The development included land acquisition from the Maritime Authority of NSW and construction of two berths, dredging, berth extension, rail and road realignment.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2009 $'000	2008 $'000
REVENUE		
Port revenue	***46,479***	33,843
Valuation gain on investment properties	***13,447***	7,315
Interest revenue	***1,815***	3,144
Other revenue	***16,061***	10,152
OPERATING REVENUE	***77,802***	54,454
EXPENSE		
Employee benefits expense	***5,951***	3,693
Depreciation and amortisation	***3,740***	1,857
Loss on revaluation	***2,274***	15,068
Other expense	***15,809***	12,523
OPERATING EXPENSES	***27,774***	33,141
PROFIT BEFORE TAX	***50,028***	21,313
Income tax equivalent expense	***19,002***	201
PROFIT	***31,026***	21,112
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		
Superannuation actuarial losses	***(1,795)***	(2,288)
Other Gains	***30,377***	28,350
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***59,608***	47,174

Port revenue increased mainly due to $9.4 million from motor vehicle imports and a three per cent increase in port charges from 1 December 2008.

The valuation gain on investment properties rose primarily due to increased market values of industrial land in Port Kembla.

Other revenue increased largely due to reversal of loss on revaluation of port infra structure assets in the prior year.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***34,653***	27,681
Non-current assets	***377,739***	283,462
TOTAL ASSETS	***412,392***	311,143
Current liabilities	***18,773***	14,853
Non-current liabilities	***94,382***	72,349
TOTAL LIABILITIES	***113,155***	87,202
NET ASSETS	***299,237***	223,941

Total assets increased primarily due to:

- revaluation gain on property, plant and equipment of $56.1 million
- purchase of land assets valued at $16.8 million from the Maritime Authority of New South Wales
- gain on investment property of $13.5 million.

The increase in total liabilities is mainly due to additional income tax liabilities of $22.0 million.

CORPORATION ACTIVITIES

The Corporation is a statutory State owned corporation incorporated under the *Ports and Maritime Administration Act 1995.*

The Corporation's principal objectives, as amended by the *Ports and Maritime Administration Amendment (Port Competition and Co-ordination) Act 2008 No 89*, are to:

- operate at least as efficiently as any comparable businesses
- maximise the net worth of the State's investment in the Port Corporation
- exhibit a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate these when able to do so
- promote and facilitate trade through port facilities
- ensure port safety functions are carried out properly
- promote and facilitate a competitive commercial environment in port corporations
- improve productivity and efficiency in the ports and the port related supply chain

For further information on the Corporation, refer to www.kemblaport.com.au.

Sydney Ports Corporation

AUDIT OPINION

The audits of the Corporation and its controlled entity's financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

Unless otherwise stated, the following commentary relates to the consolidated entity.

PERFORMANCE INFORMATION

The Corporation provided the following information regarding its trade performance:

Trade Volumes

Year ended 30 June	Target*	Actual				
	2009	2009	2008	2007	2006	2005
Total trade ('000 tonnes)	***31,800***	***27,800***	29,200	27,800	26,700	25,900
Total chargeable vessel visits	***2261***	***2,275***	2,583	2,564	2,596	2,434
Total chargeable vessel gross tonnage ('000s)	***67,900***	***67,700***	77,400	74,000	72,000	66,500

Source: Sydney Ports Corporation (unaudited).
* Target agreed with shareholder Ministers in the Statement of Corporate Intent.

The decreases in trade volumes and vessel visits in 2008-09 were due to the downturn in world trade from the global financial crisis and the Government's decision to transfer the car import trade from Sydney to Port Kembla.

Financial Performance

Year ended 30 June	Target*	Actual				
	2009	2009	2008	2007	2006	2005
Return on average equity (%)	***9.8***	***7.1***	12.5	9.2	10.4	17.8
Return on average assets (%)	***9.5***	***7.1***	12.5	9.3	10.5	17.2
Interest cover (times)	***6.9***	***7.5***	11.5	8.6	13.2	15.6
Debt to equity ratio (%)	***48.7***	***41.1***	21.3	25.4	27.0	29.0
Dividend to Government ($m)	--	--	20.2	29.0	22.2	18.9

Source: Sydney Ports Corporation (unaudited).
* Target agreed with shareholder Ministers in the Statement of Corporate Intent.

The decreases in the return on equity and on average assets for 2008-09 were due to reduced trade revenue. The debt to equity ratio increased as a result of an increase in borrowings to fund the Port Botany expansion.

OTHER INFORMATION

Port Botany Expansion

The Port Botany expansion project expenditure to 30 June 2009 amounted to $248 million (budget $725 million). The project, expected to be completed by 2011, is largely funded through borrowings.

Passenger Terminal

Following the sale of the Barangaroo site at Darling Harbour in 2007, the Corporation is required to relocate its passenger terminal. The newly created Barangaroo Delivery Authority will reimburse the Corporation for the cost of the relocation. The Corporation has not recognised a receivable for the potential reimbursement as the size, type, location and timing of construction of the new terminal is not known.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June 2009	Consolidated		Corporation	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Port revenue	***127,598***	136,680	***117,387***	124,882
Rental revenue	***49,038***	47,624	***49,219***	47,843
Valuation gain on investment properties	--	24,596	--	24,596
Other	***32,879***	28,606	***34,679***	29,902
OPERATING REVENUE	***209,515***	237,506	***201,285***	227,223
Employee benefits expense	***36,234***	31,910	***29,509***	26,275
Valuation loss on investment properties	***2,560***	--	***2,560***	--
Depreciation and amortisation expense	***12,496***	9,517	***12,116***	9,260
Other expenses	***63,372***	48,141	***61,177***	45,907
Finance costs	***10,613***	11,383	***10,613***	11,383
OPERATING EXPENSES	***125,275***	100,951	***115,975***	92,825
PROFIT BEFORE TAX	***84,240***	136,555	***85,310***	134,398
Income tax equivalent expense	***25,037***	42,143	***25,371***	41,497
PROFIT	***59,203***	94,412	***59,939***	92,901
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Superannuation actuarial losses	***(15,213)***	(2,347)	***(15,213)***	(2,347)
Other (losses)/gains	***(376)***	57,734	***(376)***	57,734
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***43,614***	149,799	***44,350***	148,288

The decrease in port revenue is primarily due to reduced trade volumes and discontinuation of motor vehicle imports. The decrease in the market values of port assets by $27.2 million changed the 2007-08 gain on investment properties of $24.6 million to a loss of $2.6 million.

A four per cent rise in award rates and an increase in the number of full time equivalent employees from 240 to 265 increased the employee benefits expense.

