

AUDITOR-GENERAL'S REPORT FINANCIAL AUDITS

Volume Nine 2010



The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

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

Peter Achterstraat
Auditor-General

Sydney
December 2010

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Significant Items

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Passenger revenues covered 48 per cent of the State Transit Authority's, 33 per cent of Sydney Ferries' and 22 per cent of RailCorp's costs.	4
Sydney Ferries' patronage increased by 0.2 per cent, CityRail's patronage declined by 0.8 per cent and Sydney Buses' patronage declined by 1.5 per cent.	5
At least 96 per cent of CityRail, Sydney Buses and Sydney Ferries services ran on time during the year.	8
Of the \$412 million spent on the Sydney Metro, \$356 million represents expenditure with no apparent future benefit to New South Wales.	14
Transport NSW needs to consider how it will manage potential conflicts of interest that may arise within the new transport structure.	14
Over 70 contract employees engaged by transport entities have been contracted for more than six years.	15
A total of 906 employees at transport entities were paid 50 per cent or more of their annual salary in overtime.	18
The transport entities employ over 28,500 employees, 38 per cent of these are over 50 and likely to retire in the next 5 to 15 years.	20
Of the top five major capital projects reported by each transport entity (excluding TNSW, ITSIR, PTTC and OTSI) 13 are over budget or behind schedule or both.	27
Land and Property Management Authority	
I was unable to obtain all the information required to form an opinion on the value of Crown reserve land, the buildings and infrastructure on those reserves, or coastal infrastructure that should be recorded in the Authority's financial statements.	33
Since 2007, I have reported that there is no centralised inventory of all Crown Land in NSW. Funding has now been received to establish such an inventory by June 2012.	34
Of 26,895 Aboriginal Land claims to 30 June 2010, 17,436 remained unresolved at that date, with 293 remaining unresolved for more than ten years.	36
Land, valued at \$966 million, granted to Aboriginal Land Claimants has not been transferred because of delays in transferring legal title. At current transfer rates it may take more than 20 years to clear these claims.	36
State Property Authority	
The Authority's liability for remediation of contaminated land has increased to \$115 million at 30 June 2010.	44

	Page
Department of Industry and Investment	
There are more than 570 derelict mines and funding of \$1.9 million only enabled the rehabilitation of 26 of these sites.	78
Redfern-Waterloo Authority	
Significant uncertainty exists as to the Authority's liability for rates and taxes.	101
The Authority's funding agreement with the NSW Government expires on 30 June 2011.	101
Roads and Traffic Authority	
The Authority's major project to upgrade its Driver and Vehicle System (DRIVES) has experienced significant issues with project management and governance.	107
The value of land under roads decreased by \$33.3 billion due to a change in valuation methodology.	107
The average morning peak speed for Victoria Road increased from 21 to 26 km/h while for the M5/Eastern Distributor it decreased from 41 to 35 km/h.	111
Public Transport Ticketing Corporation	
The Corporation has engaged a consortium to build and maintain an electronic ticketing system at a cost of \$1.2 billion.	136
The TCard litigation may be heard by the court in the second half of 2011.	137
Rail Corporation New South Wales	
RailCorp implemented a new \$35.1 million procurement system. During the five months between go live and 30 June 2010, over \$100 million in supplier payments were late and payments totalling more than \$4 million were duplicated.	141
RailCorp advised the introduction of MyZone fares has resulted in an estimated reduction of \$9.2 million in ticket sales revenue arising from lower ticket prices.	142
RailCorp has implemented 37 of ICAC's 40 recommendations in its report on fraud and/or bribery relating to procurement and is implementing the remaining three.	143
Completion of the 626 new Waratah train carriages is running ten months behind schedule.	146
RailCorp's overtime bill was \$128 million with more than 413 employees being paid 50 per cent or more of their annual salary in overtime.	148
The number of CityRail fleet failures affecting peak services is reducing. On average 2.6 per cent of all carriages failed every month in 2009-10.	150
CityRail's on time running performance exceeded its target of 92 per cent with a record 95.9 per cent of peak services arriving at destinations on-time.	153
Total customer complaints increased by 23.9 per cent to 26,318, and primarily related to the CityRail timetable. Service complaints replaced staffing as the major area of complaint.	156
RailCorp had around 590 contractors at 30 June 2010, 170 of whom cost more than \$1,000 each per day.	158

Rail Corporation New South Wales(continued)

RailCorp is spending \$870 million over eight years upgrading its electrical infrastructure. The upgrade is essential so it can reliably operate the new Waratah cars. 159

Rail Infrastructure Corporation

The Corporation may terminate the 60 year Country Regional Network management agreement with the Australian Rail Track Corporation. The Corporation advises it would not be liable for penalties, but would be liable for disengagement costs. 168

Backlog maintenance has increased by \$33 million to \$731 million, and is expected to be cleared over the next 10-12 years 170

State Transit Authority of New South Wales

State Transit's patronage decreased by 1.5 per cent from 208 million to 205 million passenger journeys. 174

Sydney Ferries

The Ferry Operations and Customer Information System project has been delayed by 12 months because of design issues. 188

Just over 98 per cent of Sydney Ferries' services were on time. Sydney Ferries target is 99.5 per cent. 189

Fleet failures decreased from 405 failures in 2008-09 to 316 in 2009-10. 190

Transport Infrastructure Development Corporation

A shortage of signal engineering resources continues to delay the commissioning of infrastructure projects. 201

The revised Rail Clearways program is expected to be completed by 2015, some five years after the original program completion date at a cost of \$2.03 billion (previously \$1.3 billion). 202

Luna Park Reserve Trust

There is uncertainty as to whether the operator of Luna Park will continue as a going concern. 213

Recommendations

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Transport Services Overview	
<i>Sydney Metro</i>	
I recommend the New South Wales Government identify lessons learnt from the metro experience and ensure that future decision processes are developed to ensure the State never again expends such a large amount of scarce transport funding dollars and valuable time on a project that does not proceed.	13
<i>State Transit Authority</i>	
I recommend Transport NSW review the appropriateness of State Transit being a for-profit entity under the National Tax Equivalent Regime.	14
I recommend:	
▪ TNSW develops an appropriate framework to manage potential conflicts of interests that may arise within the new transport structure.	14
▪ transport entities review the effectiveness of their practices in monitoring their contractor workforce.	14
I again recommend transport entities review the effectiveness of their policies for managing excessive annual leave balances, despite marginal improvements since last year.	19
I recommend:	
▪ each transport entity continue to develop and implement effective policies to manage their ageing workforce.	20
▪ Sydney Ferries and the RTA investigate the costs and benefits of implementing systems to determine and monitor the cost of vandalism so that potential trends can be identified and addressed.	24
▪ TNSW reconsider the appropriateness of employment arrangements for State Transit to avoid further losses of Commonwealth Government grants.	25
▪ TNSW continues to monitor major capital projects being delivered by transport entities to help ensure they are delivered on time and within budget.	26
Land and Property Management Authority	
I recommend:	
▪ the Authority identifies and values all assets under its control so they can be recognised in its financial statements.	33
▪ the Authority establish an appropriate centralised record of all Crown land in New South Wales to meet its responsibilities under the <i>Crown Lands Act 1989</i> .	34

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Land and Property Management Authority (continued)	
<ul style="list-style-type: none"> the Authority develops a strategic framework to guide the future maintenance, development and use of the Government Property Register. <p>I also recommend the limitations identified in the Government Property Register be resolved so that it becomes a complete and reliable record of all New South Wales Government property assets.</p>	34
<p>I recommend the Authority continues to work with agencies experiencing difficulty finalising 2010 annual reconciliations of the GPR with agency records, to ensure a complete reconciliation is achieved as soon as possible.</p>	35
<p>Since 2007, I have been recommending that the Authority significantly reduces the time taken to process Aboriginal Land Claims and transfer legal title to successful claimants.</p>	
<p>I have also been recommending that legal title over land granted to successful Aboriginal land claimants be issued as soon as practicable.</p>	36
<p>I recommend:</p> <ul style="list-style-type: none"> the Land and Property Management Authority implement improved quality control procedures over its Treasury Online Entry System (TOES) input processes. 	37
<ul style="list-style-type: none"> the Authority establish a central registry of all contractors and periodically review the roles and responsibilities of all its contractors to ensure: <ul style="list-style-type: none"> its reliance on contractors is not excessive using contractors instead of permanent employees is appropriate contractors do not become de facto employees by virtue of being with the Authority for an extended period of time using a contractor continues to represent good value for money. 	40
<ul style="list-style-type: none"> the Authority develop mechanisms to centrally review flex time records to help ensure excessive flex time is not being accrued and forfeited by staff. 	40
State Property Authority	
<p>I recommend the Authority review its property remediation activities, including:</p> <ul style="list-style-type: none"> assessing the risk of further increases in estimated remediation costs identifying how the Authority will fund any further increases developing strategies to minimise the risk of further increases. 	44
Barangaroo Delivery Authority	
<p>I recommend the Authority:</p> <ul style="list-style-type: none"> enhance its project governance arrangements to manage the increasing risks during the implementation of this landmark project. 	64

	Page
Department of Industry and Investment	
I recommend the Department:	
▪ establish appropriate governance arrangements throughout its cluster, including seeking Crown Solicitor's advice, if necessary.	77
▪ seek adequate funding to identify, assess and rehabilitate derelict mine sites.	78
▪ develop mechanisms to centrally review flex time records to ensure excessive flex time credits are not being forfeited by staff.	81
maintain a central register for contractors not paid through the human resource systems to reduce the risk of non-compliance with taxation and employment legislation.	81
Forestry Commission of New South Wales (trading as Forests NSW)	
I recommend the Commission:	
▪ continues to review and improve its valuation method for its plantation and native forests.	86
▪ continue to enforce individual plans with employees to reduce excessive annual leave balances within an acceptable timeframe.	87
▪ maintain a central register for contractors not paid through the human resource systems to reduce the risk of non-compliance with taxation and employment related legislation.	88
Roads and Traffic Authority of New South Wales	
I recommend the Authority:	
▪ strengthen its project management techniques to ensure its computer system project is managed efficiently and effectively.	107
▪ continue to monitor the outcome of its Road Toll Response initiatives to achieve the primary safety target by 2016.	108
I have previously recommended the Authority develop strategies to achieve its annual target of two per cent rebuilding of road pavements to ensure the long term sustainability of its roads.	109
I recommend the Authority review its application of skill hire practices to ensure it complies with its established policies, the <i>Income Tax Act</i> and other industrial relations matters.	112
I have previously recommended the Authority review its overtime approval procedures and monitor overtime levels to ensure overtime is effectively managed and achieves desired outcomes.	113
I recommend the Authority continue to monitor and manage annual leave entitlements to minimise the impact on the Authority's financial position.	114
I recommend the Authority continually reviews the effectiveness of its existing policies and program in managing its ageing workforce.	114

Department of Transport and Infrastructure

I recommend Transport NSW:

- ensure the independent review of the Private Vehicle Conveyance Scheme is finalised as soon as possible and implement accepted recommendations in a timely manner. 130
- establish appropriate policies to mitigate and manage the risks associated with its ageing workforce. 131
- consider implementing mechanisms to centrally monitor flex time records to help ensure excessive flex time is not being accrued and forfeited by staff. 132
- develop and maintain an appropriate central register of all contractors engaged by it. 133

Rail Corporation New South Wales

I recommend:

- RailCorp continue to resolve the underlying issues associated with its new procurement system to ensure it operates effectively and that suppliers are paid on a timely basis. 141
- Chief Executive ensures the scope, terms of reference, timing and performance of the independent review by an external reviewer RailCorp has engaged, will provide sufficient assurance the ICAC's recommendations have been fully implemented. 143
- RailCorp continues to liaise with benchmarking organisations, to derive industry averages that do not jeopardise the confidentiality of benchmarking participants, so it can publicly report its performance against industry averages. 150

RailCorp improve its contractor register and continue to periodically review the roles and responsibilities of all its contractors to ensure:

- its reliance on contractors is not excessive
- using contractors instead of permanent employees is appropriate
- contractors do not become de facto employees by virtue of being with RailCorp for an extended period of time
- using a contractor continues to represent good value for money. 158

I recommend RailCorp continue to develop and implement effective policies to manage its ageing workforce. 162

I recommend RailCorp continue to review the effectiveness of its policies and procedures for managing excessive annual leave balances. 164

Rail Infrastructure Corporation

I recommend the Corporation continues to develop and implement effective policies to manage its ageing workforce. 171

State Transit Authority of New South Wales

I recommend:

- State Transit continues to develop and implement effective policies to manage their ageing workforce. 179
- State Transit continue to periodically review the roles and responsibilities of all its contractors to ensure:
 - its reliance on contractors is not excessive
 - using contractors instead of permanent employees is appropriate
 - contractors do not become de facto employees by virtue of being with State Transit for an extended period of time
 - using a contractor continues to represent good value for money. 182

Sydney Ferries

I recommend Sydney Ferries:

- conduct a comprehensive review of its policies and procedures relating to the recording and monitoring of costs in its work in progress project ledger. 191
- develop strategies to manage its ageing workforce. 192
- continues its efforts in reducing excessive annual leave and accrued public holiday balances. 194

Luna Park Reserve Trust

I recommend the Trust closely monitor the uncertainty surrounding the Park Operator's ability to continue as a going concern to ensure it meets its financial and social obligations. 213

Section One

Transport Services Overview

Transport Services Overview

TRANSPORT SERVICES

Transport New South Wales (TNSW), a budget sector agency, and the following Government entities provide, facilitate and regulate the State's transport services:

Statutory Authorities

- Chief Investigator of the Office of Transport Safety Investigations (OTSI)
- Independent Transport Safety Regulator (ITSR)
- Public Transport Ticketing Corporation (PTTC)
- Rail Corporation New South Wales (RailCorp)^(a)
- State Transit Authority (State Transit)^(b)
- Sydney Ferries
- Sydney Metro (SM)
- Rail Infrastructure Corporation (RIC)^(c)
- Transport Infrastructure Development Corporation (TIDC)^(d)
- Roads and Traffic Authority (RTA)

(a) RailCorp includes CityRail and CountryLink.

