

AUDITOR-GENERAL'S REPORT

PERFORMANCE AUDIT

Oversight of State Owned Electricity Corporations

NSW Treasury



The Legislative Assembly
Parliament House
SYDNEY NSW 2000

The Legislative Council
Parliament House
SYDNEY NSW 2000

In accordance with section 38E of the *Public Finance and Audit Act* 1983, I present a report titled **Oversight of State Owned Electricity Corporations: NSW Treasury.**

A handwritten signature in black ink, appearing to read 'R J Sendt'.

R J Sendt
Auditor-General

Sydney
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Foreword

Issues of corporate governance have long been a matter for concern in the private sector. Following recent corporate collapses and scandals, legislators and regulators in a number of countries have focused on strengthening governance in publicly traded corporations. Considerable attention has been given to setting clear expectations for the performance of boards and for the disclosure of information to various stakeholders.

Good governance is no less important in the public sector.

Indeed issues of oversight and accountability may be more complex in the public sector, particularly in government businesses. There are more stakeholders involved (portfolio Ministers, shareholder Ministers, Parliament and central agencies) and there are competing - and potentially conflicting - objectives (financial, social, environmental, etc).

Because of these potential conflicts, it is important that Boards understand what government expects of them. Some of these expectations reflect the government's regulatory role in areas such as safety, pricing and ensuring consumers receive essential services. Some expectations reflect the government's role as a business owner.

Having a clear separation of regulatory expectations from ownership expectations is essential if boards are to be accountable for their performance on both aspects. To assist in this separation, New South Wales (like many other jurisdictions) has adopted the concept of 'shareholder Ministers' - as distinct from the portfolio Minister - to exercise the ownership function.

This report looks more closely at a particular area - how the State conducts itself as the owner of the State owned electricity corporations. This is an important issue as the State's (ie taxpayers') equity in these businesses is worth over \$9 billion. Managing the risks associated with continuing ownership of these businesses is an essential aspect of good governance.

Although the audit focuses on the State's holdings in the electricity sector, its findings and recommendations have relevance for all State owned corporations.

Bob Sendt
Auditor-General

October 2005

Executive summary

Executive summary

NSW Government owned corporations in the electricity sector represent an investment of around \$20 billion. They return dividends and tax equivalent payments to the State of around \$1 billion per year.

We looked at how well the State oversees the performance of State owned corporations (SOCs) in the electricity sector to ensure that they meet its needs from an owner's short and long-term perspective.

Audit opinion

The State's oversight of its SOCs is well organised and monitored by NSW Treasury, on behalf of the shareholder ministers.

The SOCs have delivered substantial dividend returns to the Government. We examined the issue, sometimes alleged as a weakness in the NSW approach, that dividend requirements may limit the ability of SOCs to fund new investment in infrastructure. The SOCs we examined clearly indicated that this was not occurring. The SOCs indicated that new investment is planned on a needs basis and that, whilst much infrastructure in this sector is now ageing, it has a considerable remaining useful life. We found that the SOCs have sound credit ratings, and we could not find evidence or available data that investment was being unduly constrained.

Whilst there is the potential for conflict between Treasury's primary role of managing the State's finances and its over-sighting role on behalf of shareholder ministers, we found no evidence that this conflict was in fact occurring. While some other jurisdictions include the portfolio minister as the other shareholder, in our view the current New South Wales arrangement - where the portfolio minister can exercise the regulatory role free from concerns about conflict - is the more robust model and better satisfies the 'public interest' test.

Our principal concern from this audit is that Treasury's oversight of State owned corporations needs to be strengthened and refined. We would have expected Treasury to oversight performance against the State's ownership objectives. But these ownership objectives are not clearly stated. There is no regular reporting on how well these businesses are performing against comparative private sector organisations or against their social and environmental objectives. Treasury has relatively little focus on analysing non-financial areas that may affect a shareholder.

Treasury's task on behalf of the shareholder ministers is particularly important, as State owned corporations are not subject to the full competitive pressures of the private sector. The State needs to move to a role, without reducing board autonomy, closer to the role of the holding company that it was originally likened to.

Recommendations

We recommend that NSW Treasury strengthen and refine its oversight of State owned corporations through:

Understanding what the owner expects

- clearer identification and prioritisation of shareholders' short and long-term objectives of ownership of each SOC, so as to better hold SOCs accountable for their performance
- ensuring the objectives are public documents widely circulated amongst ministries concerned, SOC boards, management, and the Parliament, so as to improve ministerial accountability
- assisting the Government to publish its reasons for ongoing public ownership of the electricity SOCs. This would help clarify the non-commercial objectives of the SOCs.

Oversighting performance

- clarifying who is responsible for overseeing which aspects of SOC performance, especially who is supposed to monitor business aspects such as market share and customer service, and aspects such as social responsibility, ecologically sustainable development, and regional development
- increasing shareholders' feed-back to the SOCs in relation to their direction and performance; providing board directors with improved dialogue and access to independent analysis conducted by Treasury
- strengthening the ownership monitoring function and the specialist resources available to it, depending upon the precise nature of the shareholders' objectives.

Representing the owner's interests

- moving to an approach where shareholders formally agree to those aspects of the corporate business plan relevant to their stated objectives and require a management plan for those aspects
- ensuring meetings between the shareholders or their representatives and board directors, including the annual meeting, are fully and accurately recorded
- providing an opportunity for the auditor to be present at the annual meeting
- increasing interaction and communication between the board, Treasury and the shareholding ministers with both a structured and informal communication program
- ensuring the initial recommendation of the size of dividends and assessment of the capacity to pay is a responsibility of the board. While it would be appropriate for shareholder ministers to make the final determination, they should be required to provide reasons for doing so where this differs from the recommendation of the board
- improving transparency of board appointments, arranging formal guidance and education support for board members. Boards need to better define and communicate their requirements for skills and capabilities
- more consistent reporting and benchmarking of performance, and ensuring shareholders' objectives and statements of corporate intent are made available to the public.

Key audit findings

Chapter 1: Introduction

- Since 1988 the Government has had a policy of operating its major trading enterprises as State owned corporations (SOCs). The *State Owned Corporations Act 1989* (SOC Act) established the legislative framework for the implementation of this policy.
- SOCs have two shareholders: the Minister for Finance and one other minister nominated by the Premier. These in turn are supported by Treasury, which is tasked with monitoring the performance of the SOCs on behalf of the shareholders.
- The largest group of SOCs is in the electricity sector. These businesses represent an investment of over \$20 billion and employ almost 12,000 staff.

Chapter 2: Understanding what the owner expects

- There is no clear statement of the Government's purpose in owning electricity SOCs.
- There is no clear understanding of the overall short and long-term objectives of State ownership. Whilst the SOC Act provides high-level objectives for a SOC, the objectives do not necessarily represent or directly link to shareholders' objectives.
- The objectives of State ownership and the shareholders' strategic concerns and broad preferences are not spelt out in any single document. The process of preparing an annual Statement of Corporate Intent does not distinguish between the requirements of shareholder ministers and the objectives set by boards. This weakens accountability
- Whilst the Government has issued general policy statements for government businesses, no document directly articulates shareholder expectations or provides long-term direction to SOCs in the electricity sector, particularly in the context of the SOCs' individual markets and circumstances
- As the Government's ownership objectives are not specific, they do not assist informative performance reporting.

Chapter 3: Oversighting performance

- The exercise of ownership rights is clearly identified within the government administration.
- As SOCs are accountable to both the voting shareholders (for business performance and long term value) and the portfolio minister (for industry policy and regulatory matters), this can at times lead to the need for SOC boards to manage conflicting requirements from the Government. There is also the potential for conflict between Treasury's primary role of managing the State's finances and its over-sighting role on behalf of shareholder ministers, but we found no evidence that this was occurring.
- Both shareholder ministers rely on Treasury to monitor the SOC's commercial operations and performance. Treasury has a strong incentive to monitor the financial performance of SOCs because of the importance of SOC investment returns as part of the overall State finances.

- Whilst Treasury analysts are conscious of the many issues affecting SOC performance, there is relatively little focus on analysing non-financial areas that may affect a shareholder. There is little evidence of feed-back to the SOC in relation to their SCIs and little evidence of the SOC responding to any concerns raised.
- Treasury has no designated SOC monitoring unit, although it used to have a *Government Trading Enterprise Monitoring Unit* for this purpose. We found no charter that outlines Treasury's monitoring objectives, functions or responsibilities on behalf of the shareholder ministers. Some other jurisdictions assign this responsibility to a designated entity in order to remove it from a purely financial focus.

Chapter 4: Representing the owner's interests

- Treasury could take a more active role in representing the shareholders. Treasury and the SOC have recognised that there is scope to improve their level of interaction and communication with the shareholders.
- SOC boards could be given greater autonomy and held more accountable for performance if they were provided with greater strategic direction in terms of desired outcomes.
- It is not clear what aspects of the corporate business plans Treasury should and should not be monitoring, as SOC report to portfolio ministers on many aspects of their overall performance. Some corporate plans contain considerable detail. Such detail, where unrelated to the primary purposes of the accountability regime, could even be weakening accountability by obscuring the focus on performance against shareholder's objectives.
- Boards appear to have limited involvement in the appointment of new directors and limited control over the skill mix of directors, balance, and diversity of views.
- Board performance needs to be reviewed annually, but there is little evidence that such reviews are conducted.
- There is no comparative analysis of SOC businesses against shareholder objectives or against their private sector equivalents. Very little information is made public, largely on the grounds of confidentiality.

Response from the NSW Treasury

Thank you for your letter of 9 September 2005 providing the final draft of the Performance Audit - Oversight of State Owned Corporations in the Electricity Sector.

I appreciate the overall audit opinion that the monitoring of State owned corporations (SOCs) by Treasury is well organised. Importantly, the audit found no evidence of conflict between Treasury's role of managing the State's finances and its over-sighting role of SOCs - for example, in requiring dividends at the expense of SOC investment in infrastructure.

The Audit Office's well researched observations of oversight arrangements of SOCs in other jurisdictions, both domestically and internationally is informative. It would be interesting to evaluate the overall effectiveness of oversight arrangements in other jurisdictions in light of the Audit Office's recommendations.

One key focus of the recommendations and audit findings was on the need for the Government to make clear its expectations of ownership. Many of these expectations are outlined in the policies under the Commercial Policy Framework and, specifically in relation to electricity businesses, from public statements of policy such as the NSW Energy Directions Green Paper and the upcoming White Paper on energy to be released shortly.

Another theme of the audit findings was the need to refine non-financial performance monitoring of SOCs. Under the corporatisation model, the SOC's managing board is responsible for oversight of operational performance. Like analysis done by and for private sector shareholders, Treasury's oversight focuses on financial returns and long term value and sustainability of the SOC. This long term value can only be built in the context of its broader corporate responsibilities (to customers, the environment and the wider community), effective business planning and execution and competitive performance - all aspects which the board is required to manage. There requires careful balancing between external monitoring of operational details and respecting the board's autonomy and oversight of management to ensure clear expectations and accountability.