The increase in other expenses is mainly due to:

- an increase in service contractors and consultants of $4.5 million mainly for the Port Botany expansion project
- an increase of land tax of $3.5 million
- the recognition of a provision for net lease expenses on the previous corporate office of $4.9 million.

The Corporation relocated its corporate office to new premises. In so doing, it will continue to incur lease expenses of approximately $8.3 million on its former premises until that lease expires on 31 October 2015. The Corporation expects to recover $3.4 million through sublease arrangements based on advice from a property market specialist. The net lease expense of $4.9 million has been recognised as a loss in the Corporation's financial report. Delays in securing sublease arrangements may increase the financial losses of the Corporation and costs to the taxpayer.

Abridged Balance Sheets

At 30 June 2009	Consolidated		Corporation	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***148,363***	127,746	***146,104***	125,218
Non-current assets	***1,303,761***	1,112,235	***1,302,030***	1,110,423
TOTAL ASSETS	***1,452,124***	1,239,981	***1,448,134***	1,235,641
Current liabilities	***78,105***	98,787	***76,293***	97,306
Non-current liabilities	***523,399***	334,188	***523,250***	334,094
TOTAL LIABILITIES	***601,504***	432,975	***599,543***	431,400
NET ASSETS	***850,620***	807,006	***848,591***	804,241

The Port Botany expansion project expenditure increased the value of total assets whilst an increase in borrowings of $178 million to fund the expansion project increased non-current liabilities.

CORPORATION ACTIVITIES

The Corporation is a statutory State owned corporation incorporated under the *Ports and Maritime Administration Act 1995*.

The Corporation's principal objectives, as amended by the *Ports and Maritime Administration Amendment (Port Competition and Co-ordination) Act 2008 No 89,* are to:

- operate at least as efficiently as any comparable businesses
- maximise the net worth of the State's investment in the Port Corporation
- exhibit a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate these when able to do so
- promote and facilitate trade through port facilities
- ensure port safety functions are carried out properly
- promote and facilitate a competitive commercial environment in port operations
- improve productivity and efficiency in its ports and the port related supply chain.

For further information on the Corporation, refer to www.sydneyports.com.au.

CONTROLLED ENTITY

The following controlled entity has not been reported on separately as it is not considered material by its size or the nature of its operations to the consolidated entity.

Entity Name	Website
Sydney Pilot Service Pty Ltd	www.sydneypilotservice.com

Minister for Redfern Waterloo

Redfern-Waterloo Authority

Redfern-Waterloo Authority

AUDIT OPINION

The audits of the Authority and its controlled entities' financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

Unless otherwise stated, the following commentary relates to the consolidated entity.

PERFORMANCE INFORMATION

The controlled entity of the Authority, Australian Technology Park Precinct Management Limited, provided the following information regarding its performance.

Conferences and Exhibitions

Year ended 30 June	2009	2008	2007	2006	2005
Events	***503***	632	642	645	487
Attendance ('000s)	***59.9***	40.9	36.9	35.4	33.9
Contribution to the New South Wales economy ($m)	***4.1***	4.7	4.1	2.8	2.1

Source: Australian Technology Park Precinct Management Limited (unaudited)

The decrease in the events was due to economic impacts resulting from the global financial crisis. The number of attendances increased mainly due to a rise in special events in 2009 that attracted a large number of people.

OTHER INFORMATION

Funding Agreement

The Redfern Waterloo Authority was established by the *Redfern Waterloo Act 2004* and is funded by the NSW Government. The Authority is in the process of negotiating the funding agreement that expires on 30 June 2011.

Property Acquisition

The Authority acquired a property at Little Eveleigh Street at a cost of $3.0 million. Following an assessment of its fair value at balance date it recognised a loss of $125,000. The loss is in line with the market trend for commercial properties. The building is not occupied and requires regular maintenance expenditure.

Proposed Divestment of the Controlled Entity's Assets

The Government's Mini-Budget in 2008 included a proposal to divest the controlled entity's assets to the private sector by way of 99 year leases. The proposed sale was initially scheduled for June 2010. Management has advised that the sale is expected to be deferred.

Construction of Studios and Car Park

In 2007, Australian Technology Park Precinct Management Limited leased land to a private developer for 88 years. Under the lease agreement, the developer will construct offices, television studios and 700 car spaces and lease back 350 car spaces to the company for 86 years. The construction is nearing completion and the company expects to receive 350 car spaces in early 2010. The value of the right to receive car spaces has been recognised at $9.6 million in the financial statements.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
REVENUE				
Venue hire revenue	***4,114***	4,703	**--**	--
Rental revenue	***12,769***	10,283	***766***	766
Grants and contribution	***6,499***	10,113	***7,585***	7,045
Other	***12,899***	3,254	***7,481***	1,167
OPERATING REVENUE	***36,281***	28,353	***15,832***	8,978
EXPENSES				
Loss on investment property	***36,500***	(5,455)	***26,040***	(1,340)
Employee related expense	***4,389***	3,581	***3,014***	2,769
Depreciation and amortisation	***888***	681	***237***	137
Other expenses	***17,235***	20,720	***6,167***	6,879
OPERATING EXPENSES	***59,012***	19,527	***35,458***	8,445
(DEFICIT)/ SURPLUS	***(22,731)***	8,826	***(19,626)***	533
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY				
Superannuation actuarial losses	***204***	369	**--**	**--**
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***(22,935)***	8,457	***(19,626)***	533

The increase in other revenue was mainly due to receipt of a $6.0 million from a private developer towards affordable housing in North Eveleigh.

The movement in the commercial property market conditions in Sydney reflects the $36.5 million loss on investment properties.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***40,060***	35,955	***8,460***	6,652
Non-current assets	***206,380***	231,570	***189,181***	207,859
TOTAL ASSETS	***246,440***	267,525	***197,641***	214,511
Current liabilities	***5,517***	17,422	***1,431***	2,683
Non-current liabilities	***53,983***	40,228	***44,182***	40,174
TOTAL LIABILITIES	***59,500***	57,650	***45,613***	42,857
NET ASSETS	***186,940***	209,875	***152,028***	171,654

Total assets decreased mainly due to loss in the values of investment properties.

AUTHORITY ACTIVITIES

The Authority was constituted by the *Redfern-Waterloo Authority Act 2004* (the Act).

The Authority has an operational area described in the Act and has principal functions that require the Authority to promote, coordinate, manage, undertake and secure the orderly and economic development and use of the operational area. This includes the development and management of land, the provision of infrastructure, and the creation of public areas.

For further information on the Authority, refer to www.redfernwaterloo.com.au.