(b) State Transit includes Sydney Buses, Western Sydney Buses, and Newcastle Buses and Ferries.

(c) Now known as the Country Rail Infrastructure Authority (CRIA)

(d) Now known as the Transport Construction Authority (TCA)

The *Transport Administration Amendment Act 2010* commenced on 1 July 2010 and established a new framework for the administration and governance of the delivery of transport services and infrastructure by public transport agencies.

TNSW is the lead transport agency with primary responsibility for transport policy, planning and coordination functions as well as oversight of infrastructure delivery and asset management. The streamlined transport structure is designed to deliver integrated transport planning and service delivery, and consolidation of similar functions to reduce costs and provide additional funds for front line staff and services.

The change to the legislation gives TNSW, through the direction of the Director General, responsibility for a limited range of functions as outlined above. For the year end 30 June 2011, TNSW will control most public transport agencies for consolidation purposes.

RIC and TIDC became statutory authorities on 1 July 2010 under the *Transport Administration Amendment Act 2010*. Both agencies were previously not for profit State owned corporations.

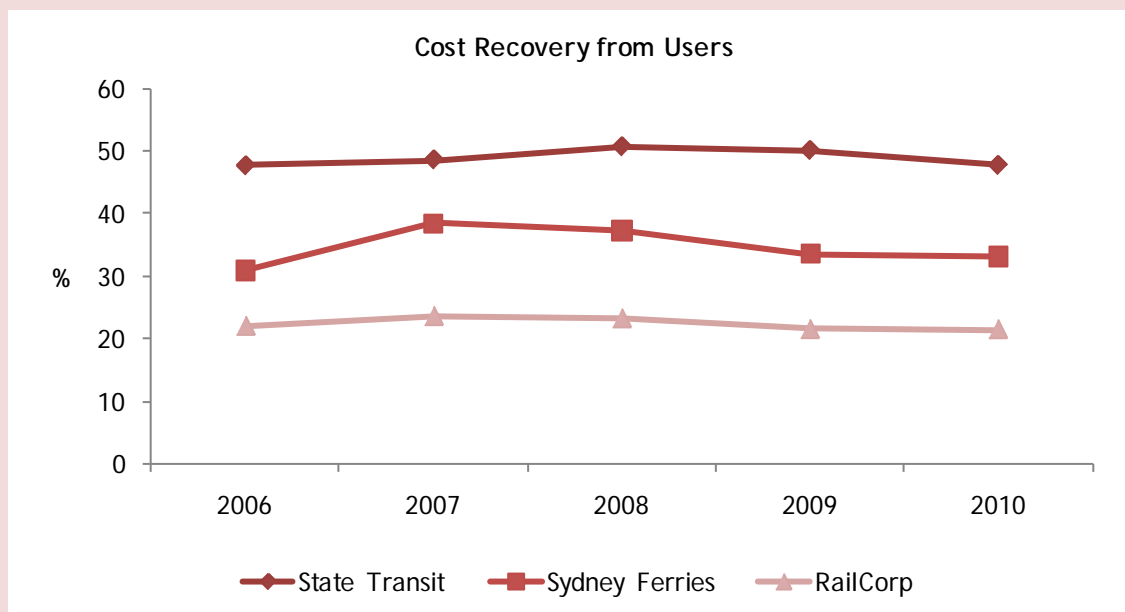
AUDIT OPINIONS

The audits of the above entities' financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

KEY ISSUES

Cost Recovery from Users

The transport services sector incorporates rail, bus and ferry services. As well as providing direct benefits to users, these services generate substantial indirect benefits to the wider community (including reduced: road congestion; traffic accidents; and greenhouse gas emissions). These external benefits are funded by taxpayers through government subsidies.



Source: Amounts were calculated based on published financial information and passenger numbers advised by RailCorp, State Transit and Sydney Ferries (unaudited).

Rail services continue to depend significantly on government funding to meet both operating expenses and capital investment. The level of cost recovery has remained consistently low, notwithstanding increases in the absolute level of fare income. Consistent with last year, passenger revenue only covered 22 per cent of RailCorp's operating costs.

State Transit is a for-profit entity and has the best level of cost recovery from users of the three transport services. State Transit's cost recovery was approximately 48 per cent in 2009-10 (50 per cent in 2008-09).

The cost recovery for ferry services has dropped from a high of 38 per cent in 2006-07 to 33 per cent in 2009-10. This is due to operating expenses increasing by ten per cent over those years and farebox revenue decreasing by five per cent.

Year ended 30 June	RailCorp		State Transit		Sydney Ferries	
	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
Cost of services provided per passenger journey	10.61	10.03	2.85	2.73	9.62	10.13
Passenger revenue per passenger journey	2.28	2.16	1.36	1.36	3.19	3.40
Net cost per passenger journey*	8.33	7.87	1.49	1.37	6.43	6.73

Source: Amounts were calculated based on published financial information and passenger numbers advised by RailCorp, State Transit and Sydney Ferries (unaudited).

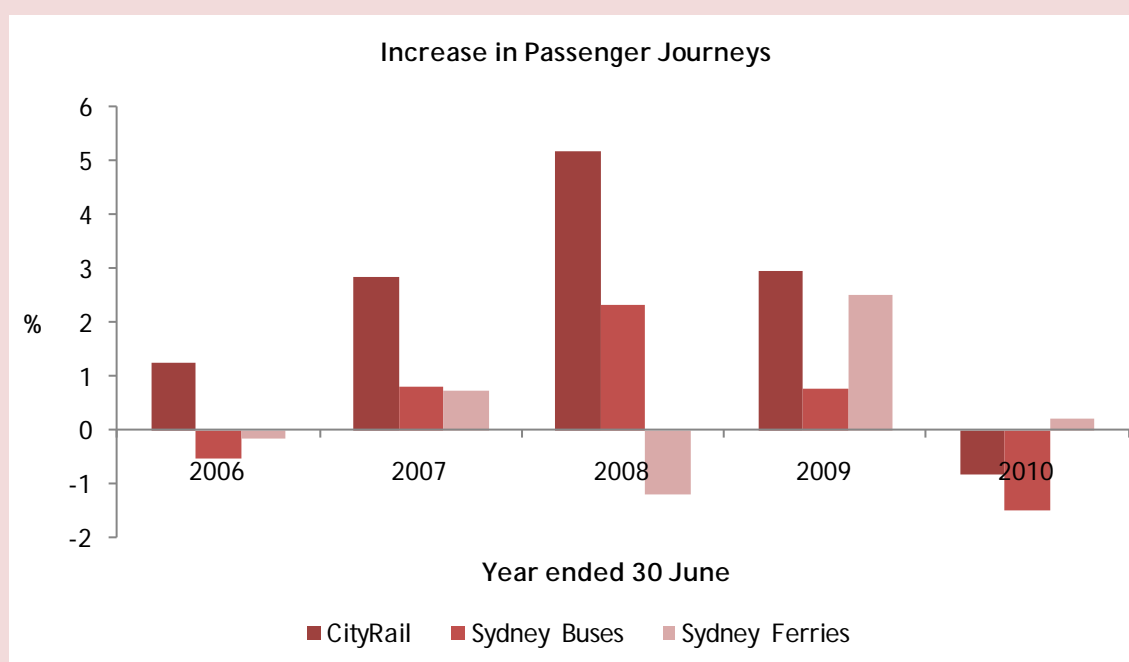
* The net cost per passenger journey essentially represents the amount subsidised by taxpayers through Government contributions, less any other revenue sources.

The cost of providing services per passenger journey increased for both RailCorp and State Transit. RailCorp recorded the higher percentage increase of 5.8 per cent (4.7 per cent for State Transit). Cost of services provided per passenger journey at Sydney Ferries decreased by 5.1 per cent.

RailCorp recorded a 5.6 per cent increase in passenger revenue per journey, while State Transit remained relatively stable. Passenger revenue per journey decreased at Sydney Ferries from \$3.40 to \$3.19. This was mainly due to the Manly JetCat service ceasing in January 2009 and the move to the MyZone fare structure, which resulted in MyMulti ticket sales by other transport agencies.

Patronage

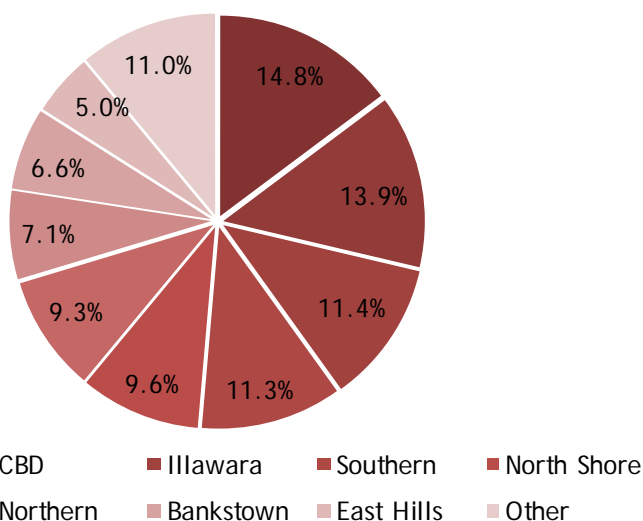
In 2009-10, there were 507 million (512 million) passenger journeys on CityRail services, Sydney Buses and Sydney Ferries. This represents a 1.1 per cent decline from the prior year. Both CityRail and Sydney Buses recorded a decrease in passenger journeys. Sydney Buses recorded the largest decrease of 1.5 per cent. Sydney Ferries was the only agency which reported an increase in patronage during 2009-10 of 0.2 per cent. The graph below shows passenger growth over the last five years.



Source: Information provided by the respective transport entities (Unaudited)

State Transit advised it attributes the decline in passenger journeys in 2009-10 to lower fuel prices throughout the year, continued impact of the global financial crisis (which resulted in reduced employment in the CBD), reductions in tourists, and the modal shift to rail following the opening of the Epping to Chatswood Railway Line in February 2009. RailCorp also confirmed the decline in its patronage was primarily due to the fall in CBD employment.

RailCorp's Top 10 Routes - Passenger Journeys travelled in 2010

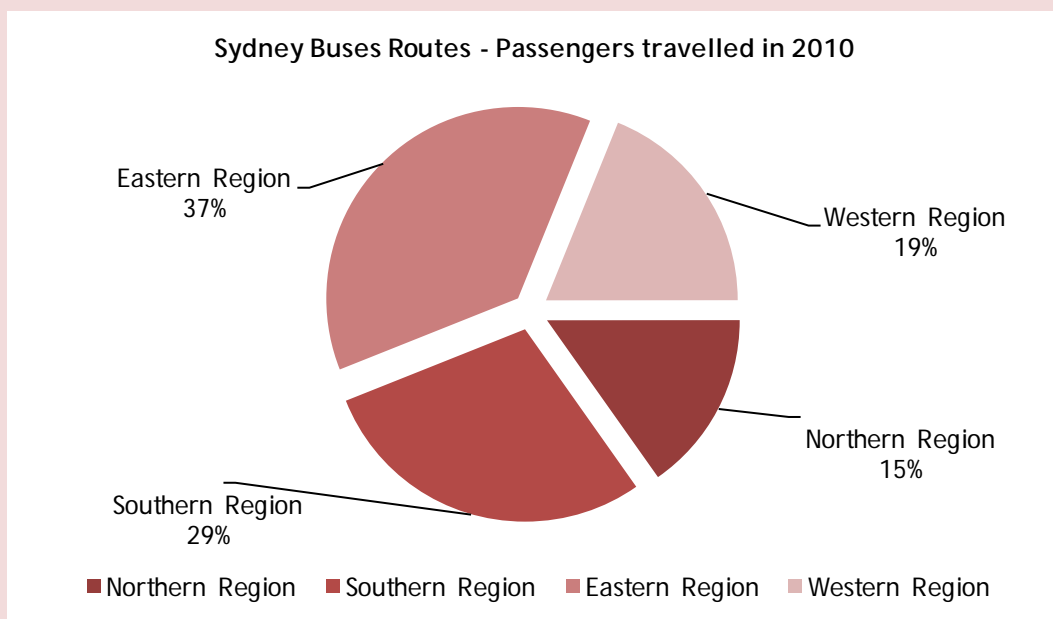


Source: Information provided by RailCorp (Unaudited)

The Western lines and travel within the CBD continue to be the main contributors to CityRail patronage. These accounted for 28.7 per cent of total CityRail passenger journeys during 2009-10 (29.1 per cent). Higher demand for train services was experienced on the Western route in comparison to other train lines primarily due to:

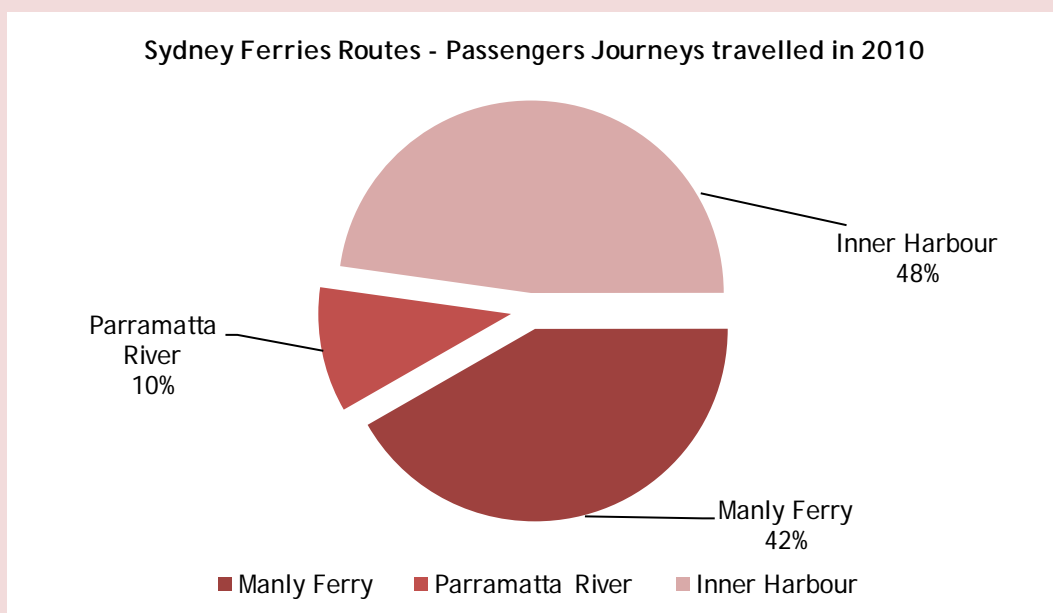
- a greater reliance on train services for the journey to work from the West compared to other regions
- Western lines serving a large proportion of Sydney's working population, whereas other lines have much smaller catchments close to train lines
- the Western region experiencing consistently high population growth rates compared to other parts of Sydney
- passengers who live further from the CBD having fewer practical public transport options (other than rail) to bring them to the city.