A balance is also required between the need for transparency and the need for confidentiality regarding commercially sensitive issues and information. This is particularly the case for the electricity SOCs who are competing with private sector counterparts who have different standards of disclosure in releasing medium-term financial forecasts and sensitive long-term strategic objectives.

In relation to increased communication with the SOCs, Treasury will continue to increase feedback and interaction with the boards. This includes ensuring that the boards, through the Chairs, have input regarding the board composition and requirements for new appointments, continuing our program of annual shareholder discussions with the board and less structured ongoing communications with the Chairs and management.

I would like to thank the Audit Office for their professionalism, courtesy and co-operative manner in which the audit was conducted.

(signed)

*John Pierce
Secretary*

Dated: 27 September 2005

1. Introduction

1.1 State owned corporations (SOCs)

Since 1988 the Government has had a policy of operating many of its major trading enterprises as State owned corporations (SOCs).

There are currently twenty one SOC's covering several industry sectors:

- **Electricity** - Country Energy, Delta Electricity, EnergyAustralia, Eraring Energy, Integral Energy Australia, Macquarie Generation, TransGrid
- **Water** - Hunter Water Corporation, State Water Corporation, Sydney Water Corporation
- **Transport** - Rail Corporation New South Wales, Rail Infrastructure Corporation, Sydney Ferries, Transport Infrastructure Development Corporation
- **Ports** - Newcastle Port Corporation, Port Kembla Port Corporation, Sydney Ports Corporation
- **Other** - Landcom, New South Wales Lotteries Corporation, Superannuation Administration Corporation, Waste Recycling and Processing Corporation.

The *State Owned Corporations Act 1989* (SOC Act) established the legislative framework for the implementation of this policy. A Government review that led to the legislation stressed the importance of improving efficiency.

Principles

The Government's *Corporatisation Manual* identified the principles of corporatisation as:

- clear commercial objectives
- appropriate managerial authority and autonomy
- effective performance monitoring
- rewards and sanctions on performance
- competitive neutrality in input and output markets.

Oversight role

The Government's oversight role has been likened to that of a 'holding company'. A holding company is a parent corporation that owns enough voting stock in another corporation to control its board of directors (and, therefore, controls its policies and management).

Government, as the 100% shareholder of all GTEs/SOCs, may be viewed as the public sector analogue of a holding company of a diverse range of fully owned subsidiaries. This structure approximates that of a number of prominent multi-divisional private sector firms.

Source: NSW Government, *Monitoring Policy for NSW Government Trading Enterprises*, 1992

What this means is that, although the holding company analogy is not exact and the Government's role is less directive, the Government has a higher level of accountability and a more active role than for example a minority shareholder of a publicly listed company.

SOCs have two shareholders: the Minister for Finance and one other minister nominated by the Premier. They are supported by Treasury which monitors the performance of the SOC's on behalf of the shareholders.

Government trading enterprises are not subject to the full competitive pressures of the private sector. Because government enterprises are subject to much less performance assessment by the equity and debt markets and industry commentators than private sector companies listed on the Stock Exchange, governments need to establish independent and objective performance monitoring arrangements sufficient to ensure that the Board and management are held accountable for an enterprise's performance.

1.2 Electricity SOCs

The largest group of SOCs is in the electricity sector.

Significant investment

At present the SOCs in the electricity sector are:

- the power generators - Delta Electricity, Macquarie Generation and Eraring Energy - which generate electricity and sell it to retailers through the wholesale market and are connected to either the transmission or distribution networks
- the transmission network service provider - TransGrid - which conveys electricity along the high voltage network
- the distributor/retailers - EnergyAustralia, Integral Energy and Country Energy - which convey electricity from the transmission systems and sell to end-users.

These businesses represent an investment of over \$20 billion and employ almost 12,000 staff, as shown.

SOC	Total Assets (\$M)	Total Staff numbers
TransGrid	3,383	974
Delta	1,877	735
Eraring	1,522	363
Macquarie	2,904	608
Energy Australia	5,643	3,976
Country Energy	2,865	3,000
Integral	2,781	2,176
Total	20,878	11,832

Source: SOC annual reports 2003-04

There is significant scope for these businesses to grow. Demand has been increasing steadily, and this is forecast to continue.

Portfolio minister

The portfolio minister for electricity SOCs is the Minister for Utilities. The Department of Energy, Utilities and Sustainability provides support to the portfolio minister.

The portfolio minister administers the *Electricity Supply Act 1995* that aims to establish a competitive retail market in electricity, and the *Energy and Utilities Administration Act 1987* that aims to promote and maintain the efficiency and accountability of energy producers and suppliers and their responsiveness to community needs and expectations.

In NSW price regulation of monopoly markets is split between state and federal authorities:

- generation is not subject to price regulation, as it is a fully competitive market
- transmission is regulated by the Australian Energy Regulator
- distribution (and retail for customers not on a negotiated tariff) is regulated by the Independent Pricing and Regulatory Tribunal.

SOCs providing network services, such as Transgrid and EnergyAustralia's networks, have monopoly franchise territories and face little competitive pressure. However they are subject to formal regulatory processes.

Following an agreement by the Council of Australian Governments, two new federal bodies have been established to assume responsibilities for national electricity rule development and economic regulation - the Australian Energy Market Commission and the Australian Energy Regulator.



Vales Point Power Station

1.3 This audit

This audit examined how well the State oversees the performance of SOC's in the electricity sector to ensure that they meet the short and long-term objectives of State ownership.

The audit focused on the oversight activities of Treasury on behalf of the shareholders, in the context of the industry oversight by the Department of Energy, Utilities and Sustainability and regulatory oversight by others.

Further information on the scope, criteria and approach of the audit can be found in Appendix 2 of this report.

2. Understanding what the owner expects

At a glance

We examined whether there is a clear understanding of the objectives of State ownership.

We found:

- whilst the SOC Act provides high-level objectives for a SOC, the objectives do not necessarily represent or directly link to shareholders' objectives
- the objectives of State ownership and the shareholders' strategic concerns and broad preferences are not spelt out in any document. The *Statement of Corporate Intent* does not distinguish the requirements of shareholder ministers from the objectives set by boards. This weakens accountability
- whilst the Government has issued general policy statements for government businesses, no document articulates shareholder expectations and provides long-term direction to SOCs in the electricity sector, particularly in the context of the SOCs' individual markets and circumstances
- as the Government's ownership objectives are not specific, they do not assist informative performance reporting
- in addition to the absence of formal statements of the objectives of State ownership, there is no definition of the public interest reasons for government ownership of SOCs in the electricity sector.

2.1 What we looked for

We looked for a clear understanding by the SOCs of the overall short and long-term objectives of State ownership, the Government's role in the corporate governance of SOCs, and how it will implement its ownership policy. In particular, we looked for a clear statement of the Government's purpose in owning electricity SOCs.

2.2 SOC objectives

Legislative objectives

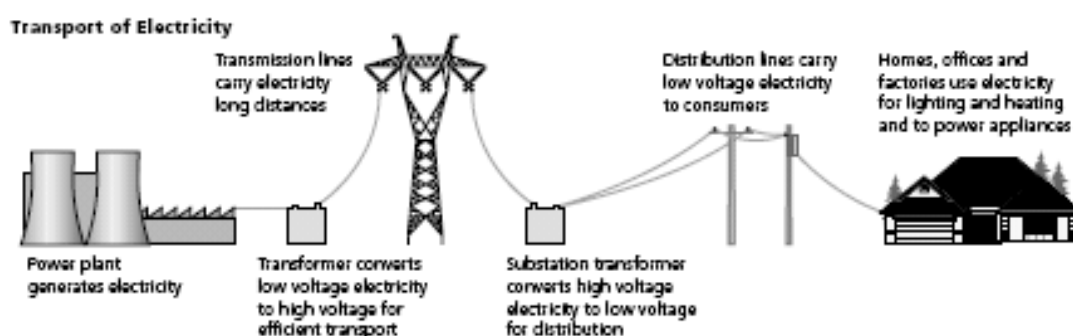
The SOC Act provides high-level objectives for a SOC. It states that each SOC needs to be a successful business and, to this end:

- operate at least as efficiently as any comparable businesses
- maximise the net worth of the State's investment in the SOC.

The SOC Act also requires SOCs to:

- exhibit a sense of social responsibility
- comply with the principles of ecologically sustainable development
- exhibit a sense of responsibility towards regional development and decentralisation.

Added to this, the *Energy Services Corporations Act 1995* requires SOCs to operate efficiently, safely and reliably to provide power to home, offices and facilities.



Source of illustration: National Electricity Market Management Company, *An Introduction to Australia's National Electricity Market*

Statement of Corporate Intent

Specific SOC objectives and goals are set in the annual *Statement of Corporate Intent* (SCI). This is prepared by the SOC and submitted to the shareholder ministers for any comment. The report is in two parts:

- a document that summarises the strategic intent and commitment the board makes to shareholders
- a business or corporate plan that supports the statement of corporate intent. This document is detailed and usually contains commercially sensitive information. It is not made available to the public.

The board must consider any comments on the draft *Statement of Corporate Intent* that are made to it by the voting shareholders, consult in good faith, and comply with written notices by shareholders to include or omit specific matters from a *Statement of Corporate Intent*.

The elements of the *Statement of Corporate Intent* are defined in the *State Owned Corporations Act* and include:

- the objectives of the corporation and its subsidiaries
- the main undertakings of the corporation
- the nature and scope of the activities to be undertaken
- the accounting policies to be applied
- the performance targets and other measures by which the performance of the corporation and its subsidiaries may be judged in relation to their stated objectives.

Each SCI must also include a 'representation and commitment statement' to meet any issues of concern to the shareholder. For instance the board must confirm that investment and maintenance plans follow government guidelines, as SOC's are not otherwise obliged to follow such guidelines. Also, for example, the board may be encouraged to state that it is committed to the goal of a safe and reliable network. The statement also includes reference to Treasury circulars, CEO contracts etc.

Whilst the document is usually relatively brief (no more than 10 pages long), it is intended to:

- provide clear benchmarks on how business performance will be measured and how its adherence to strategic directions and shareholders expectations will be assessed
- be underpinned by, and consistent, with the SOC's business plan.

In practice, the public section of the *Statement of Corporate Intent* is very broadly worded. For example:

EnergyAustralia's objective is to deliver our Duty of Care, Guaranteed Customer Service Standards and a safe and reliable electricity supply for our customers. EnergyAustralia will deliver Network asset management outcomes and achieve the rate of return on shareholders' funds determined by price regulation.

Source: EnergyAustralia, *Statement of Corporate Intent 2004-05*

Some SOC's simply repeat the broad objectives outlined in their legislation.