CONTROLLED ENTITIES

Australian Technology Park Precinct Management Limited

Year ended 30 June	2009 $'000	2008 $'000
Revenue	***23,030***	19,826
Expenses	***33,351***	11,175
(Loss)/profit	***(10,321)***	8651
Net assets (at 30 June)	***47,713***	58,034

The increase revenue reflects largely the increase in the lease rents. The revaluation losses on investment properties increased the expenses and decreased the net assets.

For further information on the Company, refer to www.atp.com.au

The following controlled entity has not been reported on separately as it is not considered material by its size or the nature of its operations to the consolidated entity.

Entity Name
Office of the Redfern-Waterloo Authority

Treasurer

Crown Leaseholds Entity

Crown Leaseholds Entity

AUDIT OPINION

The audit of the Entity's financial report for the year ended 30 June 2009 resulted in an unqualified Independent Auditor's Report.

KEY ISSUES

Aboriginal Land Claims Granted

> I recommend legal title over land granted to successful Aboriginal land claimants be issued as soon as practicable.

The Entity has a $968 million liability for land claims granted to local Aboriginal Land claimants under the *Aboriginal Land Rights Act 1983*. During 2008-09, land valued at $29.4 million was transferred to successful Aboriginal Land claimants following legal title on land grants being finalised.

Legal title does not pass until the granted land has been surveyed and details recorded on the State's Digital Cadastral Database. Once this occurs formal title is issued in the name of the relevant Aboriginal Land claimant, who can then access and use the land.

Based on current survey resourcing capacity, it may take more than 20 years to clear all land claims currently granted.

The land is included as both an asset and a liability of the Entity on the basis that whilst the Crown retains control of the land until legal title passes, a present obligation exists to transfer the land.

Financial Report Preparation

> I recommend the Land and Property Management Authority determine why its financial report preparation processes did not identify the misstatements identified by my audit.

The initial financial report submitted to the Auditor-General required significant and material adjustments for misstatements to ensure it complied with Australian Accounting Standards. These misstatements delayed the audit and resulted in cost overruns and reporting deadlines not being met.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	2009 $'000	2008 $'000
Grants and subsidies	***17,251***	17,766
Aboriginal Land claims granted	***3,240***	1,749
Increase in liability for Aboriginal Land Claims	***8,709***	12,161
Other expenses	***757***	229
OPERATING EXPENSES	***29,957***	31,905
Other revenues	***68,072***	133,358
OPERATING REVENUE	***68,072***	133,358
Loss on disposal of land	***(21,116)***	(88,807)
Other losses	***(7,923)***	(35,444)
SURPLUS/(DEFICIT)	***9,076***	(22,798)
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	***9,076***	(22,798)

Revenue decreased mainly because the value of land acquired for no consideration fell from $77.7 million to $6.9 million.

The loss on disposal of land decreased mainly because the value of disposals of land for no consideration to Reserve Trusts and Local Government fell from $86.2 million to $15.3 million.

Other losses related to a decrement of $7.9 million ($35.4 million in 2007-08) on the revaluation of land transferred to other government agencies.

Abridged Balance Sheet

At 30 June	2009 $'000	2008 $'000
Current assets	***22,784***	28,186
Non-current assets	***6,272,703***	6,292,752
TOTAL ASSETS	***6,295,487***	6,320,938
Current liabilities	***989,609***	1,009,816
TOTAL LIABILITIES	***989,609***	1,009,816
NET ASSETS	***5,305,878***	5,311,122

Crown Land was revalued in 2008-09 resulting in a net increase in value of $57.3 million ($236 million).

Land held at 30 June 2009 comprised untenured Crown Land valued at $5.6 billion and Crown Land under tenure valued at $659 million. Untenured Crown Land includes the continental shelf within the Three Nautical Mile Zone valued at $359 million and granted Aboriginal land title claims not yet transferred valued at $968 million.

Annually, the Entity transfers cash generated from its operations to the Consolidated Fund. In 2008-09, $69.1 million ($64.6 million) was transferred.

ENTITY ACTIVITIES

The Crown Leaseholds Entity reports on the value of tenured and untenured Crown Land. It is responsible for collecting revenues from leases, licences, permissive occupancies and disposals of Crown Lands. The Entity's activities are administered by the Department of Lands, reported separately at the request of The Treasury, and its financial report is consolidated in the financial report of the Crown Entity.

In June 2009 the New South Wales Government announced major structural reform to the New South Wales Public Sector. Since year end, the Land and Property Management Authority (the Authority) has been created and the Entity has been included within the Authority. The Entity no longer forms part of the Crown Entity.

Appendix

Appendix 1
Agencies not reported elsewhere in this Volume

Appendix 1 – Agencies not reported elsewhere in this Volume

The following audits resulted in unqualified independent auditor's reports and did not identify any significant issues or risks.

Entity Name	Website	Period/Year Ended
Festival Development Corporation	www.mpp.nsw.gov.au	30 June 2009
Hunter Development Corporation	www.hunterdevelopmentcorporation.com.au	30 June 2009
Responsible Gambling Fund	www.olgr.nsw.gov.au	30 June 2009
Uniprojects Pty Limited	*	30 June 2009
Universities Admissions Centre (NSW & ACT) Pty Limited	www.uac.edu.au	30 June 2009

* This entity does not have a website.

Index

A

Page
A.C.N. 093 230 374 Pty Limited .... Vol 9 2009
Aboriginal Affairs, Department of .... Vol 6 2009
Aboriginal Affairs, Minister for .... Vol 6 2009
Aboriginal Housing Office .... Vol 6 2009
Aboriginal Housing Office Group of Staff .... Vol 6 2009
Aboriginal Land Council, New South Wales .... Vol 6 2009
Access Macquarie Limited .... Vol 2 2009
accessUTS Pty Limited .... Vol 2 2009
ACN 125 694 546 Pty Limited .... Vol 2 2009
Acyte Biotech Pty Ltd .... Vol 2 2009
Adult Migrant English Service, NSW .... Vol 9 2009
Ageing, Minister for .... Vol 6 2009
Ageing, Disability and Home Care, Department of .... Vol 6 2009
Agencies not reported elsewhere in this Volume 65
Agricultural Business Research Institute .... Vol 2 2009
Agricultural Scientific Collections Trust .... Vol 10 2009
AGSM Limited .... Vol 2 2009
Ambulance Service of New South Wales .... Vol 11 2009
ANZAC Health and Medical Research Foundation Vol 11 2009
ANZAC Health and Medical Research Foundation Trust Fund .... Vol 11 2009
Architects Registration Board, NSW .... Vol 6 2009
Art Gallery of New South Wales Foundation .... Vol 9 2009
Art Gallery of New South Wales Trust .... Vol 9 2009
Arts Education Foundation Trust .... Vol 9 2009
Arts, Minister for the .... Vol 9 2009
Arts, Sport and Recreation, Department of the ... Vol 9 2009
Asbestos Diseases Research Foundation, The ...... Vol 5 2008
Attorney General .... Vol 8 2009
Attorney General's Department .... Vol 8 2009
Audio Nomad Pty Ltd .... Vol 2 2009
Aus Health International Pty Limited .... Vol 6 2007
Australian Centre for Advanced Computing and Communications Pty Ltd .... Vol 6 2009
Australian Education Consultancy Limited .... Vol 2 2009
Australian Institute of Asian Culture and Visual Arts Limited, The .... Vol 9 2009
Australian Museum Trust .... Vol 9 2009
Australian Plant DNA Bank Limited .... Vol 2 2009
Australian Proteome Analysis Facility Limited .... Vol 2 2009
Australian School of European Aviation (JAA) Pty Ltd .... Vol 2 2009
Australian Technology Park Precinct Management Ltd 56
Australian Water Technologies Pty Ltd .... Vol 7 2009
AWT International (Thailand) Limited .... Vol 7 2009