In response to these issues, management advises that RailCorp is expanding capacity in the West with additional services, clearways infrastructure and western express options.



Source: Information provided by State Transit (Unaudited)

Sydney Bus services (i.e. State Transit's Metropolitan services) in the Eastern region continue to generate the highest patronage levels. The Eastern region generates more than 37.2 per cent (37.3 per cent) of Sydney Buses' total passenger journeys. A higher number of bus service routes are required within this region to cater for the higher population density and fewer train lines available in Sydney's Eastern suburbs.



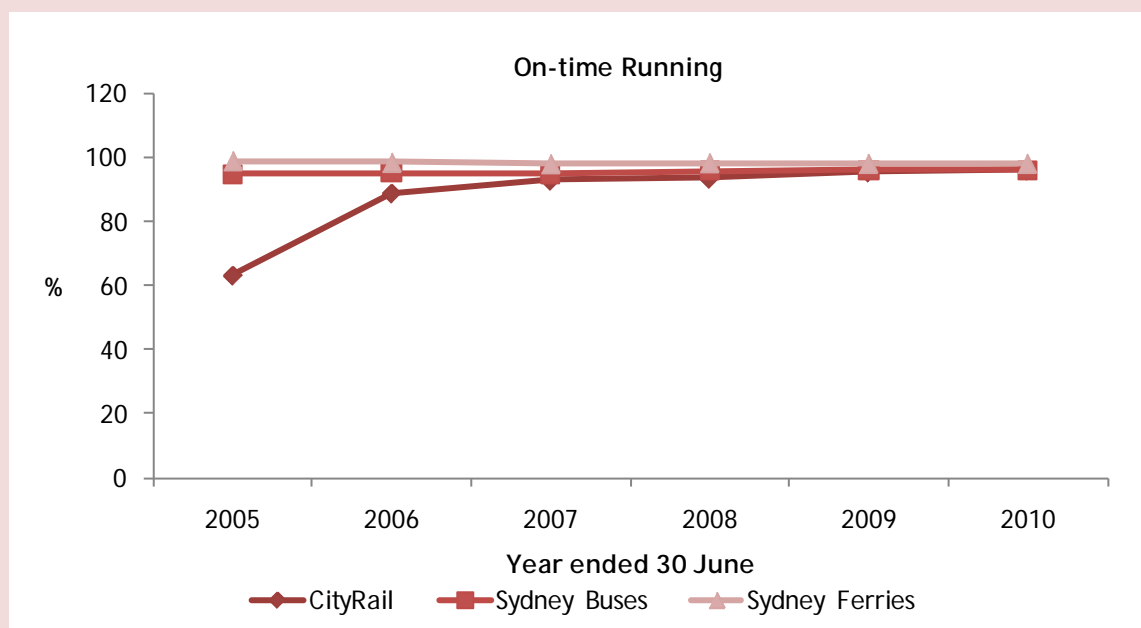
Source: Information provided by Sydney Ferries (Unaudited)

Inner Harbour ferry services account for 47.8 per cent (45.8 per cent) of total ferry patronage. Over the past five years, this route continues to have the highest passenger journeys.

For further information on passenger journeys, refer to the comments on RailCorp, State Transit and Sydney Ferries in this volume.

On-time running

On-time running performance for Sydney ferry and bus services has remained steady since 2004-05. In 2009-10, on-time running performance for these services was 98.1 per cent and 96 per cent respectively.

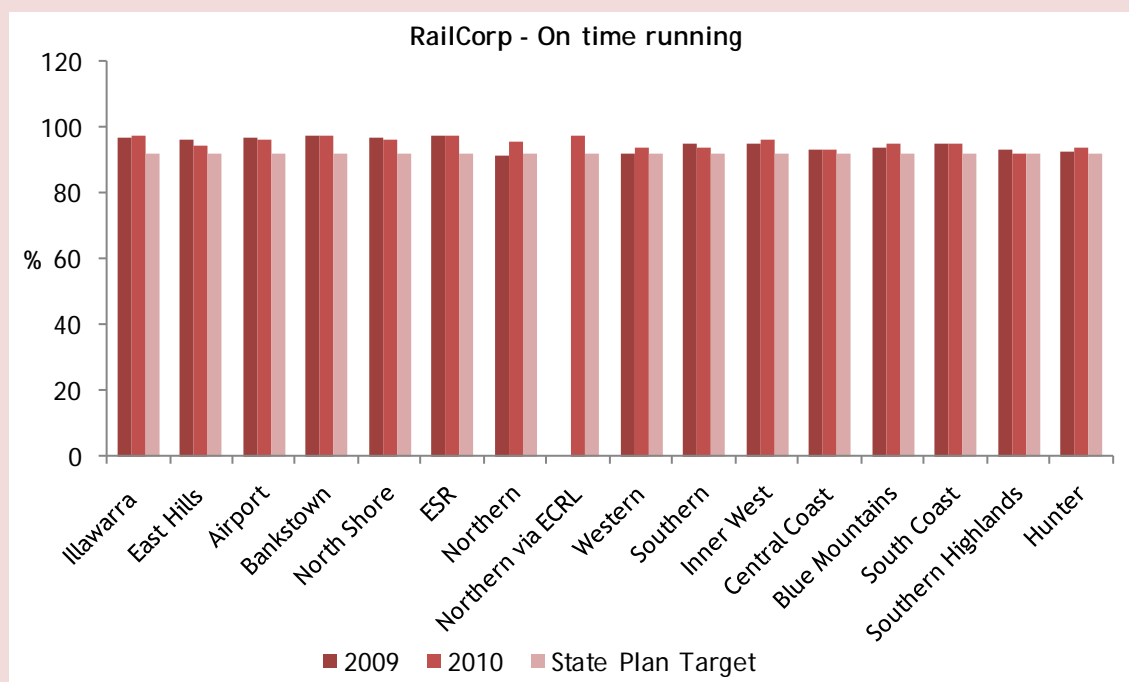


Source: Information provided by the respective transport entities (Unaudited)

Over the last six years, CityRail's on-time running performance has improved to a record high of 96 per cent in 2009-10. Contributing to this was the introduction of revised timetables and the change in the performance measure from the percentage of timetabled peak train services reaching their destination within three minutes 59 seconds of scheduled arrival time for suburban services (2004-05) to five minutes (2005-06 onwards). A wide range of operational improvements and capital investments have contributed to the improved on-time running performance.

In contrast to CityRail, which measures on-time running at the end of the destination, Sydney Buses and Sydney Ferries measure on-time running as a percentage of services departing from the terminus within five minutes of the scheduled timetable.

The graph below shows RailCorp's on-time running performance for the years 2009 and 2010 by train line against the 2009 NSW State Plan target.



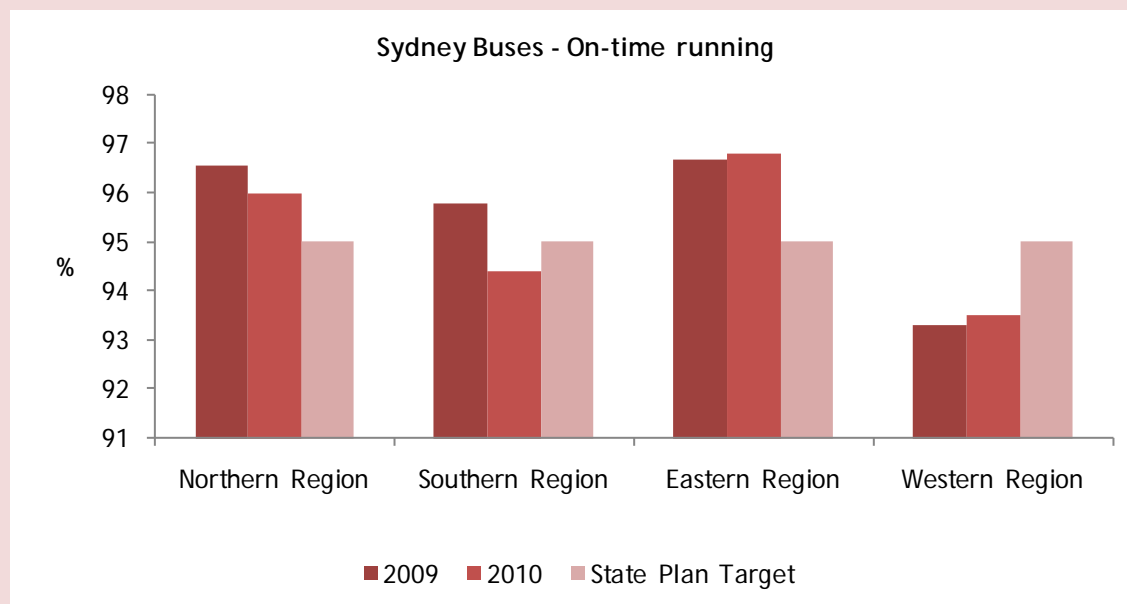
Source: Information provided by RailCorp (Unaudited)

Note: No 2009 on time running performance figure available for Northern via ECRL train line as this commenced operation in February 2009.

During 2010, all train lines performed substantially better than the State Plan target of 92 per cent, with the exception of the relatively lightly trafficked Southern Highlands line, which achieved 91.7 per cent peak on-time running. The majority of delays on the Southern Highlands Line (54 per cent) are a result of late trains from interstate services outside the CityRail network, and rollingstock failures.

Cityrail is working on the Clearways Program, a rolling stock replacement program and other initiatives, to help maintain reliability across the network. For more information, refer to the comments on RailCorp in this volume.

The graph below shows Sydney Buses' on-time running performance during 2009 and 2010 by region in comparison to the latest NSW State Plan target.

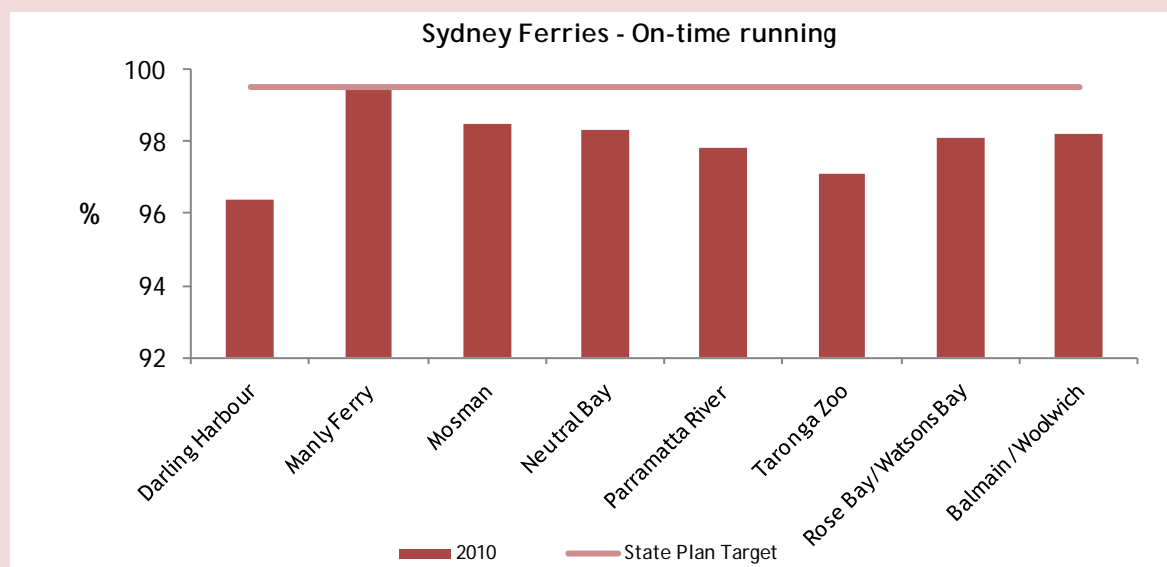


Source: Information provided by State Transit (Unaudited)

Note: Sydney Buses refers to State Transits Metropolitan services and excludes Private Bus Operator services

Sydney Buses on-time running was below the State Plan target of 95 per cent in two out of four regions. The Southern Region's on-time performance was above the State Plan target in 2009, but worsened from 96 per cent to 94 per cent in 2010. The Western Region performed consistently below target in both years, with on-time running performance improving to 93.5 per cent in 2010. Management advised the below target performance is primarily due to unusual traffic conditions and increased road congestion in the Western and Southern Region. Sydney Buses is implementing bus priority systems to improve reliability. For more information, refer to the comments on State Transit in this volume.