The SOC Act requires SOC's to provide performance targets for the next three years related to their stated objectives. But performance targets in the public section of the SCI are generally limited to the three-year financial targets (including earnings and dividends). There are some exceptions. For example, in 2004-05 EnergyAustralia also included some customer service targets.

Corporate business plan

In contrast, the corporate business plan that is attached to the *Statement of Corporate Intent* contains far more comprehensive information. It is a separate commercial-in-confidence document intended to detail the objectives, strategies and performance targets within a five to ten year planning horizon.

These corporate business plans address a wide range of portfolio, regulatory and stakeholder issues.

But they do not necessarily represent or directly link to shareholders' objectives. Sales plans, asset plans, operating plans and risk management plans typically respond to a range of corporate business objectives. This allows a possibility that their more specific goals may not be consistent with the broad objectives agreed between the SOC and the government. Some SOC's expressed frustration at having pursued such plans for several years before learning that the shareholder does not agree to some key element of the plan, such as a new investment or a joint venture. This has resulted in unnecessary confusion and unnecessary expense. Treasury advised that these elements are often only mentioned in passing in the corporate business plan.

2.3 Shareholders' objectives

Strategic concerns and broad preferences

Treasury Guidelines indicate that, prior to the start of the SCI process, the shareholders should provide the corporation with their strategic concerns and broad preferences. The corporation needs to consider these as input to its planning. The planning activity then needs to culminate in the drafting of a business plan and SCI. Throughout the planning process it is intended that there be ongoing communication between the corporation and Treasury as agent for the shareholders. The business hold at least one formal meeting with Treasury prior to the finalisation of the business plan and the SCI.

Whilst the objectives of State ownership would be expected to be consistent with the objectives of the SOC, they would not be identical. The objectives of the owner would be expected to guide SOC on how to balance their potentially conflicting objectives - particularly short-term commercial outcomes versus the broader and longer-term social and environmental outcomes.

Shareholder preferences are indicated in general government policy statements including:

- a capital structure policy, that aims to ensure an appropriate mixture of debt and equity finances for government businesses so that they make efficient, commercial investment decisions
- a financial distribution policy, that subjects government businesses to the discipline of making dividend payments in recognition of the opportunity cost associated with government equity.

We found that in contrast to the objectives of SOC, the objectives of State ownership and the shareholders' strategic concerns and broad preferences are not summarised in any document. It was indicated to us that the overall short and long-term objectives could be inferred from the shareholder's agreement to the objectives set by the SOC. But the SCI does not distinguish the requirements of shareholder ministers from the objectives set by boards. This means that it is not possible to be sure who has set what objectives and who is assuming accountability for directing what. The Productivity Commission has observed:

Attribution of responsibility for safeguarding the public interest is made more difficult where boards and ministers are jointly involved in drafting and approving SCIs.

Source: Productivity Commission, *Financial Performance of Government Trading Enterprises* 1999-00 to 2003-04, July 2005 p53

Indications of broad preferences were more likely to be informal, or presented in the form of a presentation at the formal meeting with Treasury prior to the finalisation of the business plan and the SCI. For example, a Treasury presentation to a SOC indicated:

- *Government has a strong preference for dividend over capital gain*
- *The voting shareholders are expecting (X)% payout ratio.*

Public sector preferences

No document adequately articulates shareholder expectations and provides long-term direction to SOC's in the electricity sector, particularly in the context of the SOC's' individual markets and circumstances.

For example a shareholder may:

- have an aversion to risk and a preference for dividend payments, and may want the SOC's to avoid risk so as to pay the strongest and most stable income stream it can pay
- have particular expectations and preferences in relation to a SOC's projected growth, profit margins, market outlook, market risk, energy costs, adoption of new technology, certainty of supply, demand management, greenhouse impact, and regional development
- wish to distinguish the challenges and circumstances facing SOC's that are generators, from those that are retailers or network service providers.
- have a longer-term corporate focus on SOC's it wishes to hold ownership of in the longer term, and a short-term focus on those it may not wish to continue in public ownership.

The shareholders leave it to the SOC boards to set long term direction, based on the board's mostly informal understanding of shareholder policies and preferences. For example, electricity businesses have for some time been aware of Government's preference for the private sector to undertake future investment in power generation.

Where constraints are to be observed in pursuing nominated objectives, such as confining the SOC to a particular line of business, they should be clearly specified. For example, if a SOC is not to develop new generation facilities, it might be permitted to explore minor expansion of existing infrastructure and new small-scale developments. It might also be encouraged to undertake projects with a view to selling the developed opportunity to private investors.

Under current governance arrangements it is difficult to determine the extent of ministerial involvement in shaping SCI objectives. Generally, boards submit their SCI to ministers before the start of each financial year. The minister can then ask the board to reconsider some aspects of the statement. But we saw little evidence of this occurring. Treasury advised that it was more likely that any such negotiation would occur at officer level.

As the Government's ownership objectives are not specific, they do not facilitate informative performance reporting. For example, there are no objectives for the growth in capacity of individual SOC's.

Reasons for public ownership

In addition to the absence of formal statements of the objectives of State ownership, we found no definition of the public interest reasons for government ownership of SOC's in the electricity sector.

The Productivity Commission recently highlighted the importance of governments making public their rationale for ongoing public ownership of each government trading enterprise, including a statement of the perceived public interest benefit, the objectives to be pursued through ownership and the prioritisation or weighting of particular commercial or other public interest outcomes.

A clear definition of the public interest reasons for government ownership, and consequent ministerial control, is crucial for sound government trading enterprise governance. For ministers to be held accountable, their actions should be open and transparent. The public should be confident that the public interest has been defined, is widely known and is being served.

Source: Productivity Commission, *Financial Performance of Government Trading Enterprises 1999-00 to 2003-04*, 2005 p51

Recommendation

The Government should publish its reasons for ongoing public ownership of the electricity SOC's. This would help clarify the non-commercial objectives of the SOC's.

2.4 Setting the owner's performance expectations

Our discussions with SOC's suggested a degree of frustration with a lack of clear shareholder ownership objectives, particularly in relation to long-term business development. As in privately owned firms, shareholder approval needs to be sought for strategic actions outside a SOC's core activity, since new ventures may put the shareholder's equity at risk. But some SOC's have pursued business development proposals over several years only to be informed by the shareholder that they are not to proceed further.

Examples include:



- being refused permission to invest in new generation facilities in NSW, whilst receiving approval to invest in other states to meet greenhouse obligations
- being refused permission to be involved in joint ventures to build wind farms in NSW, despite years of preparation and planning advised to Treasury through corporate business plans
- being refused permission to invest in some consulting activities outside of NSW, whilst receiving permission to invest in others.

Treasury expressed the view that there have been some proposals which, had they proceeded, would have delivered significant negative value for Government. The Government's policies on future investment may be clearer when it releases its *Energy Directions* white paper.

Communicating expectations

There is no formal process for communicating these shareholder expectations and only limited communication between the SOC boards and Treasury officials. What is communicated is generally financial in nature and arises from the State's financial reporting requirements.

Following recent corporate scandals, legislators and securities regulators in a number of countries have focused on strengthening governance practices in publicly traded corporations. Considerable attention has been given to the need to set clear expectations for the performance of boards, audit committees, and management, and for the disclosure of information to various stakeholders.

In Australia the recent federal 'Uhrig' review found that the governance arrangements of statutory authorities are unclear and inadequate. In particular it recommended that *the Government should clarify the expectations of statutory authorities by Ministers issuing Statements of Expectations, authorities responding with Statements of Intent, and the Minister making both documents public.*

Source: Commonwealth Government, *Review of the Corporate Governance of Statutory Authorities and Office Holders*, June 2003

In some jurisdictions, in addition to setting each organisation's mandate, Government provides public sector organisations with documentation outlining performance expectations and accountabilities. This documentation is developed in consultation with the organisation.

For example in British Columbia, Shareholder's Letters of Expectations are issued annually to record a joint understanding between Government and each Crown corporation over mandate, public policy issues, strategic priorities and performance.

They are intended to:

- confirm the corporation's mandate and core services
- develop a common understanding between the government and the Crown corporation regarding the government's priorities, policy objectives and performance expectations for the organization over a three-year period
- achieve consistency and alignment between the government's priorities, policy objectives and performance expectations and the Crown corporation's goals, objectives and strategies
- serve as a key driver in the development of the Crown corporation's service and financial plans.

Source: Government of British Columbia, *Best Practice Guidelines, Board Resourcing and Development*, February 2005

Extract from Letter of Expectations



British Columbia Hydro and Power Authority

In support of a general objective of maintaining low electricity rates:

- implement the Heritage Contract to lock in the value of the Corporation's existing low-cost generation assets for B.C. ratepayers
- pursue outsourcing of services where costs can be reduced for electricity consumers while retaining quality of service
- acquire new electricity supply competitively from the private sector, with a target of 50% of new supply from BC Clean Electricity
- pursue cost-effective conservation and demand-side management programs
- through Powerex, continue to be an active participant in extra-provincial energy trading markets
- continue, under the direction of a steering committee chaired by Ministry staff, to participate in discussions on the formation of RTO West and other initiatives related to coordinated transmission planning, or enhanced reliability and trade
- implement stepped and time of use rate structures for large customers to provide better price signals for conservation and efficiency.

Source: British Columbia website, accessed May 2005

A similar approach was foreshadowed by Treasury five years ago, but it did not eventuate:

The shareholding/portfolio ministers will write to the government business to convey their strategic concerns and broad preferences, requesting these be taken into account in preparing the draft agreement and the business plan.

Source: NSW Treasury, *Treasury Focus*, March 2000

- Recommendations** We recommend that NSW Treasury adopts the following measures to clarify the objectives of State ownership:
- clearer identification and prioritisation of shareholders' short and long-term objectives of ownership of each SOC, so as to better hold SOCs accountable for their performance
 - the objectives should be public documents widely circulated amongst ministries concerned, SOC boards, management, and the Parliament, so as to strengthen ministerial accountability.

3. Oversighting performance

At a glance

We examined external oversight arrangements for SOC's including the role of NSW Treasury.

We found:

- both shareholder ministers rely on Treasury to monitor the SOC's commercial operations and performance. Treasury has a strong incentive to monitor the financial performance of SOC's because of the impact of SOC dividends on the State budget
- there is a potential for conflict between Treasury's primary role of managing the State's finances and its over-sighting role on behalf of shareholder ministers, but we found no evidence that this was occurring. Other jurisdictions have other arrangements, but no arrangement is ideal
- whilst Treasury analysts are conscious of the many issues affecting SOC performance, there is relatively little focus on analysing non-financial areas that may affect a shareholder. There is little evidence of feedback to the SOC's in relation to their SCIs and little evidence of the SOC's responding to any concerns raised
- Treasury has no designated SOC monitoring unit, although it used to have a *Government Trading Enterprise Monitoring Unit* for this purpose. Some other jurisdictions assign this responsibility to a designated entity in order to remove it from a purely financial focus.