B

Banana Industry Committee .... Vol 10 2009
Barangaroo Delivery Authority 25
Barangaroo Delivery Authority, Office of the 27
Belgenny Farm Agricultural Heritage Centre Trust .... Vol 1 2009
Biobank Pty Limited .... Vol 2 2009
Board of Studies, Office of the .... Vol 9 2009
Board of Studies, The .... Vol 9 2009
Board of Studies Casual Staff Division .... Vol 9 2009
Board of Surveying and Spatial Information .... Vol 6 2009
Board of Vocational Education and Training, NSW .... Vol 4 2008
Border Rivers-Gwydir Catchment Management Authority .... Vol 7 2009
Bosch Institute, The .... Vol 2 2009
Boxing Authority of New South Wales .... Vol 9 2009
Brett Whiteley Foundation, The .... Vol 9 2009
Building and Construction Industry Long Service Payments Corporation .... Vol 5 2009
Building Insurers' Guarantee Corporation .... Vol 6 2009
Building Professionals Board .... Vol 10 2009
Buroba Pty Ltd .... Vol 5 2009
Bush Fire Co-ordinating Committee .... Vol 8 2009
Businesslink Pty Ltd, NSW .... Vol 6 2009

C

C.B. Alexander Foundation .... Vol 10 2009
CADRE Design Pty Limited .... Vol 2 2009
CADRE Design Unit Trust .... Vol 2 2009
Cancer Institute NSW .... Vol 11 2009
Cancer Institute Division .... Vol 11 2009
Casino, Liquor and Gaming Control Authority ...... Vol 9 2009
CCP Holdings Pty Limited .... Vol 3 2009
Centennial Park and Moore Park Trust .... Vol 9 2009
Centennial Parklands Foundation .... Vol 9 2009
Central West Catchment Management Authority .. Vol 7 2009
Centre for United States Studies Pty Limited ...... Vol 2 2009
Cessnock Uni-Clinic Trust .... Vol 2 2009
Charles Sturt Foundation Limited .... Vol 2 2009
Charles Sturt Foundation Trust .... Vol 2 2009
Charles Sturt Services Limited .... Vol 2 2009
Charles Sturt University .... Vol 2 2009
Chief Investigator of the Office of Transport Safety Investigations .... Vol 10 2009
Children, Office for .... Vol 9 2009
Chipping Norton Lake Authority .... Vol 6 2009
Citizenship, Minister for .... Vol 9 2009
Chiropractors Registration Board .... Vol 11 2009
City West Housing Pty Limited .... Vol 6 2009
Climate Change and the Environment, Minister for .... Vol 7 2009
Clinical Excellence Commission .... Vol 11 2009
Clinical Excellence Commission Special Purpose Service Entity .... Vol 11 2009
CMBF Limited .... Vol 2 2009
Cobar Water Board .... Vol 7 2009
Cobar Water Board Division .... Vol 7 2009
Cobbora Coal Unit Trust .... Vol 3 2009
Cobbora Management Company Pty Limited .... Vol 3 2009
Cobbora Unincorporated Joint Venture .... Vol 3 2009
Coffs Harbour Technology Park Limited .... Vol 9 2009
Commerce, Department of .... Vol 6 2009
Commerce, Minister for .... Vol 6 2009
Commission for Children and Young People, NSW .... Vol 6 2009
Community Relations Commission, Office of the .. Vol 9 2009
Community Relations Commission for a Multicultural New South Wales .... Vol 9 2009
Community Services, Department of .... Vol 6 2009
Community Services, Minister for .... Vol 6 2009
Compliance Review Report - Total Asset Management vii
Cooks Cove Development Corporation 33
Corporate Governance Arrangements in Large Government Agencies and Universities .... Vol 2 2009
Corporation Sole 'Minister Administering the Environmental Planning and Assessment Act, 1979' .... Vol 10 2009
Corporation Sole 'Minister Administering the Heritage Act, 1977' .... Vol 10 2009
Corrective Services, Department of .... Vol 8 2009
Corrective Services, Minister for .... Vol 8 2009
Country Energy .... Vol 3 2009
Country Energy Gas Pty Limited .... Vol 3 2009
Cowra Japanese Garden Maintenance Foundation Limited .... Vol 8 2009
Cowra Japanese Garden Trust .... Vol 8 2009
Crime Commission, New South Wales .... Vol 8 2009
Crime Commission, Office of the New South Wales .... Vol 8 2009
Crime Commission Division, New South Wales ..... Vol 8 2009
Crown Employees (NSW Fire Brigades Firefighting Staff, Death and Disability) Superannuation Fund .... Vol 5 2009
Crown Entity .... Vol 5 2009
Crown Lands Homesites Program .... Vol 6 2009
Crown Leaseholds Entity 59
Cystemix Pty Limited .... Vol 2 2009

D

Dams Safety Committee .... Vol 7 2009
Delta Electricity.. Vol 3 2009
Delta Electricity Australia Pty Limited 7
Dental Board of New South Wales.................. Vol 11 2009
Dental Technicians Registration Board .... Vol 11 2009
Director of Public Prosecutions, Office of the .... Vol 8 2009
Downtown Utilities Pty Limited .... Vol 3 2009
Dumaresq-Barwon Border Rivers Commission ..... Vol 7 2009
Duquesne Utilities Pty Ltd............................ Vol 5 2009