On-time running performance of Sydney Ferries was below the 2009 NSW State Plan target of 99.5 per cent for all ferry routes. Manly Ferry Services achieved the highest on-time running of 99.4 per cent whilst Darling Harbour reported the lowest on-time running performance of 96.4 per cent.



Source: Information provided by Sydney Ferries (Unaudited)

Note: On-time running data by individual route was not captured prior to April 2009.

Management advised the results are primarily due to high passenger loadings, scheduling issues and berthing congestion. Where possible, these have been addressed through timetable changes introduced on 10 October 2010, particularly in relation to Darling Harbour and Taronga Zoo services.

MyZone

On 18 April 2010, the New South Wales Government introduced a new fare structure called MyZone. These new fares apply across a wide geographical area in New South Wales. MyZone tickets are now accepted on the entire CityRail, State Transit and Sydney Ferries networks, as well as all private bus services in the Sydney metropolitan and outer metropolitan areas and the Stockton ferry.

There are now fewer fare bands on all modes of public transport. Fare bands have been reduced on trains from twenty to five, on buses from five to three and ferries from five to two. There are three new MyMulti tickets, which provide commuters unlimited travel on all Sydney Ferries and government and private bus services, as well as travel within particular CityRail zones.

The New South Wales Government estimated the full year impact of introducing MyZone would be to reduce revenue by \$33.0 million, primarily because 9 out of 10 journeys would be the same price or cheaper. A more detailed analysis of the financial impact of MyZone is planned by TNSW to occur during 2010-11.

For more information on MyZone fares refer to the State Transit and Railcorp individual comments in this volume.

Transport Planning

In partnership with the local community, the New South Wales Government has developed a planning framework with the objective of ensuring New South Wales remains a vibrant, sustainable place to live. The framework's key strategies guiding transport planning are detailed below.

State Plan: Investing in a Better Future

Updated in 2010, the *State Plan* is the shared vision of the New South Wales Government and the community for the future of New South Wales. The plan sets out priorities for Government action to meet community needs, and sets challenging targets to guide decision-making and resource allocation.

As the Government's central policy document, the *State Plan* is supported by detailed delivery plans, including the *State Infrastructure Strategy*, *Metropolitan Strategy* and the *Metropolitan Transport Plan*.

The *State Plan* outlines the Government's commitment to delivering transport strategies for key regional areas, including the Central Coast and the neighbouring Hunter region, and contains priorities and targets aimed at ensuring the transport network is safe, reliable and integrated.

Metropolitan Strategy - City of Cities: A Plan for Sydney's Future

The 2005 *Metropolitan Strategy* is the Government's long-term plan to support efficient and sustainable growth in the Sydney region over a 25-year period. It aims to secure Sydney's place as a truly global city by promoting and managing growth, with 70 per cent of new homes to be in existing areas and 30 per cent in new release areas. It sets directions for Government decisions on the timing and location of investment in transport and other infrastructure.

Currently under review, as part of a five-yearly review process, the *Strategy* sets the scene for more detailed planning in the subregions of Metropolitan Sydney and regional areas of New South Wales.

Metropolitan Transport Plan: Connecting the City of Cities

The 2010 *Metropolitan Transport Plan* (MTP) provides a 25-year vision for transport and land use planning for Sydney, and includes a 10-year fully funded package of transport infrastructure to support it.

It is designed to accelerate and streamline infrastructure roll out and planning processes to develop a transport system shaped around the way the city is used and moves to meet demand now and into the future.

The MTP, which is being fully incorporated into an integrated *Metropolitan Plan*, provides an integrated approach to transport and land use planning to ensure transport supports Sydney's role in the national economy and provides new locations for living, working, shopping, education and other community and recreational facilities.

The MTP foreshadows the preparation of detailed access plans for the key regional centres at Parramatta, Penrith and Liverpool. Work has commenced on developing an access plan for the Sydney CBD following the signing of the Memorandum of Understanding between the New South Wales Government and City of Sydney Council in September 2010.

State Infrastructure Strategy

The State Infrastructure Strategy is a rolling 10-year plan for infrastructure projects to support Government service delivery. The Strategy, which is updated every two years, maps infrastructure projects by six broad regions - Sydney, Central Coast, Hunter, North Coast, Illawarra - South East and Inland New South Wales.

The Strategy links planning commitments identified in strategic documents such as the *Metropolitan Strategy* with the State's budget. It assists in providing a clearer understanding of infrastructure needs and funding constraints over the medium term.

Regional Transport Strategies

In accordance with commitments contained in the State Plan, TNSW is developing Regional Transport Strategies as companion documents for the Department of Planning's Regional Strategies. In October 2010, the draft *Central Coast Regional Transport Strategy* was placed on public exhibition. Draft Regional Transport Strategies are currently being developed for the Illawarra and Hunter Regions. Work will commence on developing a Far North Coast Regional Transport Strategy in 2011.

Mode Strategies

The New South Wales BikePlan (www.nsw.gov.au/bikeplan) was released in May 2010 and represents the first in a suite of mode strategies to include road, rail, walking and freight.

Project Submissions

New South Wales has developed funding submissions to the Australian Government directly and through Infrastructure Australia for projects that support the strategic planning approach outlined above.

Transport NSW advises that in August 2010 the New South Wales Government submitted project proposals for the North West Rail Link, Northern Sydney Freight Corridor, M5 East Duplication, Container Freight Improvement Strategy, Parramatta - Epping Rail Link, F3-M2 link, M4 East Extension and Capacity improvements for the CityRail network.

Land use planning

The New South Wales Government has an Integrated Land Use and Transport Planning (ILUT) policy framework for New South Wales.

The ILUT package provides a framework for State Government agencies, councils and developers to integrate land use and transport planning at the regional and local levels. Although the package applies to the Greater Metropolitan Region, there are many commonalities between metropolitan, regional and rural centres which are addressed in the policy package. The notion of a liveable community; planning for accessibility; pedestrian and public safety; effective and sustainable management of adjoining land uses; and street and road design standards are all applicable to rural and regional areas.

The ILUT policy package is given statutory force in the planning system under Section 117 of the *Environmental Planning and Assessment Act 1979* (EP&A Act). Section 117 of the EP&A Act allows the Minister for Planning to give directions to councils regarding the principles, aims, objectives or policies to be achieved in the preparation of Local Environmental Plans. The ILUT policy package is represented by Ministerial Direction 3.4 - Integrating Land Use and Transport.

NSW State Plan

In late 2009, the Government released a revised State Plan titled 'Investing in a Better Future: NSW State Plan'.

Some of the public transport targets include:

- increasing the share of commuter trips made by public transport to and from the Sydney CBD during peak hours to 80 per cent by 2016 (previous target 75 per cent)
- increasing the proportion of total journeys to work by public transport in the Sydney metropolitan region to 28 per cent by 2016 (previous target 25 per cent)
- consistently meeting public transport reliability targets of 92 per cent on-time running for CityRail services, 95 per cent for Sydney buses and 99.5 per cent for Sydney ferries.

The table below shows the performance against the first two targets. On-time running performance is reported on earlier in this comment under the heading 'On-time running'.

Transport related target	Target 2016	2009	2008	2007
Share of commuter trips made by public transport to and from Sydney CBD during peak hours (%)	80.0	75.0	77.0	74.4
Proportion of total journeys to work on public transport in Sydney metropolitan region (%)	28.0	23.9	24.2	22.0

Note: Patronage data is drawn from the annual Household Travel Survey, the results of which are published the year after the data is collected (unaudited).

Sydney Metro

I recommend the New South Wales Government identify lessons learnt from the Sydney Metro experience and ensure future decision processes are developed to ensure the State never again expends such a large amount of scarce transport funding dollars and valuable time on a project that does not proceed.

Until the Government's decision to not proceed with a metro for Sydney, over \$600 million in State and Australian Government funding had been allocated to Sydney Metro for the development of metro projects.

At 30 June 2010, \$412 million has been spent on metro projects with more costs expected in 2010-11. Outgoings included \$176 million in project expenditure written off as a result of the Government's decision to stop work on metro projects, \$94.9 million in cost reimbursement claims, and \$103 million in property acquisitions. Of the \$412 million spent, \$356 million represents expenditure for which there does not appear to be any future benefit to New South Wales.

The cost to New South Wales is not just in dollar terms, but also in time delays to other transport priorities as scarce resources are diverted to projects that do not proceed to completion.

In my view, the New South Wales Government should review and identify lessons learnt from the metro project. Such a review should explore whether the Government's decision making processes minimise future risks of spending taxpayers' money on projects which do not proceed.

TNSW advised the demobilisation strategy adopted by Sydney Metro in relation to the metro projects was aimed at identifying and preserving for future use, the intellectual and technical knowledge gained during the project and maximising, to the extent possible, the value of property assets purchased. TNSW advises Sydney Metro's geotechnical, design and engineering information is already being used for new transport projects within the Metropolitan Transport Plan.

State Transit Authority - Status as a For-Profit Tax Paying Entity

I recommend TNSW review the appropriateness of State Transit being a for-profit entity under the National Tax Equivalent Regime.

Amendments to the Transport Administration Act commenced on 1 July 2010. The amendments established TNSW and abolished the State Transit governance board. The change also means consolidated financial statements have to be prepared by TNSW in 2010-11, which include State Transit, the only entity within TNSW that will report as a for-profit entity subject to the National Tax Equivalent Regime (NTER).

In recent years, State Transit has returned a small profit or loss (compared to total revenue) and has never paid any tax under the tax equivalent regime. The NTER imposes significant compliance costs on the entity compared to other tax models used by the New South Wales Government. It may be timely to reconsider the requirement for State Transit to report under the NTER.

Conflict of Interest Risk

I recommend TNSW develops an appropriate framework to manage potential conflicts of interests that may arise within the new transport structure.

Amendments to the Transport Administration Act mean chief executives of transport agencies have the authority to manage and control the affairs of entities. The Director-General of TNSW has authority to issue directions to the transport entities covering a limited range of functions as set out in the Act.

In the future, State Transit and Sydney Ferries may compete against the private sector for contracts offered by the Director-General of TNSW, who also has the power to direct these agencies. This is just one example of a situation where a potential conflict of interest may arise.

Engagement of Contractors

I recommend transport entities review the effectiveness of their practices in monitoring their contractor workforce.

Contractors are in many cases engaged for a period of not more than one year. While, the use of contractors may have benefits for entities, particularly on projects, extensive reliance on this employment source and the engagement of long term contractors, particularly in senior roles, generally results in higher employment costs and less ownership and commitment to organisational goals and objectives.

The length of service for all contractors employed by transport entities is shown in the table below.

Duration since contractors start date	No. of Contractors at 30 June 2010	Proportion of Total Contractors %
> 6 years	74	5
5-6 years	19	1
4-5 years	17	1
3-4 years	69	5
2-3 years	134	9
1-2 years	448	29
Less than 1 year	760	50
Total Contractors in all transport entities	1,521	100

Source: Information provided by the respective transport entities (Unaudited)

Fifty per cent of the total contractors have been engaged by respective transport entities for more than twelve months. At 30 June 2010, over 70 contractors had been engaged for more than six years.

Additional information relating to contract employees working in transport entities is shown below:

Transport Entity	2010			
	No. of Contractors at 30 June	Total Cost of Contractors for the Year \$'000	Term of Longest Serving Contractor (Years)	Highest Contractor cost for the Year \$'000
RailCorp	589	110,000	8.1	399
State Transit	32	1,327	11.0	255
Sydney Ferries	31	4,810	3.0	275
RTA	698	93,704	8.3	413
TIDC	8	1,014	2.3	390
RIC	3	44	0.3	31
TNSW	160	15,678	5.0	355
Total	1,521	226,577		

Source: Information provided by the respective transport entities (Unaudited)

State Transit has the longest serving contractor who has been engaged for over eleven years. The highest paid contractor was engaged by the RTA and paid \$413,000 in 2009-10.

The RTA advised that its use of contractors was driven by skills shortages in the engineering and ICT sectors, below comparable industry based salary offerings and the Government's recruitment restrictions, limiting the conversion of contractors to full-time employees.

All transport entities, with the exception of Sydney Metro, PTTC, OTSI and ITSr, confirmed they engage contract employees to provide a broad range of services. Sydney Metro and PTTC advised they use professional service firms to engage contractors on their behalf to complete project based work. Use of contract employment arrangements is considered most appropriate by management due to the project based nature of the operations. The professional service firms were not considered as contractors for the above analysis. Sydney Metro incurred expenses totalling \$100 million in relation to payments made to these firms in 2009-10. Similarly, PTTC incurred \$13.2 million in this regard.

Each of the entities using contractors advised they had governance structures in place to effectively manage the engagement of contractors, including use of a regularly updated central registry of contractors, which is subject to regular review to ensure the use of contractors was not excessive and continued to represent value for money. While transport entities have advised these measures are in place, the information presented above raises concerns that they are not effective. As such, transport entities should review and assess the effectiveness of the measures implemented.

Overtime

Managing overtime expenditure continues to be a challenge for some New South Wales transport entities. While some are making progress in reducing overtime, this continues to represent a significant employee related expense.