3.1 What we looked for

We looked to see whether the exercise of ownership rights was clearly identified within the government administration.

3.2 Role of shareholder ministers

The SOC Act provides for each SOC to have two "Voting Shareholders", one of whom is always the Minister for Finance (formerly the Treasurer), while the other is a minister nominated by the Premier. At the time of the audit the other minister for SOC's in the electricity sector was the Special Minister of State (and Assistant Treasurer).

Ministerial powers

These shareholding ministers:

- appoint the members of the Board, including the chair
- review the draft Statement of Corporate Intent. The board must consult and make such changes to the statement as are agreed between the voting shareholders and the board
- approve financial performance targets, dividend payments, major investment decisions, and capital structure.

Budget Committee

Additionally, the Cabinet Standing Committee on the Budget (Budget Committee) must provide in-principle approval for all new *Projects of State Significance*.

Most significant SOC projects are subjected to this process as it includes:

- potentially controversial projects
- investment in activities interstate or overseas
- involvement of the private sector in financial arrangements
- complex or innovative projects with significant risks
- projects in excess of \$100 million.

3.3 Role of portfolio ministers

The portfolio minister (in the case of the electricity corporations, the Minister for Utilities) is responsible for:

- industry policy and structure
- industry regulation and enforcing compliance
- minimum standards of customer service and safety and issue of operating licences
- monitoring non-financial performance.

Portfolio minister's power

If the portfolio minister wishes a statutory SOC to perform activities, or to cease to perform activities, or not perform activities when the Board considers that it is not within the commercial interests of the SOC to do so, that minister may, with the approval of the Treasurer, write to the Board directing the SOC to do so. The SOC is entitled to be reimbursed for any such direction. Any such directions must be tabled in Parliament.



As expressed for example in the opening statement in the 'corporate governance' section of TransGrid's annual report 2004: *TransGrid is subject to the control and direction of its portfolio minister.*

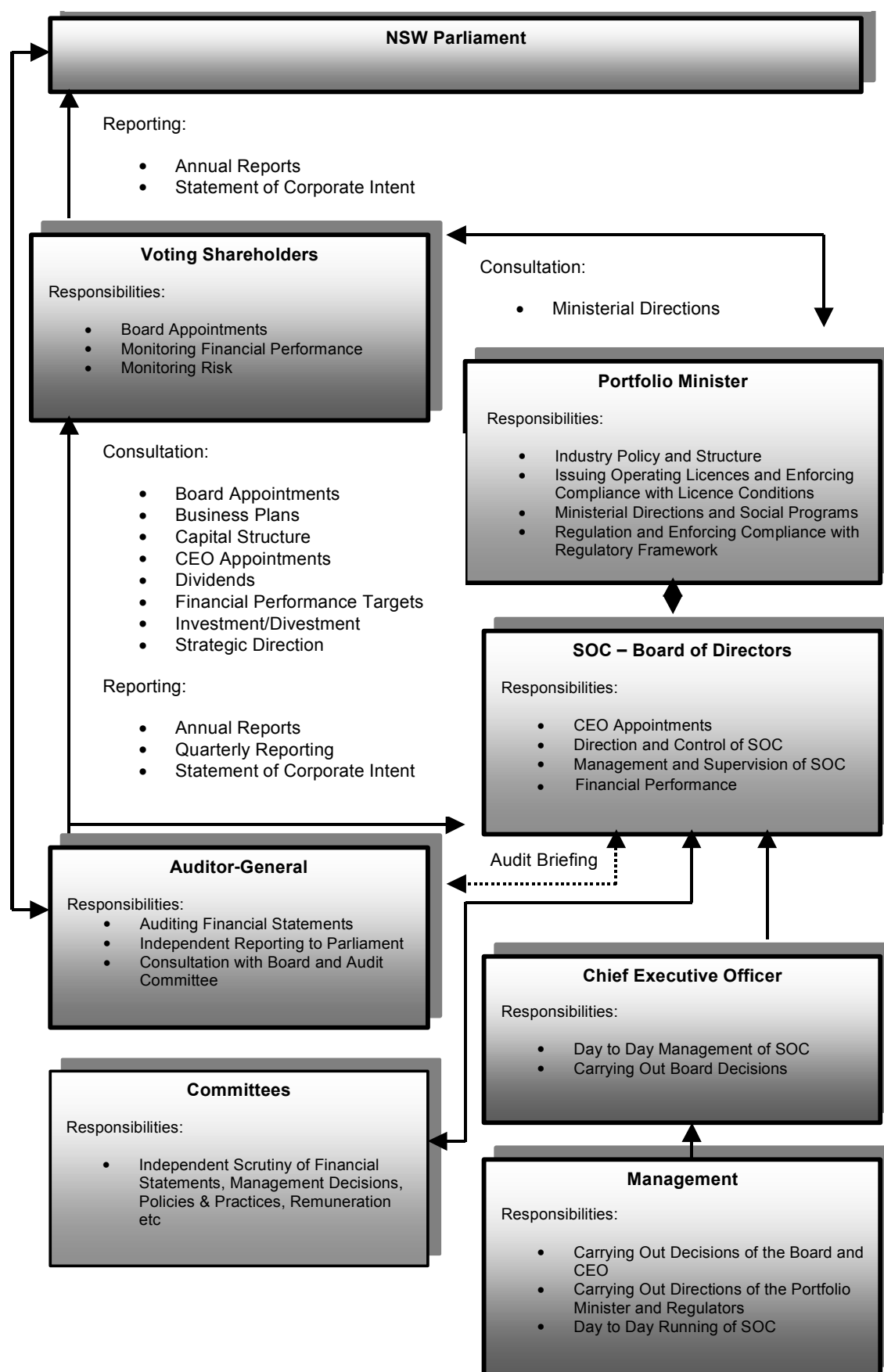
The Minister for Utilities has imposed conditions relating to reliability and performance standards on licences held by distribution network service providers under *the Electricity Supply Act 1995*. When fully implemented, distribution network service providers will also be required to submit detailed reports to the Minister to ensure compliance with the conditions.

Other portfolio ministers are responsible for non-industry specific regulation, such as in the environmental, health or industrial relations areas. Relevant portfolio ministers may also be responsible for the specification and purchase of social programs.

3.4 Balancing oversight

The external governance arrangements for SOC's are complex, as illustrated in the following figure developed by NSW Treasury.

The distinction between the roles of the voting shareholders and the portfolio minister is a fundamental feature of the oversight of SOC's in the electricity sector in NSW. The voting shareholders are concerned with a SOC's commercial direction and financial performance while the portfolio minister focuses on industry policy and regulatory matters.



The shareholder ministers

As SOC's are accountable to both the shareholder ministers and the portfolio ministers, this can at times lead to conflicting requirements from the Government, such as when an increase in service level or a decrease in emissions is likely to reduce profitability. However such conflicts are an evitable consequence of government ownership. What is important is how those conflicts are best managed.

The concept of 'shareholder ministers' is not unique to New South Wales. It has been adopted by the Commonwealth, most Australian States and a number of overseas countries including France, Canada and New Zealand.

While the concept is common, the details do differ between jurisdictions.

The most significant difference relates to the composition of the shareholder ministers. While most jurisdictions have the Treasurer (or equivalent) as one of the shareholders, some (unlike New South Wales) have the portfolio minister as the other shareholder.

In the Commonwealth for example, the portfolio minister and the Minister for Finance and Administration represent the Government's ownership interests.

One claimed advantage of such an arrangement is that it may better balance the potential for conflict between Treasury's primary role of managing the State's finances and its over-sighting role on behalf of shareholder ministers.

However the disadvantage of including portfolio ministers as shareholders is that they are then required to consider both ownership and regulatory aspects while performing each of their roles. This could lead to perceptions that the portfolio minister had, for example, favoured an inappropriate regulatory framework - either to inflate the SOC's value to its owners or to commercially advantage it over its competitors.

This issue has been recognised elsewhere. In 1999 the Commonwealth Joint Committee of Public Accounts and Audit recommended that Commonwealth portfolio ministers be removed from their shareholder responsibilities in light of the potential for conflict between the portfolio minister's ownership and regulatory responsibilities.

In our view, the current New South Wales arrangement - where the portfolio minister can exercise the regulatory role free from concerns about conflict - is the more robust model and better satisfies the 'public interest' test.

3.5 Dividend payments

Treasury on behalf of the shareholder ministers has required very large dividends in some years. It was suggested to us, as evidence that the model of oversight in NSW could be flawed, that this has limited the ability of boards to plan future investment in their businesses. Requiring a SOC to remit a certain dividend to the government each year may simply deprive the SOC of funds that it could better have employed for internal investment. A SOC's ability to pay dividends would be expected to be determined after allocating a portion of cash profits to re-investment and debt reduction.

We were concerned to establish if dividend requirements were leading to under-investment in capital, as this would have serious long-term effects for the State. We put this notion to Treasury and the SOCs we examined. They assured us that this had not occurred. The SOCs indicated new investment was planned on a needs basis and that, whilst much infrastructure in this sector is now ageing, it has a considerable remaining useful life.

In addition to these assurances, we looked for evidence that this problem might be occurring. We checked to see whether the level of dividend payments was such that the SOCs may have been unable to fund new investment in infrastructure. Whilst dividend requirements have been high at times, SOCs have relatively high credit ratings and their dividend payout ratios and gearing levels are not dissimilar from other private sector utilities such as AGL, Envestra, Origin and Telstra. The following tables show these ratios over recent years.

<u>Dividend Payout Ratio (%)</u> Calculated as dividend/profit				
	2000-01	2001-02	2002-03	2003-04
EnergyAustralia	60	43	85	92
Integral Energy	72	158	102	100
Macquarie Generation	105	103	99	99
Country Energy	n.a.	113	80	38
TransGrid	--	--	97	84
Delta Electricity	98	90	184	100
Eraring Energy	66	114	89	87
AGL	161	102	43	75
Envestra	--	--	--	--
Origin	23	27	20	36
Telstra	60	77	86	77

Source: NSW Treasury

<u>Gearing (%)</u> Calculated as debt/(debt + equity)				
	2000-01	2001-02	2002-03	2003-04
EnergyAustralia	53	53	51	53
Integral Energy	44	52	51	51
Macquarie Generation	57	57	50	46
Country Energy	n.a.	67	68	68
TransGrid	55	54	55	50
Delta Electricity	66	65	49	45
Eraring Energy	22	11	8	13
AGL	56	52	39	41
Envestra	95	94	93	91
Origin	36	29	29	32
Telstra	50	50	45	44

Source: NSW Treasury

The average NSW electricity network sector gearing levels are currently around 55%. This is in line with the 'target' debt gearing level of 60% adopted by Australian regulators in setting electricity network prices.