E

Education and Training, Department of............ Vol 9 2009
Education and Training, Minister for......................... 3
Education Training Community Television
(ETC TV) Limited .... Vol 2 2009
Elastagen Pty Limited .... Vol 2 2009
Election Funding Authority of New South Wales .. Vol 8 2009
Electoral Commission, New South Wales........... Vol 8 2009
Electricity Industry Overview .... Vol 3 2009
Electricity Tariff Equalisation Ministerial
Corporation .... Vol 5 2009
Emergency Services, Minister for.................... Vol 8 2009
Emergency Services Overview .... Vol 8 2009
Energy, Minister for 5
Energy Industries Superannuation Scheme......... Vol 5 2009
Energy Investment Fund .... Vol 5 2009
EnergyAustralia... Vol 3 2009
EnergyAustralia Pty Limited.......................... Vol 3 2009
Environment and Climate Change,
Department of..................................... Vol 7 2009
Environment Protection Authority .... Vol 7 2009
Environmental Trust................................... Vol 7 2009
Eraring Energy.. Vol 3 2009
Events New South Wales Pty Limited .... Vol 8 2009

F

Fair Trading Administration Corporation........... Vol 6 2009
Festival Development Corporation.......................... 65
Film and Television Office, New South Wales..... Vol 9 2009
Finance, Minister for .... Vol 6 2009
Financial Counselling Trust Fund.................... Vol 6 2009
Financial Reports Not Received by Statutory
Date (as at 24 November 2009)................ Vol 10 2009
Financial Reports Received but Audit Incomplete
by Statutory Date (as at 24 November 2009) Vol 10 2009
Fire Brigades, New South Wales .... Vol 8 2009
Fire Brigades Superannuation Pty Limited,
NSW .... Vol 5 2009
Food Authority, NSW .... Vol 10 2009
Food Authority, Office of the NSW .... Vol 10 2009
Forestry Commission of New South Wales
(Trading as Forests NSW) .... Vol 10 2009
Forestry Commission Division .... Vol 10 2009
Foundation for the Historic Houses Trust
of New South Wales............................... Vol 9 2009
Foundation for the Historic Houses Trust
of New South Wales Limited .... Vol 9 2009

G

Game Council of New South Wales................. Vol 10 2009
Game Council Division .... Vol 10 2009
Gaming and Racing, Minister for 9
Gosford Water Supply Authority..................... Vol 7 2009
Government Telecommunications Authority
(Telco), New South Wales .... Vol 6 2009
GraduateSchool.com Pty Limited .... Vol 2 2009
Grants to the Transport Workers Union
and related parties .... Vol 10 2009
Greater Southern Area Health Service .... Vol 11 2009
Greater Southern Area Health Service
Special Purpose Service Entity................. Vol 11 2009
Greater Western Area Health Service .... Vol 11 2009
Greater Western Area Health Service
Special Purpose Service Entity................. Vol 11 2009
Greyhound and Harness Racing Regulatory
Authority.. Vol 5 2008
Greyhound and Harness Racing Regulatory
Authority Division................................. Vol 5 2008

H

Hamilton Rouse Hill Trust .... Vol 9 2009
Hawkesbury-Nepean Catchment Management
Authority.. Vol 7 2009
Health Administration Corporation .... Vol 11 2009
Health Administration Corporation
Special Purpose Service Entity .... Vol 11 2009
Health Care Complaints Commission .... Vol 11 2009
Health Care Complaints Commission,
Office of the...................................... Vol 11 2009
Health Foundation, New South Wales............. Vol 11 2009
Health, Department of .... Vol 11 2009
Health, Minister for .... Vol 11 2009
Health Overview .... Vol 11 2009
HealthQuest .... Vol 11 2009
HealthQuest Special Purpose Service Entity ..... Vol 11 2009
HepatoCell Therapeutics Pty Ltd .... Vol 2 2009
Historic Houses Trust of New South Wales .... Vol 9 2009
Home Care Service of New South Wales .... Vol 6 2009
Home Care Service Division........................... Vol 6 2009
Home Purchase Assistance Fund .... Vol 7 2009
Housing, Minister for................................... Vol 7 2009
Housing NSW .... Vol 6 2009
Hunter Development Corporation........................... 65
Hunter New England Area Health Service .... Vol 11 2009
Hunter New England Area Health Service
Special Purpose Service Entity .... Vol 11 2009
Hunter Uni-Clinics Pty Limited .... Vol 2 2009
Hunter Water Australia Pty Limited. .... Vol 7 2009
Hunter Water Corporation .... Vol 7 2009
Hunter-Central Rivers Catchment Management
Authority.. Vol 7 2009

I

Illawarra Technology Corporation Limited .... Vol 2 2009
Independent Commission Against Corruption ...... Vol 8 2009
Independent Pricing and Regulatory Tribunal ..... Vol 8 2009
Independent Pricing and Regulatory Tribunal
Division .... Vol 8 2009
Independent Transport Safety and Reliability
Regulator .... Vol 10 2009
Independent Transport Safety and Reliability
Regulator Division .... Vol 10 2009
Industrial Relations, Minister for..................... Vol 5 2009
Infrastructure Implementation Corporation........ Vol 8 2009
Ingham Health Research Institute .... Vol 11 2009
Insearch Limited .... Vol 2 2009
Institute for Magnetic Resonance Research .... Vol 2 2009
Institute of Psychiatry, New South Wales .... Vol 11 2009
Institute of Sport, New South Wales................. Vol 9 2009
Institute of Sport Division .... Vol 9 2009
Institute of Teachers, NSW .... Vol 9 2009
Institute of Teachers, Office of the .... Vol 9 2009
Integral Energy Australia .... Vol 3 2009
Internal Audit Bureau of New South Wales .... Vol 6 2009
Internal Audit Bureau Division........................ Vol 6 2009
International Livestock Resources and Information
Centre Ltd .... Vol 2 2009
ITC (Europe) Ltd .... Vol 2 2009
ITC (Middle East) Ltd.................................. Vol 2 2009
ITC (New Zealand) Limited .... Vol 2 2009
ITC Education Ltd .... Vol 2 2009
ITC Emirates Limited................................... Vol 2 2009

J

Jenolan Caves Reserve Trust .... Vol 7 2009
Jenolan Caves Reserve Trust Division .... Vol 7 2009
John Lewis and Pamela Lightfoot Trust............. Vol 2 2009
Judicial Commission of New South Wales........... Vol 8 2009
Justice Health... Vol 1 2009
Justice Health Special Purpose Service Entity ..... Vol 1 2009

Juvenile Justice, Department of .... Vol 6 2009
Juvenile Justice, Minister for .... Vol 6 2009