The table below shows total overtime expenditure in 2009-10 was stable at \$219 million, a one per cent increase on 2008-09.

Transport Entity	Trend	Year ended 30 June	
		2010 \$'000	2009 \$'000
RailCorp	↑	130,040	127,747
State Transit	↓	40,346	42,916
Sydney Ferries	↓	2,292	3,469
RTA	↑	46,574	43,177
TNSW	↓	483	485
RIC	↓	13	103
Total		219,747	217,898

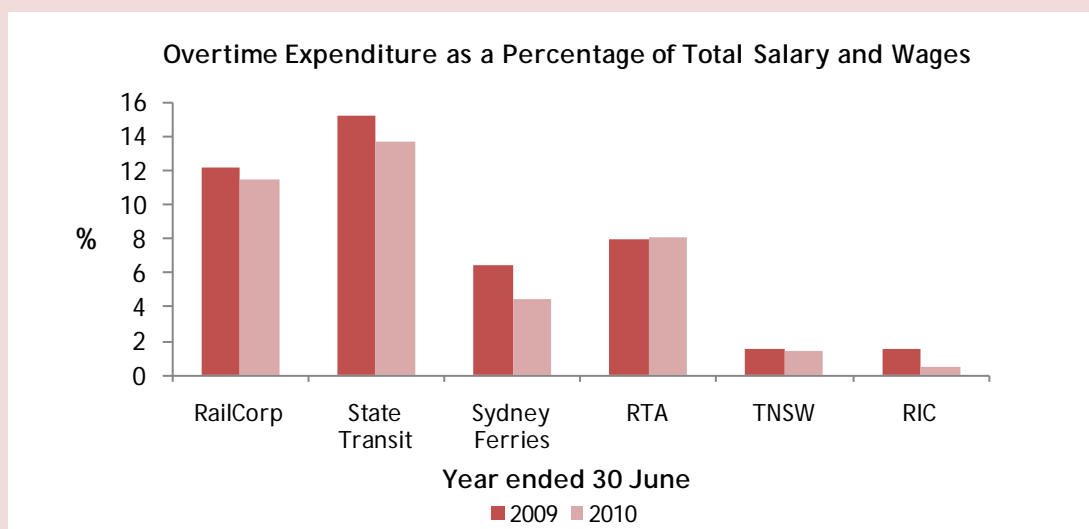
Key: ↑ Trend upwards, ↓ Trend downwards, ~ No trend

Source: Information provided by the respective transport entities (Unaudited)

The RTA recorded the largest increase in overtime expenses of 7.9 per cent, while RailCorp's expense increased by 1.8 per cent. Overtime at Ferries declined significantly by 33.9 per cent, and State Transit recorded a six per cent reduction. These results represent a real achievement given wage rates have continued to increase.

Sydney Metro, OTSI and PTTC advised they did not incur any overtime expenses in 2008-09 and 2009-10. TIDC and ITSr advised minimal overtime was incurred during these years. As a result, overtime commentary in this report excludes these entities.

The graph below shows overtime expenditure as a percentage of total salary and wages for the year for transport entities.



Source: Information provided by the respective transport entities (Unaudited)

All transport entities, except for the RTA, recorded a decrease in the percentage of overtime paid to total salaries and wages over the past two years. State Transit has the highest percentage at 13.6 per cent (15.2 per cent). State Transit advises that under its award conditions all work on Sunday is paid as overtime. Bus operators work a six day roster. A majority of the overtime expenditure reported in the graph above relate to payments made for this reason rather than staff working excess hours. State Transit also monitors bus driver hours worked to ensure all bus operators are working within the occupational health and safety guidelines.

Reduced overtime expenses have been achieved through the implementation of dedicated strategies. State Transit advised it has reduced overtime through rostering efficiencies that use existing staff resources more efficiently. The RTA advised it has implemented strategies to reduce overtime. The Australian Government's stimulus funding resulted in an increase in overtime worked by RTA staff because of the related significant asset development and associated increased work load. Major traffic incidents across the network also put pressure on overtime worked. RailCorp has implemented initiatives to reduce overtime and is continuing to work through station staff and maintenance reform programs, which it believes should lead to further reductions in overtime expenses.

The table below shows the number of employees across all transport entities who were paid overtime, split by overtime paid as a percentage of annual salary.

Year ended 30 June Overtime paid as a percentage of annual salary	2010		2009	
	Number of employees	Overtime paid \$'000	Number of employees	Overtime paid \$'000
> 100	18	1,159	18	1,141
90 - 100	13	700	26	1,119
80 - 89	45	2,064	41	1,612
70 - 79	77	3,138	88	3,123
60 - 69	191	6,951	196	7,156
50 - 59	562	16,900	485	14,307
40 - 49	1,196	29,277	1,244	29,682
30 - 39	2,279	41,940	2,552	45,607
20 - 29	4,251	54,689	4,349	55,117
10 - 19	5,354	42,195	5,151	40,800
>0 - 9	9,062	18,977	8,592	17,778
Nil overtime	8,074	--	7,719	--
Total	31,122*	217,990**	30,094*	217,442**

Source: Information provided by the respective transport entities (Unaudited)

* Number of employees includes all staff who received payments processed through the transport entities payroll systems during the year. It does not represent the FTE or headcount for the combined entities as at 30 June.

** Overtime paid represents the total overtime paid to employees during the year. It does not equal the overtime expense recorded in the financial statements due to the effects of accrual accounting. The difference is considered to be immaterial.

The table shows 74.1 per cent (74.7 per cent) of employees at transport entities received an overtime payment in 2009-10. A total of 906 employees (854 employees) were paid 50 per cent or more of their annual salary in overtime.

The top 10 highest individual overtime earners across the transport entities are shown below:

Top 10 Individual Overtime Earners	Transport Entity	2010		Transport Entity	2009	
		Overtime paid to employee \$	Percentage of Overtime to salary		Overtime paid to employee \$	Percentage of Overtime to salary
1	RTA	117,589	126	RTA	113,886	127
2	RTA	102,111	133	RTA	101,921	138
3	RTA	86,614	117	RTA	95,799	135
4	RTA	76,794	73	RTA	78,831	87
5	RTA	73,497	101	RTA	78,684	99
6	RTA	73,386	100	RTA	68,623	93
7	RTA	72,660	88	RTA	67,698	95
8	RTA	64,272	78	RailCorp	66,847	83
9	RTA	63,544	77	RTA	66,511	52
10	RTA	62,634	76	RailCorp	65,668	95

Source: Information provided by the respective transport entities (Unaudited).

The table shows RTA employees received the highest level of overtime payments. For the other transport entities, the most overtime paid to individual employees during the year was \$56,223 (\$66,847) at RailCorp; \$41,400 (\$41,659) at State Transit; \$36,770 (\$44,013) at Sydney Ferries; \$34,070 (\$30,747) at TNSW; and \$6,347 (\$19,974) at RIC.

High levels of overtime can adversely affect financial and operational performance. Financially, premiums paid for overtime can lead to higher than necessary costs, while operationally, employees working high levels of overtime may result in health and safety issues.

Excessive Annual Leave (Repeat Issue)

I again recommend transport entities review the effectiveness of their policies for managing excessive annual leave balances, despite marginal improvements since last year.

Managing excessive annual leave balances remains a challenge for the transport entities. Over 2,100 (2,228) staff had accrued more than 40 days (or 50 days for RailCorp shift workers) of annual leave at 30 June 2010. This represents 7.4 per cent (8.1 per cent) of all staff at that date and an accrued liability valued at over \$34.0 million (\$34.0 million).

The table below provides details for the number of staff with more than 40 days (or 50 days for RailCorp shift workers) accrued annual leave at 30 June and the total value of accrued annual leave for these employees.

Transport Entities	Trend	2010		2009		2008	
		Number of employees	Amount \$'000	Number of employees	Amount \$'000	Number of employees	Amount \$'000
RailCorp*	~	1,056 ^H	17,128	936 ^H	14,848	1,185 ^H	18,530
State Transit	~	362	4,746	420	5,323	408	4,905
Sydney Ferries	↓	78	1,502	107	2,056	99	1,919
RTA	↓	542	9,308	676	10,183	704	9,830
TNSW	↓	36	621	45	766	61	1,309
TIDC	↑	7	249	6	261	5	216
SM	~	4	136	--**	--**	--**	--**
RIC	↓	9	144	20	198	47	411
OTSI	~	3	107	3	86	2 ^L	13
ITSR	↓	6	181	13	316	17	472
PTTC	~	2 ^L	95	2 ^L	94	3	104
Total		2,105	34,219	2,228	34,133	2,531	37,710

Source: Information provided by the respective transport entities (Unaudited).

* Excessive leave based on 40 days for non shift workers and 50 days for shift workers

** Sydney Metro was established on 27 January 2009. No employees existed at 30 June 2009 or in any prior years.

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

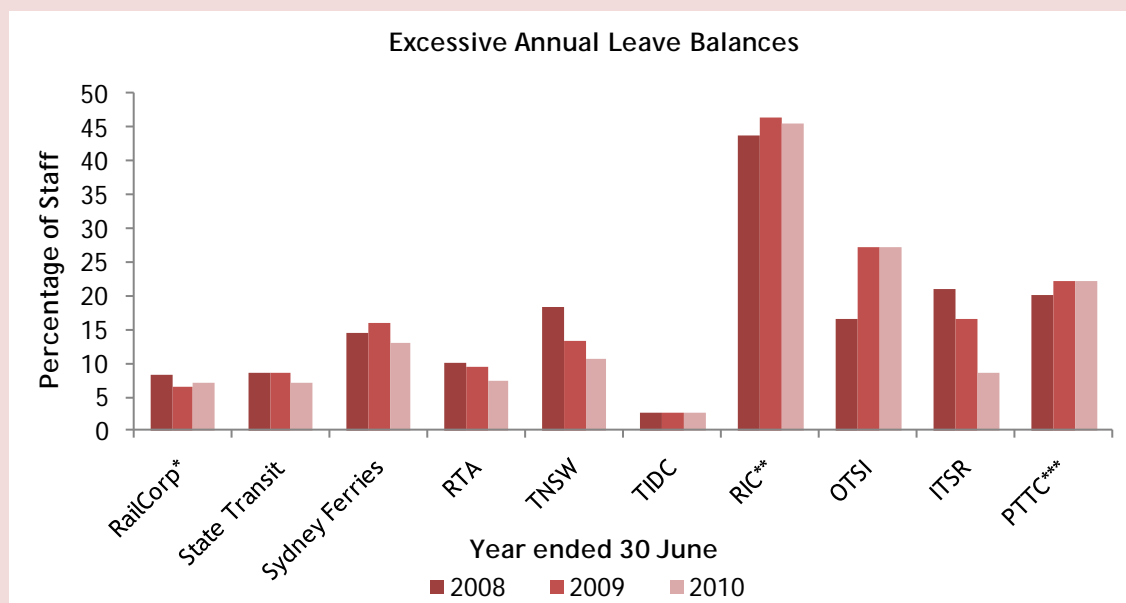
L Lowest balance in comparison to all transport entities.

H Highest balance in comparison to all transport entities.

Excess leave entitlements can have adverse effects, including an ever increasing financial liability as salary rates increase over time. The health and welfare of staff can also be adversely affected if they do not take sufficient breaks from work during the year. Allowing excess annual leave balances also means employees performing key control functions may not be rotated regularly, which is a preventive control against fraud.

For the purposes of this report, excessive annual leave has been defined as an accrued balance of more than 40 days (or 50 days for RailCorp shift workers) as at 30 June. Individual transport entities may define excessive annual leave differently for management and internal reporting purposes.

The graph below illustrates the percentage of staff with excessive annual leave balances for all transport entities over the last three years.



Source: Information provided by the respective transport entities (Unaudited).

* RailCorp percentage of staff with excessive annual leave is based on head count data rather than Full-Time Equivalent (FTE) data.

**RIC had only 20 public sector staff at 30 June 2010, of which nine had excessive leave balances.

***PTTC had only nine public sector staff as at 30 June 2010, of which two had excessive leave balances.

Note: Sydney Metro was excluded from the above graph because a meaningful comparison could not be made with other entities since no employees existed at 30 June 2009 or in any prior years.

The graph shows the proportion of staff with excessive annual leave at the RTA has dropped from 10.2 per cent in 2007-08 to 7.5 per cent in 2009-10. This is largely due to policies adopted by the RTA, including formal bi-annual reviews of excessive leave. While RIC, OTSI, ITSr and PTTC have the highest percentage of staff with excessive annual leave balances, the total number of staff in these entities is much lower than the other entities and the total excessive leave liability is relatively low. The graph also shows the proportion of staff with excessive annual leave has declined for seven of the ten entities over the past three years. All entities advised policies have been implemented to manage excessive annual leave. The graph demonstrates these policies are starting to have a positive effect.

Workforce Ageing

I recommend each transport entity continue to develop and implement effective policies to manage their ageing workforce.

Twenty three per cent of staff employed by transport entities in New South Wales at 30 June 2010 were aged 55 years or older and 39 per cent were over 50. A significant proportion of these employees are likely to retire in the next 5 to 15 years, potentially resulting in a significant loss of transport specific skills.