Regulation by AER and IPART should further minimise the risk to future investment for network service providers. SOC's submit to the regulator how much they are likely to spend in the future. Prices are then set to compensate the SOC for any capital and operating expenditure needed. This expenditure is funded either through existing cash or through borrowing. As indicated earlier, generation is not subject to price regulation, as it is a fully competitive market.

Those arrangements and this data do not establish with absolute certainty that dividend requirements and pricing determinations may not limit capital investment on occasions, and in the short term. But we could find no data to support a systemic long-term problem.

3.6 Monitoring by Treasury

To properly exercise their responsibilities for a SOC, the responsible ministers must be able to obtain and rely on departmental advice.

Both shareholder ministers rely on Treasury to monitor the SOC's commercial operations and performance. In this role Treasury:

- acts as the Government's financial advisor for Government business, providing advice similar to that provided by independent investment advisors in equity markets
- advises Government in its 'holding company' role
- monitors the financial performance of all Government businesses
- acts as policy advisor to Government businesses, assisting them with areas of Government policy which may affect their operations.

Purpose

Treasury advised that its monitoring of Government businesses aims to:

- ensure that the operations of the Government business and their investments remain within the bounds stipulated by the Government
- ensure businesses maintain the appropriate capital structure
- assess risk-adjusted returns to the Government on its investments
- analyse financial objectives and targets
- assess financial health and performance
- assess dividend recommendations
- evaluate the business and provide advice on policy responses and reform options.

Treasury analysts are responsible for a portfolio of businesses, and act as a relationship manager for each business, being effectively a 'one-stop shop' for all Treasury matters relating to the businesses in their portfolio.

Monitoring regime	<p>Once a SOC is established, it is subject to Treasury's monitoring regime. Under this regime the SOC is required to provide quarterly, half yearly and annual reports to Treasury. Treasury advises the Treasurer on core business parameters, debt/equity mix, rate of return on assets and dividend payments. It also advises the shareholding ministers in relation to the financial performance of each SOC. It monitors quarterly reports that show the business's actual performance against the annual targets set out in the SCI. In addition, Treasury monitors financial distributions in the form of dividend payments and tax equivalents, as these represent a substantial contribution to State budget revenue.</p>
Monitoring focus	<p>A risk associated with these arrangements is that Treasury's focus is overwhelmingly financial, and not evenly directed at broader shareholder concerns. Treasury does not have a designated SOC monitoring unit Treasury, although it used to have a <i>Government Trading Enterprise Monitoring Unit</i> for this purpose. Although we found statements of Treasury's general financial monitoring responsibilities, we found no charter that outlines Treasury's monitoring objectives, functions or responsibilities on behalf of the shareholder ministers. Some other jurisdictions assign this responsibility to a designated entity in order to remove it from a purely financial focus, although it might be located within a treasury or finance function. In the Australian Government a designated section within the Department of Finance and Administration, which is separate to the Treasury function, performs these functions. In New Zealand a stand-alone unit within the Treasury known as the Crown Company Monitoring Advisory Unit is responsible for maintaining and enhancing the Crown's ownership interest in State-owned enterprises.</p> <p>We found Treasury's focus is on financial monitoring. Treasury's financial focus on SOC's is principally concerned with dividend returns, capital programs and capital structures. Financial analysts monitor electricity SOC's from within the Commercial Policy and Energy Ownership Branch within the Resources and Policy Directorate of Treasury. As Treasury's main role is the management of the State's finances, its expertise would be expected to lie in reporting and analysing in that context.</p>
Efficiency comparators	<p>A key financial performance indicator, to gain some assurance that SOC's are satisfying their legislative requirement to <i>operate at least as efficiently as any comparable businesses</i>, is the rate of return on capital employed relative to that earned by comparable private sector organisations.</p> <p>We were unable to obtain such comparisons from Treasury. Performance comparisons of this nature often require information that is difficult to obtain and a good deal of industry knowledge to interpret differences in circumstances. The following figures, compiled by the Productivity Commission, appear to show that returns only marginally exceed the long-term bond rate.</p>

Return on SOC Assets (%) (earnings before interest and tax / assets)				
	2001-02	2002-03	2003-04	Average
Energy Australia	6.9	7.1	7.8	7.3
Country Energy	4.8	6.3	9.5	6.9
Integral Energy	6.9	6.1	9.2	7.4
Delta	12.7	9.5	9.1	10.4
Macquarie	12.3	8.8	8.9	10.0
Eraring	4.5	4.8	7.6	5.6
TransGrid	5.2	6.2	6.5	6.0

Source: Productivity Commission, *Financial Performance of Government Trading Enterprises, 1999-2000 to 2003-04*, Commission Research Paper, July 2005.

Return on 10 year Australian Government Bonds (%)				
	2001-02	2002-03	2003-04	Average
Reserve Bank	5.9	5.3	5.7	5.7

Source: Reserve Bank of Australia website, accessed 26 July 2005

Shareholder's return

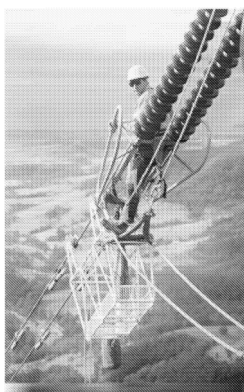
Return on shareholders' funds is a more direct measure of the financial benefit to the shareholder. Treasury provided the following figures, although there were no comparisons available of returns from investments in comparable private sector organisations.

Return on Equity (%) (net profit after tax / shareholders' equity)				
	2001-02	2002-03	2003-04	Average
Energy Australia	5.4	5.9	8.2	6.9
Country Energy	3.1	5.5	11.2	6.6
Integral Energy	5.2	4.2	9.8	6.7
Delta	24.4	10.3	9.3	16.8
Macquarie	17.5	6.1	8.3	11.1
Eraring	3.2	3.8	6.2	4.1
TransGrid	4.9	7.4	8.7	2.9

Source: NSW Treasury, data provided to the Audit Office

Monitoring non-financial performance

A further problem is that whilst Treasury analysts are conscious of the many issues affecting SOC performance, there is relatively little focus on analysing non-financial areas that may affect a shareholder. For example, SOC objectives also refer to efficiency, safety, reliability, social responsibility, ecologically sustainable development, and regional development.



In 1991 a Treasury led task force on the monitoring of government trading enterprises highlighted the importance of monitoring the non-financial indicators of a SOC's quality of service, efficiency and effectiveness (including price index) indicators. In the absence of market disciplines, there is the possibility that cost reductions and increased returns may be achieved through reduced quality of service. Non-financial indicators can provide essential information in assessing the extent to which such trade-offs are warranted. They help bring consumer requirements into the equation of what is improved performance of a SOC.

Non-financial areas might include:

- actual service levels vs regulatory standards
- strategic growth opportunities - whether or not to expand and how
- plant reliability and planning for new facilities
- strategic environmental strategies - such as under-grounding cables and reducing emissions
- future regulatory changes.

Recommendation

We recommend NSW Treasury clarify who is responsible for overseeing which aspects of SOC performance, especially who is supposed to monitor business aspects such as market share and customer service, and other aspects such as social responsibility, ecologically sustainable development, and regional development.

Providing feed-back

We found little documentation of feed-back to the SOCs in relation to their SCIs, of the SOCs responding to any concerns raised, or of any analysis other than financial analysis. SOCs seem uncertain as to whether the absence of feed-back signals an understanding of all elements of the SCI and corporate business plan, or agreement to all the elements of their SCI and corporate business plan by the government, or simply an inability or unwillingness to comment. In this sense, Treasury's relationship with the SOCs as owner's representative seems to involve a significant level of ambiguity.

Although board directors are appointed to act in the best interests of the SOC, and not simply represent the shareholder's interests, board directors could potentially benefit from access to independent analyses conducted by Treasury.

Recommendation

We recommend NSW Treasury increase shareholders' feed-back to the SOCs in relation to their direction and performance; and provide board directors with improved dialogue and access to independent analysis conducted by Treasury.

Using external advisors

Treasury analysts do not use external advisors to the same extent as pricing regulators. As a result, for example, they are less well equipped to robustly challenge SOC operating and capital projections. Treasury may need to rely on external analysis and reporting requirements for substantive performance monitoring of those areas where it does not have expertise. The extent of such requirements would depend on the specific shareholders' strategic objectives and the nature and extent of industry-specific knowledge needed to monitor progress against those objectives. It could include advisors experienced in technical areas, investment and commercial law. External advisors could assist in benchmarking SOC performance against the private sector.

Treasury could also enlist the help of other agencies - possibly using a memorandum of understanding to draw upon relevant analyses or assessments from the Department of Energy, Utilities and Sustainability and the Department of Environment and Conservation.

Treasury could also consider contracting out some aspects of the oversight function, in order to exercise the State's ownership rights in a more efficient, expert and informed manner. For example, in 2004 EnergyAustralia participated in a *Corporate Responsibility Index* assessment and has placed the feedback report by the St James Ethics Centre on its web site.

Recommendation

We recommend NSW Treasury strengthen the ownership monitoring function and the specialist resources available to it, depending upon the precise nature of the shareholders' objectives. Periodic assessment of SOC performance in relation to shareholder objectives could be contracted out to independent consultants.

4. Representing the owner's interests

At a glance

We examined how NSW Treasury represents the State as an active owner.

We found:

- Treasury and the SOC's have recognised that there is scope to improve their level of interaction and communication with the shareholders
- SOC boards could be given greater autonomy if they were provided with greater strategic direction in terms of desired outcomes
- Boards appear to have limited involvement in the appointment of new directors, limited control over the skill mix of directors, balance, and diversity of views
- Board performance needs to be reviewed annually, but there is little evidence that such reviews are conducted
- There is no comparative analysis of SOC businesses against shareholder objectives and little analysis against their private sector equivalents; very little information is made public, largely on the grounds of confidentiality.

4.1 What we looked for

We looked to see whether the NSW Treasury represents the State as an active owner and exercises the shareholder's ownership rights within the legal structure of each corporation.

4.2 Interaction and communication

For the shareholders, and Treasury as their representative, to be able to express their views on issues submitted for agreement it is necessary that they gain an informed view on those issues and articulate it to SOC boards.

Limited opportunities

We found that opportunities for this were limited. There is an annual meeting of the shareholder ministers and Treasury with the chair of the board and the chief executive. Whilst the meetings are often called *Statement of Corporate Intent* meetings, they cover both past performance and forward projections. The meetings follow an agenda and are assisted by presentations. Senior management of Treasury may also (once a year) attend a SOC board meeting to discuss Treasury and shareholder issues. Treasury staff will meet with SOC officers to better understand the business, although we noted it is uncommon for Treasury staff to speak to executives or staff other than the chief executive, chief financial officer and a liaison staff member in the finance department.