L

Lachlan Catchment Management Authority........ Vol 7 2009
Lake Illawarra Authority .... Vol 6 2009
LAMS Foundation Limited .... Vol 2 2009
LAMS International Pty Limited .... Vol 2 2009
Land Development Working Account................ Vol 6 2009
Landcom ....Vol 10 2009
Lands, Department of 13
Lands, Minister for...11
Law and Order Overview.............................. Vol 8 2009
Legal Aid Commission of New South Wales .... Vol 8 2009
Legal Aid Commission, Office of the .... Vol 8 2009
Legal Aid Temporary Staff Division.................. Vol 8 2009
Legal Opinions Provided by the Crown Solicitor .. Vol 4 2009
Legal Profession Admission Board .... Vol 8 2009
Legislature, The.. Vol 8 2009
Legislature (Audit of Members' Additional Entitlements), The................................ Vol 2 2009
Liability Management Ministerial Corporation..... Vol 5 2009
Library Council of New South Wales .... Vol 9 2009
Lifetime Care and Support Authority of New South Wales .... Vol 5 2009
Liquor Administration Board .... Vol 5 2008
Local Government, Department of.................. Vol 8 2009
Local Government, Minister for...................... Vol 8 2009
Lord Howe Island Board .... Vol 7 2009
Lotteries Corporation, New South Wales........... Vol 5 2009
Lower Murray-Darling Catchment Management Authority .... Vol 7 2009
Luna Park Reserve Trust ....Vol 10 2009

M

Macquarie Generation................................. Vol 3 2009
Macquarie Graduate School of Management Pty Limited... Vol 2 2009
Macquarie University Medical Research Foundation Limited .... Vol 2 2009
Macquarie University Medical Research Trust ..... Vol 2 2009
Macquarie University Private Hospital Trust....... Vol 2 2009
Macquarie University Professorial Superannuation Scheme .... Vol 2 2009
Macquarie University Property Investment Company No. 2 Pty Limited...................... Vol 2 2009
Macquarie University Property Investment Company Pty Limited............................ Vol 2 2009
Macquarie University Property Investment Trust .... Vol 2 2009
Macquarie University .... Vol 2 2009
Marine Parks Authority .... Vol 7 2009
Maritime Authority of NSW...................................37
Maritime Authority of NSW Division 39
Medical Board, New South Wales...................Vol 11 2009
Mid West Primary Pty Ltd............................. Vol 3 2009
Midwest Development Corporation Pty Limited... Vol 3 2009
Milk Marketing (NSW) Pty Limited ....Vol 10 2009
Mine Subsidence Board ....Vol 10 2009
Mineral Resources, Minister for ....Vol 10 2009
Minerals Industry/University of New South Wales Education Trust, The New South Wales Vol 2 2009
Ministerial Corporation for Industry................Vol 10 2009
Mitchell Services Limited .... Vol 2 2009
Motor Accidents Authority of New South Wales ... Vol 5 2009
Motor Accidents Authority of New South Wales, Office of the .... Vol 5 2009
Motor Vehicle Repair Industry Authority .... Vol 6 2009
MU Private Hospital Pty Limited..................... Vol 2 2009
MUPH Clinic Pty Limited .... Vol 2 2009
MUPH Clinic Sub-Trust................................. Vol 2 2009
MUPH Hospital Pty Limited .... Vol 2 2009
MUPH Hospital Sub-Trust .... Vol 2 2009
MUPI Holding Trust No. 1 .... Vol 2 2009
MUPI Holding Trust No. 2 .... Vol 2 2009
MUPI Holding Trust No. 3 .... Vol 2 2009
MUPI Holding Trust No. 4..............................Vol 2 2009
MUPI Holding Trust No. 5..............................Vol 2 2009
MUPI Holding Trust No. 6..............................Vol 2 2009
MUPIT Sub-Trust No. 1 ....Vol 2 2009
MUPIT Sub-Trust No. 2 ....Vol 2 2009
MUPIT Sub-Trust No. 3 ....Vol 2 2009
MUPIT Sub-Trust No. 4 ....Vol 2 2009
Murray Catchment Management Authority ....Vol 7 2009
Murrumbidgee Catchment Management Authority ....Vol 7 2009

N

Namoi Catchment Management Authority ....Vol 7 2009
National Marine Science Centre Pty Ltd ....Vol 2 2009
Natural Resources Commission ....Vol 8 2009
Natural Resources Commission Division ....Vol 8 2009
Newcastle Innovation Limited ....Vol 2 2009
Newcastle International Sports Centre Trust.......Vol 3 2009
Newcastle Port Corporation 40
Newcastle Showground and Exhibition Centre Trust ....Vol 1 2009
NewSouth Eight Pty Ltd................................Vol 2 2009
NewSouth Five Pty Ltd.................................Vol 2 2009
NewSouth Four Pty Ltd ....Vol 2 2009
NewSouth Global (Thailand) Limited ....Vol 2 2009
NewSouth Innovations Pty Ltd ....Vol 2 2009
NewSouth One Pty Ltd ....Vol 2 2009
NewSouth Seven Pty Ltd...............................Vol 2 2009
NewSouth Six Pty Ltd ....Vol 2 2009
Norsearch Limited ....Vol 2 2009
North Coast Area Health Service .... Vol 11 2009
North Coast Area Health Service Special Purpose Service Entity................. Vol 11 2009
Northern Rivers Catchment Management Authority ....Vol 7 2009
Northern Sydney and Central Coast Area Health Service.................................... Vol 11 2009
Northern Sydney and Central Coast Area Health Service Special Purpose Service Entity .... Vol 11 2009
NorthPower Energy Services Pty Limited ....Vol 3 2009
Nurses and Midwives Board .... Vol 11 2009

O

Ombudsman's Office ....Vol 8 2009
Optical Dispensers Licensing Board .... Vol 11 2009
Optometrists Registration Board .... Vol 11 2009
Osteopaths Registration Board .... Vol 11 2009
Ovine Johne's Disease Transaction Based Contribution Scheme, NSW..................... Vol 10 2009

P

Pacific Industry Services Corporation Pty LimitedVol 10 2009
Pacific Power (Subsidiary No. 1) Pty Ltd............Vol 3 2009
Pacific Solar Pty Limited ....Vol 3 2009
Parklands Foundation Limited ....Vol 9 2009
Parliamentary Contributory Superannuation Fund ....Vol 5 2009
Parramatta Park Trust ....Vol 9 2009
Parramatta Stadium Trust.............................Vol 2 2009
Parramatta Stadium Trust Division ....Vol 2 2009
Payments to other Government Bodies under the control of the Minister ....Vol 6 2009
Pharmacy Board of New South Wales.............. Vol 11 2009
Physiotherapists Registration Board .... Vol 11 2009
Planning, Department of .... Vol 10 2009
Planning, Minister for... 23
Podiatrists Registration Board .... Vol 11 2009
Police Force, NSW ....Vol 8 2009
Police Integrity Commission ....Vol 8 2009
Police Integrity Commission Division ....Vol 8 2009
Police, Minister for ....Vol 8 2009
Police, Ministry for ....Vol 8 2009
Port Kembla Port Corporation 43
Ports and Waterways, Minister for 35
Premier..Vol 8 2009