The age profile of staff for all New South Wales transport entities is shown below:

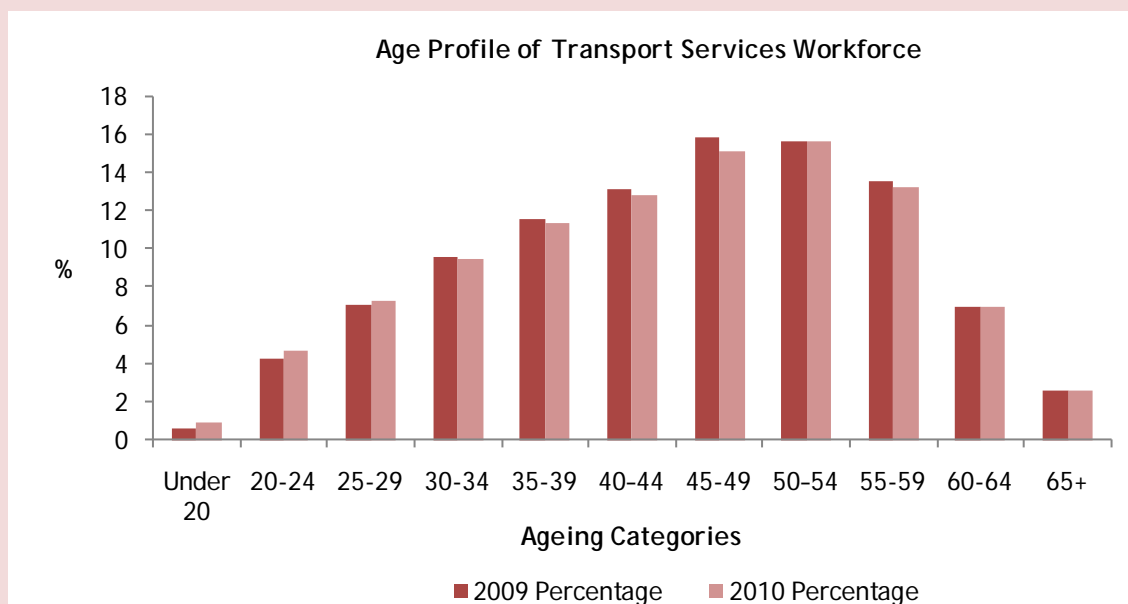
At 30 June Age Group	2010		2009	
	No. of Employees*	%	No. of Employees*	%
Up to 35	6,346	22	5,921	21
35 - 39	3,235	11	3,175	11
40 - 44	3,662	13	3,619	13
45 - 49	4,312	15	4,355	16
50 - 54	4,459	16	4,285	15
55 - 59	3,777	13	3,723	14
60 - 64	1,993	7	1,898	7
65+	742	3	712	3
Total	28,526	100	27,516	100

Source: Information provided by the respective transport entities (Unaudited).

* All transport entities provided this information based on Full-Time-Equivalent staff at 30 June, except for RailCorp. The information for RailCorp is based on headcount data.

Some transport entities have implemented strategies to manage these risks. State Transit advises it has implemented succession planning through apprenticeship, cadetship and graduate programs. The RTA advises it has implemented strategies, with particular attention on those areas where skill shortages are apparent, such as engineering, road design, traffic and transport. The RTA has also implemented a new 'My Journey Program' targeting all staff aged 55 years and over, to encourage knowledge sharing and discussions on working intentions and retirement preparedness. TIDC actively seeks to attract junior employees through graduate and internship programs. ITSr advises it has succession strategies in place, including the implementation of graduate trainee arrangements.

The graph below further demonstrates the age structure of the transport services workforce.



Source: Information provided by the respective transport entities (Unaudited).

The age profile of employees for each New South Wales transport entity is shown below:

30 June 2010 Age Group	RailCorp %*	State Transit %	Sydney Ferries %	RTA %	TNSW %	TIDC %	SM %	RIC %	OTSI %	ITSR %	PTTC %
Up to 35	25	15	23	21	18	35	11	5	--	13	45
35 - 39	12	10	15	9	11	22	13	5	--	8	22
40 - 44	13	14	16	11	17	10	15	10	19	18	33
45 - 49	16	16	15	14	16	12	15	24	9	20	--
50 - 54	15	16	12	17	14	12	15	46	36	20	--
55 - 59	11	15	10	17	13	7	16	5	--	11	--
60 - 64	6	10	6	8	8	2	8	5	36	6	--
65+	2	4	3	3	3	--	2	--	--	4	--
Total	100	100	100	100	100	100	100	100	100	100	100

Source: Information provided by the respective transport entities (Unaudited).

* All transport entities provided this information based on Full-Time-Equivalent staff at 30 June, except for RailCorp. The information for RailCorp is based on headcount data.

The table shows that PTTC and TIDC have the youngest workforce, with over 50 per cent of employees under 40. The RTA and State Transit have 45 per cent of employees over 50 and OTSI and RIC have more than 55 per cent over 50.

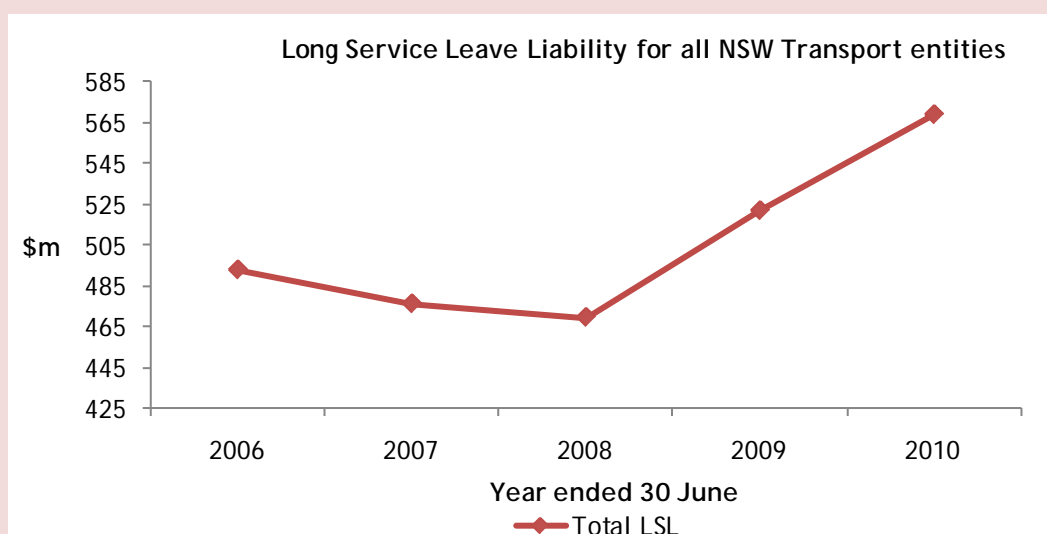
To ensure an adequate supply of employees in the future, transport entities should continue to actively monitor workforce age profiles and have appropriate strategies in place to develop, attract and retain employees whose skills are aligned with the strategic direction of the entities.

Refer to the individual agency comments in this volume for more information on the ageing workforce.

Long Service Leave Liability

Significant long service leave liabilities create future funding challenges for transport entities. The total liability for long service leave entitlements for New South Wales transport entities amounted to \$569 million at 30 June 2010 (\$522 million). The total liability has increased by 15 per cent over the last five years. The majority of this increase has occurred since 2008.

The graph below depicts the trend in the total long service liability of all New South Wales transport entities over the past five years.



Source: Transport entities financial statements (audited).

Note: The above graph excludes OTSI. Their Long Service Leave balances were not provided at the time of printing.

The liability increased between 2009 and 2010 primarily because entitlements grew in ten of the eleven entities and the Government bond rate used to discount the liability fell due to the global financial crisis.

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

Transport entity	Five Year Trend	2010 \$m	2009 \$m	2008 \$m	2007 \$m	2006 \$m
RailCorp	↑	287.9	259.5	214.2	209.3	203.8
State Transit	↑	52.7	45.1	44.0	42.6	40.1
Sydney Ferries	~	7.2	7.5	6.9	6.9	5.5
RTA	~	205.7	196.4	175.1	185.6	189.0
TNSW	~	8.3**	7.2**	6.2**	5.3**	5.6**
TIDC	↑	1.3	1.1	1.0	0.6	0.5
SM	↑	0.8	--*	--*	--*	--*
RIC	↓	1.6	2.0	19.2	23.0	45.7
ITSR	↑	3.1**	2.9**	2.8**	2.6**	2.4**
PTTC	~	0.1	0.1	0.1	0.2	--
Total	~	568.8	521.7	469.4	476.1	492.7

Source: Transport entities financial statements (audited).

*SM was only established on 27 January 2009. No employees existed at 30 June 2009 or in any of the prior years.

**The long service leave entitlements for these entities are assumed by the Crown.

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

Note: The above table excludes OTSI. Their Long Service Leave balances were not provided at the time of printing.

RailCorp recorded a 41.3 per cent increase in its long service leave liability over the past five years. RIC recorded the largest decrease over the past five years, primarily due to the 2006 rail restructure, which resulted in its functions and staff being transferred to RailCorp and the Australian Rail Track Corporation.

Transport entities will need to ensure they have plans to fund these liabilities, which generally increase over time with increases in employee remuneration levels. The funding pressures on transport entities will be compounded as other liabilities arise from the expected retirement of a large proportion of the ageing workforce.

RailCorp, State Transit and TIDC advised strategies have been implemented to manage these funding risks. Refer to the individual agency comments in this Volume for more information. The RTA and Sydney Ferries have confirmed that no funding strategies are currently in place. TNSW and ITSIR long service leave liabilities are assumed by the Crown.

Fraud in Transport Agencies

Procurement is a major risk area for corruption and fraud in the NSW public sector. The impacts include financial and reputational losses, negative impacts on safety, and poor quality goods, services and infrastructure. In response to various findings of fraud and corrupt conduct related to procurement in the NSW public sector, the Independent Commission Against Corruption (ICAC) has initiated a project to examine the corruption risks with procurement and to provide assistance to agencies in managing these risks.

During our enquiry into procurement fraud, all transport agencies, with the exception of RailCorp, advised that no instances of fraud were reported for the financial year ended 30 June 2010. Refer to RailCorp's individual comment for further details.

In addition to procurement fraud, the ICAC investigated the misuse of a corporate card at Sydney Ferries and other matters of corrupt conduct at RailCorp. As a result of the fraud investigations, the ICAC made recommendations for the respective agencies to implement. Sydney Ferries has fully implemented the recommendations and for details of RailCorp's implementation status, refer to the comments on RailCorp in this volume.

Cost of Vandalism

I recommend Sydney Ferries and the RTA investigate the costs and benefits of implementing systems to determine and monitor the cost of vandalism so that potential trends can be identified and addressed.

RailCorp, the RTA, State Transit and Sydney Ferries own and manage significant portfolios of infrastructure assets vital to the efficient operation of transport services in New South Wales. The effects of vandalism can be twofold. Firstly, there are the financial costs of repairing or replacing damaged assets. Secondly, there are the broader implications on customer satisfaction levels and safety because assets are non-operational due to damage.

RailCorp and State Transit have systems in place to determine the financial costs of vandalism. RailCorp spent approximately \$55.0 million during 2009-10 (\$48.0 million) to repair malicious damage, including graffiti, to assets such as trains and stations. RailCorp does not monitor the cost of vandalism by train line. State Transit spent \$1.1 million over the same period and advised that the route suffering the highest level of vandalism was the L90/190 route from Palm Beach to Railway Square.

The RTA broadly estimates the cost of graffiti vandalism at between \$3.0 million and \$4.0 million per annum. Sydney Ferries advised the cost of vandalism is immaterial and thus not specifically tracked.

Electronic Ticketing System for the Greater Sydney Region

The Public Transport Ticketing Corporation (PTTC) is charged with procuring a new electronic ticketing system to replace the terminated Tcard project. I previously reported (Volume Five, 2008) that the Corporation reassessed and impaired the value of its TCard intangible assets from \$59.1 million to nil.

PTTC terminated the Tcard project with the private sector contractor on 23 January 2008 and commenced legal proceedings against the contractor. The contractor responded by lodging a cross claim. Possible hearing dates have been reserved by the Court from 1 August 2011 to the end of the year. The Corporation is taking all necessary action to recover funds spent on the Tcard contract.

On 7 May 2010, the Corporation signed the Electronic Ticketing System (ETS) contract with the Pearl Consortium, comprising Cubic Transportation Sydney (Australia), Downer EDI Engineering Power and the Commonwealth Bank.

The total value of the new electronic ticketing system over 15 years is about \$1.2 billion. It will operate across greater Sydney's public transport network and will extend as far as Newcastle and the Hunter region, Wollongong, the Illawarra and the Blue Mountains. The fare structure will be largely consistent with the principles of the MyZone fare structure.

For further information on the electronic ticketing system, refer to the comments on PTTC in this volume.

Role of Independent Transport Safety Regulator (ITSR)

ITSR is an independent agency, which reports directly to the Minister for Transport. It was established on 1 January 2004. ITSR is the safety regulator for the State's rail industry under the *Rail Safety Act 2008*.

Due to the recent amendments to the *Transport Administration Act 1988*, as of 1 July 2010, the reliability function of ITSr resides with TNSW, which is responsible for driving performance across the transport portfolio and ensuring robust service level agreements and contracts are in place. The Government believes this will better align the overall strategic management of transport services with transport reliability functions.

The safety regulation function remains with ITSr to ensure robust safety systems and practices are the highest priority for public transport. On 1 July 2010, a 12 month transitional phase commenced, which will see ITSr take on new safety regulation responsibilities for buses, taxis and car hires.

Loss of Federal Training Grants due to Employment Arrangements (Repeat Issue)

I recommend TNSW reconsider the appropriateness of employment arrangements for State Transit to avoid further losses of Commonwealth Government grants.

Under current arrangements, staff are employed by Government departments, known as Employment Divisions, rather than directly by State Transit. This results in State Transit losing an entitlement to Commonwealth Government training grants.