Beyond this, we found no evidence of further meetings between the shareholders (or their representatives) and board directors to discuss:

- government fiscal policies
- shareholders' expectations vs performance
- industry issues
- issues of concern to the board.

The auditor does not attend the annual meeting. This is a requirement for private sector companies under the *Corporations Act 2001* to allow the shareholders to ask the auditor about past performance.

Recommendation	We recommend that there be an opportunity for the auditor to be present at the annual meeting.
No records of meetings	<p>There are no minutes of any meetings between the Treasury or shareholders and the SOCs. The annual meeting is essentially an informal discussion about any issues that may require resolution prior to the SCI being signed. The annual meeting in particular is a significant event in the governance of any corporation. In comparison, the <i>Corporations Act 2001</i> requires private sector companies to keep minutes of proceedings and resolutions. The <i>State Records Act 1998</i> requires full and accurate records be kept.</p> <p>In addition to formal consultation processes, ministers and staff sometimes interact informally with the board. Such interaction and communication is important. However, as these informal interactions are not open to public scrutiny the effectiveness of the process cannot be observed and, if no records are kept, the participants cannot be held directly accountable.</p>
Recommendation	We recommend that meetings between the shareholders or their representatives and board directors, including the annual meeting, be fully and accurately recorded.
Calls for improved communication	<p>A recent Treasury survey of SOCs pointed to the need for increased interaction and communication between the Board, Treasury and the shareholding ministers. In particular, businesses suggested more timely and direct communication with Boards instead of relying on Treasury as the communication medium. The consistent theme across the businesses was the need to develop better two-way communication with Treasury where currently the businesses were seen to be providing all the information with little feedback from Treasury in relation to shareholder concerns.</p> <p>Various suggestions were put forward by the SOCs as to methods of improving communication. One recommendation was the implementation of both a structured and informal communication program. A specific solution was the need for regular meetings between the shareholders, their representatives and the Board. Emphasis was placed on the importance of this regular program of meetings with, in particular, the shareholding ministers.</p> <p>The task of balancing potentially conflicting objectives for SOCs is more likely to be resolved at Cabinet level.</p> <p>We found that some SOCs are more open than others.</p> <p>Treasury has endeavoured to improve the level of interaction and communication, but in our view there is still much to be done. For example, a structured communication program might require a staggering of SCI tabling dates to spread oversight tasks through the year.</p> <p>In our view there needs to be a significant increase in the level of interaction and communication between the Board, Treasury and the shareholding ministers with both a structured and informal communication program.</p>

Recommendation We recommend increased interaction and communication between the Board, Treasury and the shareholding ministers with both a structured and informal communication program.

4.3 Board nominations

The ownership entity needs to ensure that SOC's have efficient and well-run professional boards, with the required mix of competencies to fulfil their mandate. This involves establishing a structured nomination process, thereby influencing SOC board structure and composition.

Treasury's role Treasury coordinates the nomination process. Treasury executives interview and select candidates according to an identification process and criteria that the SOC through the Chair may contribute to. The shareholding ministers approve the appointments.

However, the Treasury survey attracted considerable comment from the SOC's on this matter, as did our own inquiries. Treasury summarised the SOC's proposals for improvement, as shown on the next page.

Role of boards We support these proposals. Although it would be unusual for Treasury to act without consulting the chair, boards appear to have limited involvement in the decision to appoint new directors and hence limited control over the skill mix of directors, balance, and diversity of views.

Ideally the nomination process of board members should be clearly structured and based on an appraisal of the variety of skills, competencies and experiences required. These requirements should derive from specific evaluation of the current board and the strategic evolution envisaged for the corporation.

For example in New Zealand, the process begins with agreement between the minister and the corporation on a board skills profile and it ends with the appointment of the selected candidate, after consultation with the corporation, the responsible minister and the Minister for Finance. New Zealand publishes an outline of the key competencies required in directors.

The United Kingdom has a Commissioner for Public Appointments, whose objective is to manage an appointment process that will merit the confidence of candidates and the public. The process incorporates scrutiny by an independent assessor, transparency and openness. All stages of the process are subject to audit.

Performance reviews Board performance needs to be reviewed annually. We noted that some SOC boards review their own performance. And Treasury will raise this issue with the chair when a director's term is due to expire. We found reference to a requirement for formal board performance reviews in internal Treasury guidelines, but little evidence that such reviews were routinely conducted.

Board performance is to be reviewed annually. The purpose of the review is to improve the range and quality of information used to make recommendations on Board appointments following the expiry of current terms. The process can also be used to identify the skill-sets required for new Directors and Chairs.

Source: Treasury, *Guidelines for Appointments to Boards of State Owned Corporations*, August 2002

Feedback from Government Businesses in relation to Treasury's Review of Corporate Governance

There were many comments made regarding Board appointments. The most notable was the need for *established selection criteria laid down by Shareholders for Board appointments*. The theme across the businesses was that Treasury has fallen short in providing clear guidelines regarding the process of appointments. Many businesses believed a more articulated process would reduce inefficiencies and improve timeliness.

Most businesses suggested a more consultative approach to appointments involving all stakeholders. However, the key point regarding recruitment was ensuring that the target mix of competencies should be collectively representative of the Board. Of particular importance was ensuring that one director must have commercial financial competency. Ultimately *board composition in regards to skills and experience should be related and complementary to the key undertakings of the business*.

Suggestions also focused on the process forward once Board members were appointed. In particular, the need for *clear guidelines regarding the requirements of the directors* including appropriate, clear timeframes for the appointment or re-appointment of directors. Further to this, businesses believed that to be comparative and competitive with the private sectors, Board members should be appointed for *longer tenures* than is currently the norm.

Another common theme was the importance of Board assessment. Most businesses acknowledged that appropriate measures needed to be established with a *formal Board performance program* which also ensured that performance gaps were addressed. Suggestions varied as to the form of assessment where recommendations included for Boards to review their own performance, the idea to appoint an outside specialist or alternatively for Treasury to set guidelines as to minimum standards for assessment.

Lastly, emphasis was placed on an *induction process for Board members*. The initiation of SOC directors and training was seen as a crucial first step in the appointment. It was further suggested that continued training should be a required component of the SCI. In addition to internal induction and training, smaller businesses in particular, recommended *externally organised induction* processes for new entrants to the industry and opportunities to network with Boards of like organisations.

Source: NSW Treasury, *Summary of Feedback from Government Businesses in relation to Treasury's Review of Corporate Governance*, 23 February 2003.

Training	We also support the view that Treasury, with SOC's, should ensure that newly appointed directors are provided with adequate orientation and training in their responsibilities to the corporation, the corporation's relationship with the Government, and board procedures. Regular performance reviews and improved board member education are both regarded as key elements of better practice in the private sector. In 1998 the Audit Office of New South Wales recommended that, in order to improve board member performance, board members should be provided with training on their roles and responsibilities, the environment in which the board operates and on the impact of legislation affecting the agency.
Recommendation	We recommend improving the transparency of board appointments, formal guidance and education support for board members. Boards need to better define and communicate their requirements for skills and capabilities.

4.4 Board autonomy

In order for an enterprise to maximise its efficiency in a commercial environment, its board and management should have the authority to make the major decisions affecting the performance of the enterprise. These decisions would cover such things as the terms and conditions of employment, the determination of the enterprise's structure, determining where inputs should be obtained and implementing the investment and borrowings program of the SOC.

Board authority	<p>The responsibilities of SOC boards are broadly outlined in the SOC Act and the <i>Energy Services Corporation Act 1995</i>. Boards are allowed a large measure of autonomy, subject to regulatory constraints. This includes:</p> <ul style="list-style-type: none">▪ the CEO is appointed by the Board after consultation with the voting shareholders▪ the board may remove a person from office as CEO at any time, but only after consultation with the voting shareholders▪ the CEO is entitled to be paid such remuneration as the Board may determine▪ all decisions relating to the operation of a statutory SOC are to be made by or under the authority of the Board, with the CEO responsible for day to day management in accordance with policies and directions of the Board.
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The board is responsible for managing the SOC in accordance with the processes, objectives and performance targets contained in the SCI.

Limitations	The accountability of the board for overall performance is diminished where limitations are placed on board authority. For example, it is difficult to hold board members fully accountable for a SOC's rate of return on their assets if they have no authority over the charges set for a SOC's services. Similarly, lack of strategic direction and limitations on borrowing or investing can potentially affect a SOC's capital expenditure program, and ultimately impact on future costs or the reliability and quality of the service provided.
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Board responsibility The ability of ministers to effectively determine the level of dividends could limit the capacity of SOC boards to plan for the use of retained earnings for future investment and capital replacement (particularly if combined with restrictions on SOC borrowing). If the efficient management of assets was impeded or investment curtailed, inadequate provision of services and higher costs could result, particularly in future years.

The Productivity Commission has recommended that:

To be consistent with the private sector, the initial recommendation of the size of dividends and assessment of the capacity to pay should be an internal governance responsibility of the board. While it would be appropriate for ministers, as representatives of the owners, to have the power to override this recommendation, they should be required to publicly provide reasons for doing so.

Source: Productivity Commission, *Financial Performance of Government Trading Enterprises 1999-00 to 2003-04*, 2005

Improving autonomy In our view, SOC boards could be given greater autonomy and held more accountable for performance if they were provided with greater strategic direction in terms of desired outcomes. The shareholders need to set long term business objectives separately for each SOC in each sector, including longer-term dividend targets. Ideally, the State objectives for SOCs should be strategic, consistent and stable to allow the Board to make operating and investment decisions in a known context that allows them more autonomy but also more accountability.

Recommendation We recommend that the initial recommendation of the size of dividends and assessment of the capacity to pay should be a responsibility of the board. While it would be appropriate for shareholder ministers to make the final determination, they should be required to provide reasons for doing so where this differs from the recommendation of the board.

4.5 Reporting systems

In order for the shareholding ministers to influence the corporation as an owner, they need to ensure they receive all the necessary and relevant information to make appropriate decisions when required, and that they are able to monitor a SOC's activity and performance on a continual basis.

Reported information Each year SOCs provide a range of information to the Government that includes:

- SOCs must provide NSW Treasury with a draft SCI and business plan in March for the coming financial year. The *State Owned Corporations Act 1989* requires the SCI to be completed and delivered to the shareholders no later than September.
- Treasury undertakes regular financial monitoring of Government businesses from the shareholders' perspective. Quarterly reports are required, which show the business's actual financial performance against the annual targets set out in the SCI. In addition, Treasury monitors financial distributions in the form of dividend payments and tax equivalents, as these represent a substantial contribution to state budget revenue.

- SOCs are also required to provide annual reports, which are tabled in Parliament. Each annual report is to include a section that identifies any actual departures from the performance targets (including financial targets) set out in the statement of corporate intent for the SOC for the period in which it relates, and set out the reasons for each of the departures from the performance targets.