Premier and Cabinet, Department of .... Vol 8 2009
Primary Industries, Department of .... Vol 10 2009
Primary Industries, Minister for .... Vol 10 2009
Probiotic Health Pty Limited .... Vol 2 2009
Protective Commissioner – Common Fund,
Office of the .... Vol 2 2009
Protective Commissioner and Public Guardian,
Office of the .... Vol 8 2009
Psychologists Registration Board .... Vol 11 2009
Public Transport Ticketing Corporation .... Vol 10 2009
Public Transport Ticketing Corporation
Division .... Vol 10 2009
Public Trustee NSW .... Vol 8 2009
Public Trustee NSW – Common Fund .... Vol 8 2009

Q

Qualified Independent Audit Reports Issued ...... Vol 10 2009
Qucor Pty Ltd .... Vol 2 2009

R

Rail Corporation New South Wales .... Vol 10 2009
Rail Infrastructure Corporation .... Vol 10 2009
Redfern and Waterloo, Minister for 51
Redfern-Waterloo Authority 53
Redfern Waterloo Authority, Office of the 56
Remarkspdf Pty Ltd .... Vol 2 2009
Rental Bond Board .... Vol 6 2009
Rental Housing Assistance Fund .... Vol 6 2009
Residual Business Management Corporation .... Vol 3 2009
Responsible Gambling Fund 65
Rice Marketing Board for the State of
New South Wales .... Vol 10 2009
Risk Frontiers Flood (Australia) Pty Limited .... Vol 2 2009
Risk Frontiers Group Pty Limited .... Vol 2 2009
Riverina Citrus .... Vol 10 2009
Rivservices Limited .... Vol 2 2009
Roads and Traffic Authority of New South Wales Vol 10 2009
Roads and Traffic Authority Division .... Vol 10 2009
Rocky Point Holdings Pty Ltd .... Vol 3 2009
Rouse Hill Hamilton Collection Pty Limited .... Vol 9 2009
Royal Alexandra Hospital for Children .... Vol 11 2009
Royal Alexandra Hospital for Children
Special Purpose Service Entity .... Vol 11 2009
Royal Botanic Gardens and Domain Trust .... Vol 7 2009
Rural Assistance Authority, New South Wales .... Vol 10 2009
Rural Assistance Authority, Office of the .... Vol 10 2009
Rural Fire Service, NSW .... Vol 8 2009

S

SAS Trustee Corporation .... Vol 5 2009
SAS Trustee Corporation - Pooled Fund .... Vol 5 2009
SAS Trustee Corporation Division of
the Government Service of NSW .... Vol 5 2009
Self Insurance Corporation, NSW .... Vol 5 2009
Services UNE Ltd .... Vol 2 2009
Sesquicentenary of Responsible Government
Trust Fund .... Vol 8 2009
SGSM Limited .... Vol 2 2009
Small Business, Minister for .... Vol 10 2009
Small Business Development Corporation
of New South Wales .... Vol 10 2009
South Eastern Sydney and Illawarra Area Health
Service .... Vol 11 2009
South Eastern Sydney and Illawarra Area Health
Service Special Purpose Service Entity .... Vol 11 2009
Southern Cross University .... Vol 2 2009
Southern Rivers Catchment Management
Authority .... Vol 7 2009
Sport and Recreation, Minister for .... Vol 9 2009
Sporting Injuries Committee .... Vol 5 2009
Sports Knowledge Australia Pty Limited .... Vol 2 2009
State and Regional Development, Department of Vol 10 2009
State Council of Rural Lands Protection Boards ... Vol 3 2009
State Council of Rural Lands Protection Boards
Division .... Vol 3 2009
State Development, Minister for .... Vol 10 2009
State Emergency Service .... Vol 8 2009
State Library of New South Wales Foundation ..... Vol 9 2009
State Plan .... Vol 2 2009
State Property Authority .... Vol 6 2009
State Property Authority, Office of the .... Vol 6 2009
State Rail Authority Residual Holding
Corporation .... Vol 5 2009
State Records Authority of New South Wales ...... Vol 6 2009
State Rescue Board .... Vol 8 2009
State Sports Centre Trust .... Vol 9 2009
State Sports Centre Trust Division .... Vol 9 2009
State Super Financial Services Australia Limited .. Vol 5 2009
State Transit Authority of New South Wales ..... Vol 10 2009
State Transit Authority Division .... Vol 10 2009
State Water Corporation .... Vol 7 2009
Statement of the Budget Result .... Vol 4 2009
Superannuation Administration Corporation
(trading as Pillar Administration) .... Vol 5 2009
Sydney 2009 World Masters Games Organising
Committee .... Vol 9 2009
Sydney 2009 World Masters Games Organising
Committee Division .... Vol 9 2009
Sydney 2009 World Masters Games Organising
Committee, Office of the .... Vol 9 2009
Sydney Business School Pty Ltd .... Vol 2 2009
Sydney Catchment Authority .... Vol 7 2009
Sydney Catchment Authority Division .... Vol 7 2009
Sydney Cricket and Sports Ground Trust .... Vol 9 2009
Sydney Cricket and Sports Ground Trust
Division .... Vol 9 2009
Sydney Desalination Plant Pty Limited .... Vol 7 2009
Sydney Educational Broadcasting Limited .... Vol 2 2009
Sydney Ferries .... Vol 10 2009
Sydney Harbour Foreshore Authority 28
Sydney Harbour Foreshore Authority,
Office of the 33
Sydney Harbour Foreshore Authority
Casual Staff Division, ... 33
Sydney Institutes of Health and Medical
Research, The .... Vol 2 2009
Sydney International Film School Pty Limited ..... Vol 2 2009
Sydney Metro .... Vol 10 2009
Sydney Metro Division .... Vol 10 2009
Sydney Metropolitan Catchment Management
Authority .... Vol 7 2009
Sydney Olympic Park Authority .... Vol 9 2009
Sydney Olympic Park Authority, Office of the ..... Vol 9 2009
Sydney Olympic Park Authority Sydney
Olympic Park Aquatic and Athletic Centres
Division .... Vol 9 2009
Sydney Opera House Trust .... Vol 9 2009
Sydney Pilot Service Pty Ltd 50
Sydney Ports Corporation 47
Sydney South West Area Health Service .... Vol 11 2009
Sydney South West Area Health Service
Special Purpose Service Entity .... Vol 11 2009
Sydney Talent Pty Limited .... Vol 2 2009
Sydney Water Corporation .... Vol 7 2009
Sydney West Area Health Service .... Vol 11 2009
Sydney West Area Health Service Special
Purpose Service Entity .... Vol 11 2009
Sydney West International College Pty Limited ... Vol 2 2009
SydneyLearning Pty Limited .... Vol 2 2009