The Australian Government announced a change to the Australian Apprenticeships Incentives Program (AAIP) in its 2008-09 budget. Where an employer is a department of State, a department of Parliament, or an agency within the State or Territory executive arm of government, they cease to be eligible for employer incentives under AAIP. Where the employer is a statutory authority, statutory body or body corporate, it will continue to be eligible for employer incentives. This change was effective after 1 July 2008.

In 2006, I reported how the New South Wales Government's response to the then Australian Government's 'Workchoices' workplace relations reforms, created approximately 60 special purpose entities, referred to as Employment Divisions. This resulted in the transfer of statutory authority employees to the newly created Divisions.

Following workplace relations reform at the Australian Government level, TNSW should consider whether the employee Divisions created in 2006 are still relevant.

OTHER INFORMATION

Commuter Car Parking and Interchange Program (CCPIP)

Stage one of the CCPIP involves the delivery of around 7,000 new commuter car spaces at 29 railway stations across the Sydney, the Central Coast, Illawarra and Blue Mountains. Stage 2 of the program was announced as part of the Metropolitan Transport Plan and involves the construction of 21 new car parks, interchanges and station upgrades. Construction of projects in stage two will be managed by TIDC (now known as TCA) and RailCorp and is due to commence in 2010-11. The total budget, including the preliminary budget for stage two, for projects being delivered by TIDC in the CCPIP is \$394 million.

TIDC and RailCorp are managing the construction of 25 commuter car parks under stage one of the CCPIP. Of these, 22 are being delivered by TIDC and three by RailCorp. During the year, TIDC completed four car parks at Helensburgh, Seddon Park, Werrington and Woonona. RailCorp completed two car parks at Holsworthy and Windsor. TIDC advises all remaining car parks are expected to be completed by the end of October 2011, in line with the overall CCPIP stage one completion target.

In addition to the car parks being managed by RailCorp and TIDC, a further four car parks are being constructed by the NSW Department of Services, Technology and Administration and local councils. These car parks include Campbelltown, Tuggerah and Wentworthville which are now completed and open to the public.

For further information on the CCPIP, refer to the comments on RailCorp and TIDC in this volume.

2009-10 Transport Funding Announcements

In June 2010, the Government announced the 2010-11 Budget. It will invest \$7.0 billion on operating and expanding the New South Wales public transport system and \$4.7 billion on maintaining and upgrading the New South Wales road network.

The Transport Services sector's capital program is \$5.8 billion in 2010-11 and includes:

- \$2.8 billion for reinforcing capacity of existing road networks and increasing capacity on major roads and highways within the Sydney region, Pacific Highway, Great Western Highway, Hume Highway and Princes Highway
- \$304 million for the Rail Clearways Program
- \$278 million for the South West Rail Link
- \$299 million for rolling stock acquisition (includes Waratah train enabling works)
- \$323 million for 506 new/replacement buses for both State Transit and private operators.

Major Capital Projects

I recommend TNSW continues to monitor major capital projects being delivered by transport entities to help ensure they are delivered on time and within budget.

Transport entities are responsible for the delivery of a range of major capital projects that will provide improved infrastructure and public transport assets to the people of New South Wales.

The table below provides details on the original and latest revised budget of the top five capital projects for each of the major transport entities at 30 June 2010. Sydney Metro is specifically excluded from the analysis below following the Government's decision in February to stop work on the CBD and West Metros. Refer to the Sydney Metro comment in this volume for more information.

Transport entity*	Number of Projects	Original Budget (\$m)	Latest Revised Budget (\$m)
RailCorp**	5	7,108	7,241
State Transit	5	204	207
Sydney Ferries	5	42	50
RTA	5	3,444	3,500
TIDC	5	4,029	6,767
RIC	5	45	40
PTTC***	1	1,200	1,200
Total	31	16,072	19,005

Source: Information provided by the respective transport entities (Unaudited).

* TNSW, ITSIR and OTSI did not have any major capital infrastructure projects at 30 June 2010.

** Includes the net present value of the PPP whole of life contract.

*** This cost is related to PTTC's only project, being the introduction of the electronic ticketing system.

The table shows the above transport entities are committed to a substantial capital works program totalling over \$19.0 billion. The expected completion dates for these projects range between 2010-11 and 2024-25.

Variations between the original and the latest revised budgets are primarily related to changes in the scope of the projects since the initial cost estimates or cost escalations over the period of the project. TIDC advises the major increase in project budgets is related to the inclusion of escalation in the revised budget for the ECRL; the inclusion of both interest and escalation, as well as increases in scope and additional works in the Rail Clearways Program; and a significant increase in the scope of work on the South West Rail Link where the original budget was for only to the Glenfield Transport Interchange, while the revised budget also includes the Glenfield to Leppington Rail line.

The above agencies advise they expect to deliver 18 of the 31 projects on time and within budget. Of the remaining projects, nine are over budget and behind schedule, while a further four are either over budget or behind schedule.

Refer to the individual agency comments in this volume for further information on major capital projects.

Safety Performance

Passenger safety performance indicates the number of passenger injuries/fatalities that occurred as a result of the agency's service operations. In the five year period, management of these agencies have advised there have been no passenger fatalities reported by RailCorp, State Transit and Sydney Ferries. Non passenger related fatalities do occur, however, these are primarily outside of the agencies' control.

Number of passenger Injuries	2010	2009	2008	2007	2006
RailCorp (Trains)	613	478	348	363	379
State Transit (Buses)	370	283	404	370	365
Sydney Ferries (Ferries)	15	12	16	35	17

Source: Information provided by the respective transport entities (Unaudited).

The table above shows the number of passenger injuries increased from 2008-09, with RailCorp experiencing the highest increase of 62 per cent over the past five years.

Section Two



Commentary on Government Agencies

Minister for Lands

Land and Property Management Authority

State Property Authority

Refer to Appendix 1 for:

Board of Surveying and Spatial Information

Chipping Norton Lake Authority

Lake Illawarra Authority

Land and Property Management Authority

AUDIT OPINION

The audit of the Authority's financial statements for the year ended 30 June 2010 resulted in a qualified Independent Auditor's Report.

QUALIFICATION

I was unable to obtain all the information required to form an opinion on the value of Crown reserve land, the buildings and infrastructure on those reserves, or coastal infrastructure that should be recorded in the Authority's accounts.

More information is required to identify these assets, determine who controls them, and then to value them before they can be recognised in the Authority's financial statements.

The preliminary estimate of the total value of Crown reserves controlled by the Authority, but not currently recognised in the Authority's accounts, is between \$3.0 billion and \$5.0 billion. In addition, the preliminary estimate of the value of buildings and infrastructure on Crown reserves is between \$4.0 billion and \$5.5 billion.

The value of Coastal Infrastructure assets under the Authority's control is difficult to estimate as some of the land may be subject to tenure arrangements. Approximately \$2.8 million was spent by the Authority on maintaining these coastal infrastructure assets during 2009-10.

KEY ISSUES

Buildings and Infrastructure on Crown Land

I recommend the Authority identifies and values all assets under its control so they can be recognised in its financial statements.

The current Crown reserves project is working towards addressing the non-recognition of Crown reserve land, but a similar project has not commenced to resolve the same issue with buildings and infrastructure on Crown reserves and coastal infrastructure. The Authority should commence such a project as soon as possible.

Land and Property Management Authority

On 27 July 2009, the 'Public Sector Employment and Management (Departmental Amalgamations) Order 2009' established the Land and Property Management Authority from the former Department of Lands. The Order also transferred the following to the Authority.

- Office of State Property Authority
- Office of Biofuels
- Employees of the Hunter Development Corporation
- Employees of the Lake Illawarra Authority
- Employees of the Chipping Norton Lake Authority

The Authority also manages the functions of the previous Crown Leasehold Entity, Land Development Working Account, Crown Lands Homesites Program and Crown Reserves, effective from 1 July 2009.

The *Public Sector Restructure (Miscellaneous Acts Amendments) 2010* transferred the Office of Strategic Lands from the Department of Planning to LPMA with effect from 1 July 2009.

The Public Sector Employment and Management (SHFA) Order 2010 transferred the Office of Sydney Harbour Foreshore Authority to LPMA with effect from 4 June 2010.

The Public Sector Employment and Management (Land and Property Management Authority) Order 2010 transferred the Office of Rural Affairs from the Authority to the Department of Industry and Investment with effect from 19 March 2010.

Inventory of Crown Land (Repeat Issue)

I recommend the Authority establish an appropriate centralised record of all Crown land in New South Wales to meet its responsibilities under the *Crown Lands Act 1989*.

The Authority is responsible for establishing a programme of assessment of all Crown land in New South Wales in accordance with the *Crown Lands Act 1989*. The assessment must include an inventory of Crown land; an assessment of the capabilities of the land; and the identification of suitable uses for the land indicating, where practicable, the preferred use or uses for the land.

In 2007, I reported that whilst the Department of Lands had information on the State's Crown lands, it did not have a centralised inventory of all Crown land in New South Wales, or a mechanism to record all required information. As a result, the Department cannot demonstrate it has fulfilled its responsibilities under the *Crown Lands Act 1989*.

The Authority has received funding from The Treasury to establish a centralised record of all Crown lands, which it expects to complete by June 2012.

Government Property Register (Repeat Issue)

I recommend the Authority develops a strategic framework to guide the future maintenance, development and use of the Government Property Register.

I also recommend the limitations identified in the Government Property Register be resolved so that it becomes a complete and reliable record of all New South Wales Government property assets.

A 2002 performance audit on the Government Property Register (GPR) noted that despite being on the agenda for many years (formally, at least since 1988), there was no comprehensive record of all government property assets in New South Wales. While significant progress has been made with developing the GPR, the Government still does not have a complete record of all property held by New South Wales Government agencies.

Whilst individual government agencies have responsibility for managing property assets they control, the law requires that a central register of government property be kept. Development and maintenance of the GPR by the Authority provides the means of achieving compliance with the law.

The register still has the following limitations, which were initially identified and reported in the 2002 performance audit:

- changes in control or ownership are not always recorded
- much of the land held by RailCorp has no title
- some Crown land is still unidentified
- some agencies are excluded from the legal requirements to provide information for the register (e.g. State owned corporations)
- many agencies have unique property identifiers which may relate to a part of, one or many lots.

The Authority is currently developing the functionality of the GPR to enable it to capture all land without title. This function is scheduled for completion in January 2011.

The Authority is also undertaking Title Conversion Programs, which identify untitled land parcels and create computerised titles.

The GPR is also being expanded to enable it to capture property information supplied by State owned corporations. This work is scheduled for completion in December 2010.

Currently, there is no strategic framework to support future development, maintenance and use of the GPR, although the Authority is preparing an overview document to provide for the strategic framework. During 2009-10, the Authority introduced regular meetings for GPR users to clarify its vision for the GPR, ascertain the needs and requirements of the Government and reporting agencies, and reinforce agency responsibilities in maintaining GPR data. The Authority advises these meetings also serve to guide future enhancements to the GPR.

I recommend the Authority continues to work with agencies experiencing difficulty finalising 2010 annual reconciliations of the GPR with agency records, to ensure a complete reconciliation is achieved as soon as possible.

In March 2010, the Chief Executive of the Authority issued a letter to 193 New South Wales public sector agencies:

- confirming the statutory powers under which reporting agencies are required to supply property data to the GPR
- requesting agencies to reconcile their property assets with the GPR.

Of the 193 agencies contacted, 135 agencies have responded equating to approximately 95 per cent of the properties currently registered in the GPR.

Of the responding agencies, 119 have successfully reconciled their property assets with the GPR. The Authority is working with the remaining 16 agencies to complete the process by ensuring the information accessed in the GPR is accurate and reliable.

The Authority asked agencies with no assets recorded in the GPR to confirm they do not hold, lease or occupy any property. Of the 58 agencies that have yet to respond to the initial reconciliation request, 32 are to have no property assets recorded in the GPR.

Aboriginal Land Claims (Repeat Issue)

Since 2007, I have been recommending that the Authority significantly reduces the time taken to process Aboriginal Land Claims and transfer legal title to successful claimants.

I have also been recommending that legal title over land granted to successful Aboriginal land claimants be issued as soon as practicable.

The Authority investigates Aboriginal Land Claims made under the *Aboriginal Land Rights Act 1983*. Under the Act, claims can be made over claimable Crown land, being lands that can be lawfully sold or leased, or are reserved or dedicated for any purpose under the *Crown Lands Act 1989* or *Western Lands Act 1901* and are not required for an essential purpose, nor for residential land, nor are not lawfully used and/or occupied.

Of the 26,895 Aboriginal Land claims lodged under the Act to 30 June 2010, 17,436 (64.8 per cent) were unresolved at 30 June 2010, with 293 claims unresolved for more than ten years.

During the year, 8,756 (2,056 in 2008-09) claims were lodged with 69 granted and 1,152 refused. Most of the claims lodged in 2009-10 were over freehold land. Claims over freehold land cannot be granted under the *Aboriginal Land Rights Act 1983*, and these claims do not require further investigation.

On 13 July 2009, the Premier directed that all current outstanding claims submitted between 1983 and 1993 must be determined, as a matter of priority, by 31 December 2009. The Authority met this target.

The Premier also set a target to reduce the current number of outstanding land claims at 30 June 2010 by 65 per cent from July 2009 to June 2010. The Authority was unable to meet this target due to the large volume of claims lodged in 2009-10. The Authority advises the number of determinations made in the current year was a significant increase on the long term average number of determinations.

Legal title cannot pass until the land has been surveyed and recorded on the State's Digital Cadastral Database. Once this has occurred, formal title can pass to the relevant local Aboriginal Land Council. Claimants cannot fully access or use the land until title has passed. Based on current survey resourcing capacity, it may take more than 20 years for all current granted claims to be cleared. We initially reported this matter in 2005.