Corporate business plan

Treasury may comment on the SCI, on behalf of the shareholder ministers. But as there is little in the SCI on which to comment, most Treasury comments are in relation to aspects of the corporate business plan. The corporate business plan in effect provides the main vehicle by which Treasury may review past performance, assess the exposure of then shareholders to risk and approve or amend the future business strategies put forward by the SOC board. Most other jurisdictions require the corporate business plan to be submitted for approval by the shareholder ministers. In NSW this is left to the SOC board. The shareholder ministers do not approve the SOC's corporate business plan (and are not required to do so).

We found some SOCs were under the impression that the shareholders approve their corporate business plan, as they have included it as part of the SCI. Other SOCs view Treasury as reviewing corporate business plans over which it has no obvious authority.

The effectiveness of reporting depends on how well information enables the shareholder ministers to hold SOC boards to account. This depends on the extent to which shareholder objectives are defined in terms of outcomes, and whether progress is reported in a timely fashion. But Treasury reporting requirements are stated in general terms. Whilst considerable detail is provided, much of this has no direct bearing on the attainment of the shareholders' objectives. Such reporting detail, unrelated to the primary purposes of the accountability regime, could even be weakening accountability by obscuring the focus on performance against shareholder's objectives.

It is not clear what aspects of the corporate business plans Treasury should and should not be reviewing, as SOC corporate business plans address many aspects of their overall performance.

Shareholder objectives and reporting systems need to be specified separately for each SOC and well aligned. Following this approach, some jurisdictions are requiring that state owned corporations report against shareholder objectives using a 'balanced scorecard'. Elsewhere, private and public sectors are moving to adopt 'triple-bottom line' reporting that tells shareholders about the economic, social and environmental operations of an organisation. One benchmark indicator that could usefully be employed in NSW to guard against insufficient attention being paid to a SOC's re-investment needs is: 'sustaining capital expenditures as percentage of replacement value of capital assets'.

Also, the corporate business plan could be submitted to the shareholder for comment and agreement to matters that affect shareholder's responsibilities prior to finalisation - as required under the *Victorian State Owned Enterprises Act 1992*.

In Saskatchewan, for example, Crown corporations prepare a comprehensive performance management plan that links the broad strategic directions of Government with the specific activities detailed in its corporate business plan. A balanced scorecard that reflects a balanced view of corporate objectives, measures and targets from core, and sometimes competing perspectives, accompanies this. Integral Energy employed the scorecard approach to good effect in presenting its 2003-04 annual report.

Recommendation We recommend that NSW Treasury move to an approach where shareholders formally agree to those aspects of the corporate business plan relevant to their stated objectives and require a management plan for those aspects.

4.6 External reporting

External reporting increases transparency by enabling the performance of SOC's to be more widely scrutinised.

The SCI, annual reports, half yearly reports, notices and any written directions given under the legislation are tabled in Parliament.

However we found that:

- the non-confidential part of the SCI that is tabled contains relatively little information about SOC direction or performance
- the confidential part that comprehensively reviews past performance, risks, and future strategies is not tabled
- the annual reports contain little information in reference to the SCI, as most of it is confidential
- other tabled reports are largely financial
- written directions under the legislation are rare
- only the annual reports are readily accessible to the public
- annual reporting is not timely. For example consider the time that elapses from SCI to annual report - e.g. 2003-04 annual report at 5 October 2004 is too late to inform the 2004-05 SCI at 14 May 2004, but it could inform the 2005-06 SCI - two years later.

Nor are the SCIs particularly timely. SCI's are often not signed until well into the financial year to which they apply. By this time they are irrelevant to the Government because the Budget has been finalised and they are irrelevant to the SOC's because they are already committed to their internal budget and corporate business plan.

Treasury has a report available on its website that describes the performance of the SOC's. The most recent is *Performance of NSW Govt Businesses 2002-03*, which is two years old.

It does not seek to provide comparative analysis of SOC businesses against objectives or against their private sector equivalents.

In our view, the public availability of a more timely, informative, ministerially agreed SCI that includes objectives expressed in terms of target outcomes would improve ministerial accountability. The SCI should be published on the SOC web site once it has been agreed and tabled in parliament.

An ownership policy and associated objectives also need to be public documents, be made accessible to the general public and widely circulated amongst ministries concerned, SOC boards, management, and the Parliament.

Regulators provide most of the remaining publicly available information on SOC performance. The regulation of prices usually requires some monitoring of service quality levels, to ensure financial targets are not met through a reduction in service standards. This is an indirect way of achieving performance reporting. Its usefulness is limited in that regulators do not comprehensively report on all aspects of performance, regulators report infrequently, and many areas of SOC activity are not subject to the regulators.

- Recommendations** We recommend that NSW Treasury adopts the following measures to improve reporting to stakeholders:
- shareholders' objectives and statements of corporate intent should be made available to the public
 - more consistent reporting and benchmarking of performance, particularly for Parliament and the public.

Appendices

Appendix 1

Terms used in this report

Board	The board of directors of a State owned corporation.
Competitive neutrality	Any advantages and disadvantages of public ownership identified and removed so that the government owned enterprise competes with the private sector on 'a level playing field'
Distribution system	The electricity power lines and associated equipment and electricity structures that are used to convey and control the conveyance of electricity to the premises of wholesale and retail customers, or to convey and control the conveyance of electricity to, from and along the rail network electricity system, but does not include a transmission system.
Gearing	Indicates the extent to which a business is financed by debt, or its leverage.
Generating system	The electrical equipment and associated electricity structures that are used to generate electricity for supply to a transmission or distribution system.
Governance	The arrangements by the power of those in control of the strategy and direction of an entity is both delegated and limited to enhance prospects for the entity's long-term success, taking into account risk and the environment in which it is operating.
OECD	Organisation for Economic Co-operation and Development
Return on average assets	Earnings before interest and tax / assets. Measures the efficiency with which an entity uses its assets to produce profits. It is useful for comparing profitability of businesses in similar industries.
Return on average equity	Net profit after tax / shareholders' equity. Indicates rate of return to equity shareholders after paying returns for debt providers. Useful to compare companies in similar industries and against return to alternative investments with similar risk level.
State Owned Corporation	Government trading enterprises structured and operated in such a way as to compete with the private sector on 'a level playing field'.
Statement of Corporate Intent	Short document produced by a State Owned Corporation reflecting commitments in the corporate business plan.
Transmission system	Any electricity power lines and associated equipment and electricity structures.

Appendix 2

About the audit

Objective

We examined how well the State oversees the performance of SOCs in the electricity sector to ensure that they meet the objectives of State ownership.

Our aim was to not duplicate other work, focused mainly on boards, but to focus on the agency support provided to ministers in executing their governance responsibilities for SOCs.

Scope and focus

Our audit has focused on the oversight activities of Treasury on behalf of the shareholders, in the context of the industry oversight by the Department of Energy, Utilities and Sustainability and regulatory oversight by others (including IPART). We focused in some depth on three representative SOCs selected from the electricity sector - the power generator Delta Electricity, the grid operator TransGrid, and the distributor/retailer - EnergyAustralia. The other SOCs in the electricity sector were also contacted and interviewed during the course of the audit.

The audit did not seek to:

- undertake a review of the relevant legislative or regulatory provisions, although it would examine implementation of the requirements of the Acts and may comment on the impacts of legislation
- review 'day to day' operations management or the operation of Boards
- duplicate previous work in which the Audit Office reported on corporate governance or the inquiry by the Public Bodies Review Committee following up that work
- include any review of ministerial decisions
- question the merits of Government policy objectives.

Criteria

Our audit criteria are based on the latest OECD guidelines for the State ownership function:

The state should act as an informed, accountable and active owner and establish a clear and consistent ownership policy, ensuring that the governance of State Owned Enterprises is carried out in a transparent and accountable manner, with the necessary degree of professionalism and effectiveness.

Source: OECD, *Guidelines on the Corporate Governance of State-Owned Enterprises*, April 2005

In judging the efficiency, effectiveness and economy of arrangements in place, we looked for:

- a clear understanding of the overall objectives of state ownership, the Government's role in the corporate governance of SOCs, and how it will implement its ownership policy
- the exercise of ownership rights to be clearly identified within the government administration and facilitated by an effective coordinating or ownership entity
- the NSW Treasury represents the State as an active owner and exercises the shareholder's ownership rights within the legal structure of each corporation. It has a primary responsibility in:

- participating in general meetings and voting the state shares
- having a well-structured and transparent board nomination process and actively participating in the nomination of SOC's boards
- allowing boards full operational autonomy to achieve their defined objectives
- setting up reporting systems allowing regular monitoring and assessment of SOC performance
- maintaining continuous dialogue with external auditors and specific state control agencies.

Audit approach

We acquired subject matter expertise through:

- interviews and examination of relevant documents including guidelines, reports, studies, strategies and reviews relating to the SOC's, with focus on the information provided to shareholders, information provided to Boards, and information obtained by supporting agencies, central agencies and regulators
- discussions with relevant staff as required including staff of SOC's, supporting agencies, central agencies and regulators
- discussions with representatives as required of key stakeholders such as peak consumer and business groups
- comparisons where appropriate with other States and countries
- government and best practice guidelines relevant to the above.

This was supplemented with assistance from an external subject matter expert who reviewed the audit plan, scope and criteria, overall findings and draft report.

Cost of the audit

Including printing and all overheads, the estimated cost of this audit is \$188,000.

Acknowledgements

We gratefully acknowledge the co-operation and assistance provided by representatives of the NSW Treasury, Independent Pricing and Regulatory Tribunal, Department of Energy, Utilities and Sustainability, Energy and Water Ombudsman NSW, Premier's Department, Country Energy, Delta Electricity, EnergyAustralia, Eraring Energy, Integral Energy Australia, Macquarie Generation, TransGrid.

We were also assisted by contact with a number of external bodies including the Federal Department of Finance and Administration and those involved in oversight in other jurisdictions, including New Zealand and Canada.

Audit team

Chris Yates was our team leader for this performance audit. Sean Crumlin provided direction and quality assurance.

Performance Audits by the Audit Office of New South Wales

Performance Auditing

What are performance audits?

Performance audits are reviews designed to determine how efficiently and effectively an agency is carrying out its functions.

Performance audits may review a government program, all or part of a government agency or consider particular issues which affect the whole public sector.

Where appropriate, performance audits make recommendations for improvements relating to those functions.

Why do we conduct performance audits?

Performance audits provide independent assurance to Parliament and the public that government funds are being spent efficiently and effectively, and in accordance with the law.

They seek to improve the efficiency and effectiveness of government agencies and ensure that the community receives value for money from government services.

Performance audits also assist the accountability process by holding agencies accountable for their performance.

What is the legislative basis for Performance Audits?

The legislative basis for performance audits is contained within the *Public Finance and Audit Act 1983, Part 3 Division 2A*, (the Act) which differentiates such work from the Office's financial statements audit function.