T

Taronga Conservation Society Australia .... Vol 7 2009
Taronga Conservation Society Australia Division .. Vol 7 2009
TCorp Nominees Pty Limited .... Vol 5 2009
Teacher Housing Authority of New South Wales ... Vol 6 2009
Technical and Further Education Commission,
New South Wales .... Vol 9 2009
Technical and Further Education Commission
Division, New South Wales .... Vol 9 2009
Technical Education Trust Funds .... Vol 2 2009
Television Sydney (TVS) Limited .... Vol 2 2009
Total State Sector Accounts .... Vol 4 2009

Tourism, Minister for .... Vol 10 2009
TransGrid .... Vol 3 2009
Transport, Minister for .... Vol 10 2009
Transport, Ministry of .... Vol 10 2009
Transport Infrastructure Development
Corporation .... Vol 10 2009
Transport Services Overview .... Vol 10 2009
Treasurer 57
Treasury, The.. Vol 5 2009
Treasury Corporation, New South Wales .... Vol 5 2009
Treasury Corporation Division of the
Government Service .... Vol 5 2009
Trustees of the ANZAC Memorial Building.......... Vol 2 2009
Trustees of the Farrer Memorial Research
Scholarship Fund .... Vol 3 2009
Trustees of the Museum of Applied Arts
and Sciences .... Vol 9 2009
TVS Limited .... Vol 2 2009

U

U@MQ Limited .... Vol 2 2009
Ucom Fifteen Pty Limited .... Vol 2 2009
Ucom Sixteen Pty Limited .... Vol 2 2009
UNE Partnerships Pty Limited .... Vol 2 2009
UNE Vision Pty Ltd .... Vol 2 2009
UniCentre Conferences and Functions Pty Limited Vol 2 2009
UNILINC Limited .... Vol 2 2009
Uniprojects Pty Limited 65
United States Studies Centre Limited .... Vol 2 2009
Universities Admissions Centre (NSW & ACT)
Pty Limited 65
Universities Overview .... Vol 2 2009
University of New England............................ Vol 2 2009
University of New England Professorial
Superannuation Fund .... Vol 2 2009
University of New England Sports Association ..... Vol 2 2009
University of New South Wales .... Vol 2 2009
University of New South Wales Foundation .... Vol 2 2008
University of New South Wales Foundation
Limited .... Vol 2 2009
University of New South Wales International
House Limited .... Vol 2 2009
University of New South Wales Press Limited ..... Vol 2 2009
University of Newcastle............................... Vol 2 2009
University of Sydney, The .... Vol 2 2009
University of Sydney Professorial Superannuation
System .... Vol 2 2009
University of Technology, Sydney .... Vol 2 2009
University of Western Sydney .... Vol 2 2009
University of Western Sydney Foundation
Limited .... Vol 2 2009
University of Western Sydney Foundation Trust .. Vol 2 2009
University of Wollongong .... Vol 2 2009
University of Wollongong Recreation
Aquatic Centre Limited .... Vol 2 2009
UNSW & Study Abroad – Friends and U.S.
Alumni, Inc. .... Vol 2 2009
UNSW (Thailand) Limited .... Vol 2 2009
UNSW Asia School Limited .... Vol 2 2009
UNSW Global (Singapore) Pte Limited .... Vol 2 2009
UNSW Global India Private Limited .... Vol 2 2009
UNSW Global Pty Limited .... Vol 2 2009
UNSW Hong Kong Foundation Limited .... Vol 2 2009
UNSW Hong Kong Limited............................ Vol 2 2009
UTSM Services (Malaysia) Sdn Bhd................... Vol 2 2009
UON Foundation Ltd .... Vol 2 2009
UON Foundation Trust................................ Vol 2 2009
UON Services Limited .... Vol 2 2009
UON, Singapore Pte Ltd.............................. Vol 2 2009
Upper Parramatta River Catchment Trust .... Vol 7 2009
Upper Parramatta River Catchment Trust
Division .... Vol 7 2009
UWS College Pty Limited .... Vol 2 2009
UWS Conference and Residential Colleges Limited Vol 2 2009
uwsconnect Limited .... Vol 2 2009

V

Valley Commerce Pty Limited .... Vol 5 2009
Veterinary Practitioners Board .... Vol 10 2009
Vocational Education and Training
Accreditation Board, NSW .... Vol 4 2008

W

Warren Centre for Advanced Engineering
Limited, The....................................... Vol 2 2009
Waste Recycling and Processing Corporation ...... Vol 2 2009
Water and Energy, Department of .... Vol 7 2009
Water Industry Overview .... Vol 7 2009
Water, Minister for .... Vol 7 2009
Wayahead Pty Limited .... Vol 2 2009
Wentworth Annexe Limited .... Vol 2 2009
Wentworth Park Sporting Complex Trust .... Vol 9 2009
Western Catchment Management Authority........ Vol 7 2009
Western Research Institute Limited .... Vol 2 2009
Western Sydney, Minister for .... Vol 9 2009
Western Sydney Buses Division .... Vol 10 2009
Western Sydney Parklands Trust .... Vol 9 2009
Whitlam Institute Within the University of
Western Sydney Limited .... Vol 2 2009
Whitlam Institute Within the University of
Western Sydney Trust .... Vol 2 2009
Wild Dog Destruction Board .... Vol 2 2009
Wild Dog Destruction Board Division................. Vol 2 2009
Wine Grapes Marketing Board .... Vol 2 2009
Wollongong Sportsground Trust .... Vol 9 2009
Wollongong Sportsground Trust Division .... Vol 9 2009
Wollongong UniCentre Limited .... Vol 2 2009
WorkCover Authority, Office of the .... Vol 6 2008
WorkCover Authority of New South Wales.......... Vol 6 2008
Workers Compensation Commission of
New South Wales .... Vol 6 2008
Workers Compensation Nominal Insurer
(trading as The NSW WorkCover Scheme)...... Vol 1 2009
Workers' Compensation (Dust Diseases) Board .... Vol 5 2008
World Youth Day Co-ordination Authority .... Vol 2 2009
World Youth Day Co-ordination Authority,
Office of.. Vol 2 2009
Wyong Water Supply Authority .... Vol 7 2009

Y

Youth, Minister for .... Vol 9 2009