Performance audits are not entitled to question the merits of policy objectives of the Government.

Who conducts performance audits?

Performance audits are conducted by specialist performance auditors who are drawn from a wide range of professional disciplines.

How do we choose our topics?

Topics for performance audits are chosen from a variety of sources including:

- our own research on emerging issues
- suggestions from Parliamentarians, agency Chief Executive Officers (CEO) and members of the public
- complaints about waste of public money
- referrals from Parliament.

Each potential audit topic is considered and evaluated in terms of possible benefits including cost savings, impact and improvements in public administration.

The Audit Office has no jurisdiction over local government and cannot review issues relating to council activities.

If you wish to find out what performance audits are currently in progress just visit our website at www.audit.nsw.gov.au.

How do we conduct performance audits?

Performance audits are conducted in compliance with relevant Australian standards for performance auditing and operate under a quality management system certified under international quality standard ISO 9001.

Our policy is to conduct these audits on a "no surprise" basis.

Operational managers, and where necessary executive officers, are informed of the progress with the audit on a continuous basis.

What are the phases in performance auditing?

Performance audits have three key phases: planning, fieldwork and report writing.

During the planning phase, the audit team will develop audit criteria and define the audit field work.

At the completion of field work an exit interview is held with agency management to discuss all significant matters arising out of the audit. The basis for the exit interview is generally a draft performance audit report.

The exit interview serves to ensure that facts presented in the report are accurate and that recommendations are appropriate. Following the exit interview, a formal draft report is provided to the CEO for comment. The relevant Minister is also provided with a copy of the draft report. The final report, which is tabled in Parliament, includes any comment made by the CEO on the conclusion and the recommendations of the audit.

Depending on the scope of an audit, performance audits can take from several months to a year to complete.

Copies of our performance audit reports can be obtained from our website or by contacting our Office Services Manager.

How do we measure an agency's performance?

During the planning stage of an audit the team develops the audit criteria. These are standards of performance against which an agency is assessed. Criteria may be based on government targets or benchmarks, comparative data, published guidelines, agencies corporate objectives or examples of best practice.

Performance audits look at:

- processes
- results
- costs
- due process and accountability.

Do we check to see if recommendations have been implemented?

Every few years we conduct a follow-up audit of past performance audit reports. These follow-up audits look at the extent to which recommendations have been implemented and whether problems have been addressed.

The Public Accounts Committee (PAC) may also conduct reviews or hold inquiries into matters raised in performance audit reports. Agencies are also required to report actions taken against each recommendation in their annual report.

To assist agencies to monitor and report on the implementation of recommendations, the Audit Office has prepared a Guide for that purpose. The Guide, *Monitoring and Reporting on Performance Audits Recommendations*, is on the Internet at www.audit.nsw.gov.au/guides-bp/bpglist.htm

Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards. This includes ongoing independent certification of our ISO 9001 quality management system.

The PAC is also responsible for overseeing the activities of the Audit Office and conducts reviews of our operations every three years.

Who pays for performance audits?

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament and from internal sources.

For further information relating to performance auditing contact:

Stephen Horne
Assistant Auditor-General,
Performance Audit
(02) 9275 7278
email: stephen.horne@audit.nsw.gov.au

Performance Audit Reports

No	Agency or Issues Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
78	State Rail Authority (CityRail) State Transit Authority	<i>Fare Evasion on Public Transport</i>	6 December 2000
79	TAFE NSW	<i>Review of Administration</i>	6 February 2001
80	Ambulance Service of New South Wales	<i>Readiness to Respond</i>	7 March 2001
81	Department of Housing	<i>Maintenance of Public Housing</i>	11 April 2001
82	Environment Protection Authority	<i>Controlling and Reducing Pollution from Industry</i>	18 April 2001
83	Department of Corrective Services	<i>NSW Correctional Industries</i>	13 June 2001
84	Follow-up of Performance Audits	<i>Police Response to Calls for Assistance The Levying and Collection of Land Tax Coordination of Bushfire Fighting Activities</i>	20 June 2001
85*	Internal Financial Reporting	<i>Internal Financial Reporting including a Better Practice Guide</i>	27 June 2001
86	Follow-up of Performance Audits	<i>The School Accountability and Improvement Model (May 1999) The Management of Court Waiting Times (September 1999)</i>	14 September 2001
87	E-government	<i>Use of the Internet and Related Technologies to Improve Public Sector Performance</i>	19 September 2001
88*	E-government	<i>e-ready, e-steady, e-government: e-government readiness assessment guide</i>	19 September 2001
89	Intellectual Property	<i>Management of Intellectual Property</i>	17 October 2001
90*	Intellectual Property	<i>Better Practice Guide Management of Intellectual Property</i>	17 October 2001
91	University of New South Wales	<i>Educational Testing Centre</i>	21 November 2001
92	Department of Urban Affairs and Planning	<i>Environmental Impact Assessment of Major Projects</i>	28 November 2001
93	Department of Information Technology and Management	<i>Government Property Register</i>	31 January 2002
94	State Debt Recovery Office	<i>Collecting Outstanding Fines and Penalties</i>	17 April 2002

No	Agency or Issues Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
95	Roads and Traffic Authority	<i>Managing Environmental Issues</i>	29 April 2002
96	NSW Agriculture	<i>Managing Animal Disease Emergencies</i>	8 May 2002
97	State Transit Authority Department of Transport	<i>Bus Maintenance and Bus Contracts</i>	29 May 2002
98	Risk Management	<i>Managing Risk in the NSW Public Sector</i>	19 June 2002
99	E-Government	<i>User-friendliness of Websites</i>	26 June 2002
100	NSW Police Department of Corrective Services	<i>Managing Sick Leave</i>	23 July 2002
101	Department of Land and Water Conservation	<i>Regulating the Clearing of Native Vegetation</i>	20 August 2002
102	E-government	<i>Electronic Procurement of Hospital Supplies</i>	25 September 2002
103	NSW Public Sector	<i>Outsourcing Information Technology</i>	23 October 2002
104	Ministry for the Arts Department of Community Services Department of Sport and Recreation	<i>Managing Grants</i>	4 December 2002
105	Department of Health Including Area Health Services and Hospitals	<i>Managing Hospital Waste</i>	10 December 2002
106	State Rail Authority	<i>CityRail Passenger Security</i>	12 February 2003
107	NSW Agriculture	<i>Implementing the Ovine Johne's Disease Program</i>	26 February 2003
108	Department of Sustainable Natural Resources Environment Protection Authority	<i>Protecting Our Rivers</i>	7 May 2003
109	Department of Education and Training	<i>Managing Teacher Performance</i>	14 May 2003
110	NSW Police	<i>The Police Assistance Line</i>	5 June 2003
111	E-Government	<i>Roads and Traffic Authority Delivering Services Online</i>	11 June 2003
112	State Rail Authority	<i>The Millennium Train Project</i>	17 June 2003
113	Sydney Water Corporation	<i>Northside Storage Tunnel Project</i>	24 July 2003

No	Agency or Issues Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
114	Ministry of Transport Premier's Department Department of Education and Training	<i>Freedom of Information</i>	28 August 2003
115	NSW Police NSW Roads and Traffic Authority	<i>Dealing with Unlicensed and Unregistered Driving</i>	4 September 2003
116	NSW Department of Health	<i>Waiting Times for Elective Surgery in Public Hospitals</i>	18 September 2003
117	Follow-up of Performance Audits	<i>Complaints and Review Processes (September 1999)</i> <i>Provision of Industry Assistance (December 1998)</i>	24 September 2003
118	Judging Performance from Annual Reports	<i>Review of Eight Agencies' Annual Reports</i>	1 October 2003
119	Asset Disposal	<i>Disposal of Sydney Harbour Foreshore Land</i>	26 November 2003
120	Follow-up of Performance Audits NSW Police	<i>Enforcement of Street Parking (1999)</i> <i>Staff Rostering, Tasking and Allocation (2000)</i>	10 December 2003
121	Department of Health NSW Ambulance Service	<i>Code Red: Hospital Emergency Departments</i>	15 December 2003
122	Follow-up of Performance Audit	<i>Controlling and Reducing Pollution from Industry (April 2001)</i>	12 May 2004
123	National Parks and Wildlife Service	<i>Managing Natural and Cultural Heritage in Parks and Reserves</i>	16 June 2004
124	Fleet Management	<i>Meeting Business Needs</i>	30 June 2004
125	Department of Health NSW Ambulance Service	<i>Transporting and Treating Emergency Patients</i>	28 July 2004
126	Department of Education and Training	<i>School Annual Reports</i>	15 September 2004
127	Department of Ageing, Disability and Home Care	<i>Home Care Service</i>	13 October 2004
128*	Department of Commerce	<i>Shared Corporate Services: Realising the Benefit</i> <i>including guidance on better practice</i>	3 November 2004
129	Follow-up of Performance Audit	<i>Environmental Impact Assessment of Major Projects (2001)</i>	1 February 2005
130*	Fraud Control	<i>Current Progress and Future Directions</i> <i>including guidance on better practice</i>	9 February 2005

No	Agency or Issues Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
131	Follow-up of Performance Audit Department of Housing	<i>Maintenance of Public Housing (2001)</i>	2 March 2005
132	Follow-up of Performance Audit State Debt Recovery Office	<i>Collecting Outstanding Fines and Penalties (2002)</i>	17 March 2005
133	Follow-up of Performance Audit Premier's Department	<i>Management of Intellectual Property (2001)</i>	30 March 2005
134	Department of Environment and Conservation	<i>Managing Air Quality</i>	6 April 2005
135	Department of Infrastructure, Planning and Natural Resources Sydney Water Corporation Sydney Catchment Authority	<i>Planning for Sydney's Water Needs</i>	4 May 2005
136	Department of Health	<i>Emergency Mental Health Services</i>	26 May 2005
137	Department of Community Services	<i>Helpline</i>	1 June 2005
138	Follow-up of Performance Audit State Transit Authority Ministry of Transport	<i>Bus Maintenance and Bus Contracts (2002)</i>	14 June 2005
139	RailCorp NSW	<i>Coping with Disruptions to CityRail Passenger Services</i>	22 June 2005
140	State Rescue Board of New South Wales	<i>Coordination of Rescue Services</i>	20 July 2005
141	State Budget	<i>In-year Monitoring of the State Budget</i>	28 July 2005
142	Department of Juvenile Justice	<i>Managing and Measuring Success</i>	14 September 2005
143	Asset Management	<i>Implementing Asset Management Reforms</i>	12 October 2005
144	NSW Treasury	<i>Oversight of State Owned Electricity Corporations</i>	October 2005

* Better Practice Guides

Performance Audits on our website

A list of performance audits tabled or published since March 1997, as well as those currently in progress, can be found on our website <www.audit.nsw.gov.au>

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