The land is included as both an asset and a liability of the Authority on the basis that, whilst the Crown retains control of the land until legal title passes, a present obligation exists to transfer the land.

At 30 June 2010, the Authority had a \$966 million liability for land claims granted to claimants. During 2009-10, land valued at \$220 million was transferred to the successful claimants following finalisation of legal title.

Treasury Online Entry System Input Preparation

I recommend the Land and Property Management Authority implement improved quality control procedures over its Treasury Online Entry System (TOES) input processes.

The Treasury Online Entry System (TOES) is the financial reporting system agencies use to report financial results and balances to The Treasury for the Total State Sector Accounts. Most agencies, including the Authority, are required to complete a TOES return each month.

The initial TOES input for 2010 was incorrect and contained errors that were material to the Total State Sector Accounts. These errors were only identified during the audit. This delayed the audit of the Authority's financial statements and contributed to the delay in finalising the Total State Sector Accounts.

The Authority should implement robust review and quality control procedures around the TOES input process as a priority.

PERFORMANCE INFORMATION

The largest source of the Authority's revenue comes from its titling business, which includes document registrations, plan registrations and title copies. Land valuations also provide a significant portion of the Authority's revenue. The following table provides information on the Authority's activity in these areas:

Year ended 30 June	Target*	Actual				
	2010	2010	2009	2008	2007	2006
Title copies ('000s)	4,000	4,169	4,064	4,496	4,400	4,305
Document registrations ('000s)	700	781	730	799	794	810
Plan registrations ('000s)	10	10	10	11	11	12
Total Titling activities ('000s)	4,710	4,960	4,804	5,306	5,205	5,127
Titling revenue (\$'000)	129,337	141,948	123,219	123,092	104,066	103,660
Total valuations ('000s)	2,400	2,429	2,417	2,404	2,389	2,373
Valuations revenue (\$'000)	39,561	38,352	37,870	35,297	33,175	27,993

* Source: LPI Statement of Business Intent 2009-10 (unaudited).

Titling activities have decreased 3.3 per cent, from 5.1 million transactions in 2005-06 to 5.0 million in 2009-10. Titling revenue increased significantly, by 36.9 per cent, from \$104 million to \$142 million over the same period due to price increases.

The numbers of valuations has remained steady over the last 5 years. Significant increases in valuation revenue during 2006-07 were due to the IPART determination, which agreed to recover the increase in costs associated with valuations by incrementally increasing prices. Valuation revenue has increased 37.0 per cent, from \$28.0 million to \$38.4 million over the 5 year period from 2006 to 2010.

OTHER INFORMATION

Torrens Assurance Fund

The Torrens Assurance Fund was established to meet claims for losses arising out of fraud or errors made by the Authority. It is funded by a \$4 fee to the Registrar-General for any land dealing lodged. Fees charged raised \$3.1 million in 2009-10 (\$2.9 million) for the Fund. At 30 June 2010, the balance of the Fund totalled \$16.1 million (\$16.5 million).

The Registrar-General paid \$3.5 million (\$4.8 million) in claims during the year from the Fund, including compensation payments and disbursements, such as legal counsels' fees. As at 30 June 2010, there were 19 (47) unresolved claims with a total estimated value of \$11.4 million (\$13.9 million). Unresolved claims are disclosed as contingent liabilities in the Authority's financial report.

New arrangements under the *State Revenue Legislation Amendment Act 2010* changed the existing arrangements of the Torrens Assurance Fund. From 1 July 2010, the Torrens Assurance Fund levy became a separate charge paid under the Act and will be payable into the Consolidated Fund.

Major Projects

The Authority has a number of projects integral to meeting its purpose of providing quality, timely and reliable geospatial information, and land management products and services. We have included details below on the current status of projects with forecast costs exceeding \$3.0 million:

At 30 June 2010	Original Forecasted Cost \$'000	Current Forecasted Cost \$'000	Original Completion Date	Current Completion Date
Crown Parcels Conversion Stage 2	6,530	6,530	2012	2012
National Electronic Conveyancing System	4,000	4,448	2010	2011
Digitisation of Historical Plans	4,000	3,683	2006	2011
Survey Infrastructure Project	3,050	7,246	2011	2014

The initial stage of the Crown Parcels Conversion project was completed in 2009. Stage 2 has now commenced and the completion date is 2012.

The forecast cost for the Digitisation of Historic Plans project decreased due to process efficiencies. However, its completion date has been extended to 2011 due to reprioritisation of the project. The remaining projects with increased forecast costs and extended completion dates are largely due to increases in project scopes, in particular, the Survey Infrastructure project. Due to funding issues, this project has been delayed, requiring an extension in funding and timeframe.

National Electronic Conveyancing System

The National Electronic Conveyancing System (NECS) is to be a single national facility serving industry and government needs in all State and Territory jurisdictions. It aims to provide a convenient electronic means for legal practitioners, conveyancers, banks and mortgage processors.

In July 2008, the Council of Australia Governments (COAG) announced a commitment to implement the NECS with the commencement of a new e-conveyancing system targeted by March 2010.

In March 2009, the agreement was extended and confirmed through the National Partnership Agreement to deliver a Seamless National Economy, which schedules the introduction of the NECS by the end of 2011.

In January 2010, the National E-Conveyancing Development Ltd (NECDL) was formed to progress work previously being guided by the National Steering Committee of government and industry representatives through the National Electronic Conveyancing Office (NECO).

The NECDL has been funded by a grant of \$1.67 million from the governments of New South Wales, Queensland and Victoria. The Authority contributed the grant to the NECDL on behalf of the New South Wales Government.

Until NECDL becomes fully operational, NECO has continued its work during a transition period in 2009-10.

The NECO administration and the National NECS work program has received funding from the Authority totalling \$6.0 million over five years, including \$1.8 million in 2009-10. NECDL is negotiating the procurement of the NECS intellectual property created by NECO since 2005, from the Authority. Following the formation of NECDL, the Authority is winding down its NECO activities and expects to handover the outstanding work to NECDL by December 2010.

Human Resources

This year I reviewed the following areas relating to human resources:

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- extent of contract staff
- flex leave.

Issues identified from my review will be reported in a management letter to the Authority. A summary of the results of my review follows.

Workforce Ageing

The Authority faces challenges from the potential loss of a large number of skilled employees through retirement over the next 10 to 15 years. Thirty per cent of the Authority's employees are 55 years of age and over and 48 per cent are 50 years of age and over.

The Authority will need to actively monitor its workforce age profile and have strategies in place to develop, attract and retain employees whose skills are aligned to the strategic direction of the entity.

In response to this risk, the Authority advises it has implemented the 'Graduate and Trainee Intake' programs and 'Vision 2013' strategy with the objective to attract, develop and retain suitable numbers of people.

The age profile of the Authority employees is shown below:

At 30 June Age Group	2010	
	No. of Employees	%
Up to 35	289	18
35 - 39	158	10
40 - 44	175	11
45 - 49	219	13
50 - 54	301	18
55 - 59	359	22
60 - 64	107	6
65+	26	2
Total	1,634	100

Source: Land and Property Management Authority (Unaudited)

Contractors

I recommend the Authority establish a central registry of all contractors and periodically review the roles and responsibilities of all its contractors to ensure:

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

The Authority spent \$7.5 million on contract employees in 2009-10, 5.4 per cent of salaries and wages.

I understand the Authority has a Recruitment Review Committee to review business cases for staffing requests, including temporary and casual staff. However, the Authority does not have a central registry of all contractors and is unable to determine how many contractors are working at one time and how long they have been engaged by the Authority.

While the use of contractors has benefits, particularly on projects, extensive reliance on this employment source generally results in higher employment costs to an organisation and less ownership and commitment to organisational goals and objectives.

Flex Leave

I recommend the Authority develop mechanisms to centrally review flex time records to help ensure excessive flex time is not being accrued and forfeited by employees.

The Authority does not know the extent to which flex time is being accrued and forfeited by employees, as it does not keep central records of forfeited flex time. Records are decentralised and manually maintained by each branch. If flex time is not monitored centrally, employees may be accruing and/or forfeiting excessive flex time. The Authority advises that an electronic flex system is currently being implemented.

FINANCIAL INFORMATION

As the Authority is a new entity, no comparatives for prior financial years are shown in the information below.

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000
Employee related	172,187
Grants and subsidies	38,306
Other expenses	246,224
OPERATING EXPENSES	456,717
OPERATING REVENUE	369,569
Loss on disposal	(100,757)
Other losses	(22,189)
NET COSTS OF SERVICES	210,094
Government Contributions	(2,087)
DEFICIT	(212,181)
OTHER COMPREHENSIVE INCOME	
Increase in Property Plant and Equipment Asset Revaluation Reserve	118,063
Superannuation actuarial losses	(43,386)
TOTAL COMPREHENSIVE EXPENSE	(137,504)

During the year, the Authority incurred expenses of \$116 million on Aboriginal Land Council claims granted and related changes in valuation estimates. The Authority also incurred a loss of \$101 million on the disposal of Crown lands as the majority were disposed for little or no consideration to Reserve Trusts or Local Government.

In 2009-10, the Authority earned \$142 million from titling, its main source of income. The Authority also manages properties under lease and licence and earned \$55.1 million for this tenure management.

Included in Government Appropriations are transfers to The Treasury and payments to the Office of State Revenue, totalling \$83.2 million.

Abridged Statement of Financial Position

At 30 June	2010 \$'000
Current assets	160,445
Non-current assets	6,289,160
TOTAL ASSETS	6,449,605
Current liabilities	1,109,575
Non-current liabilities	205,231
TOTAL LIABILITIES	1,314,806
NET ASSETS	5,134,799

The Authority's property, plant and equipment balance at 30 June 2010 was \$6.2 billion. This includes \$0.7 million and \$5.3 billion of tenured and untenured Crown land respectively. Untenured Crown Land includes the continental shelf within the Three Nautical Mile Zone valued at \$359 million.

During the year, the Authority revalued its land and buildings resulting in a \$118 million increase in value.

Included in non-current liabilities above are superannuation liabilities of \$192 million.

Abridged Service Group Information

The Authority's net cost of services and net assets on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services*	Net Assets
	2010 Actual \$'000	2010 Actual \$'000
Crown Land Services	53,498	60,334
Soil Conservation Service and Rural Service	9,119	9,626
Personnel Services	(1,300)	2,058
Commercial Activity - Land and Property Information	(21,426)	(61,212)
Commercial Activity - Crown Leaseholds Entity	178,076	5,083,334
Commercial Activity - Land Development Working Account	(1,372)	10,349
Commercial Activity - Crown Lands Home sites Program	(6,501)	30,310
Not attributable	--	--
Total all service groups	210,094	5,134,799

* The table above does not contain budget figures, as the entity is new.

AUTHORITY ACTIVITIES

The Authority has commercial, semi commercial and non-commercial activities, which include the provision of information about property on a commercial basis, such as surveying, mapping, titling, valuations and related geospatial information. Its Soil Conservation Services provide conservation and land management services on a semi commercial basis. Non-commercial activities include the sustainable management of Crown lands including the tenure management for properties under lease and licence, and the management of Aboriginal Land Claims and Native Title applications.

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

State Property Authority

AUDIT OPINION

The audit of the Authority's financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

KEY ISSUE

Contaminated Land

I recommend the Authority review its property remediation activities, including:

- assessing the risk of further increases in estimated remediation costs
- identifying how the Authority will fund any further increases
- developing strategies to minimise the risk of further increases.

The Authority has significant obligations to remediate contaminated land. At 30 June 2010, its remediation liabilities totalled \$115 million. Some of these obligations are in respect of land not owned by the Authority.

Accurately estimating the cost and timing of remediation is difficult and the Authority's remediation liabilities at 30 June 2010 are greater than were originally estimated, resulting in unbudgeted expenses of \$10.0 million in 2009-10. All New South Wales Government agencies with remediation obligations face a risk that remediation will cost more than planned.

Hunters Hill

The Authority is managing the remediation of three Hunters Hill properties to make them suitable for residential development. At 30 June 2009, the Authority estimated the costs of remediation at \$4.9 million. At 30 June 2010, this estimation had increased to \$9.6 million.

The Authority's 2010 estimation of costs is based upon transfer of contaminated waste material to a licensed site located at Kemp's Creek. However, the Premier has subsequently instructed the Authority to explore other options for waste disposal. Changes to waste disposal plans and any resulting delays could increase the final remediation cost.

The Authority acquired the properties from NSW Health in 2008-09, which are contaminated by residues from a uranium processing plant that operated on the site from 1911 to 1916. The plant was run by the Radium Hill Company, a commercial enterprise that no longer exists.

Newcastle

The Authority is responsible for remediating various contaminated lands in Newcastle. These properties were acquired in 2002 from BHP Billiton. At the time, BHP Billiton paid the Government \$104 million to indemnify them from any ongoing liability for contamination on the transferred lands. This was an amount equal to the expected total remediation costs.

At 30 June 2010, the balance of the funds remaining was \$96.4 million and the expected remediation costs are \$105 million. The NSW Government is unable to recover the additional costs from BHP Billiton. The Authority will need to fund any further deterioration in the estimated remediation costs.

In July 2009, various parcels of Newcastle land were transferred to Newcastle Port Corporation (NPC), a New South Wales statutory State owned corporation. NPC is indemnified by the Crown from any liability for contamination on the transferred lands. As result, the Authority still has a liability for remediation of the transferred land.

Any deterioration in remediation costs in the future will result in an expense to the Authority. However, any increase in land value arising from the remediation process will benefit NPC. This division of risks and benefits increases the risk of inefficient outcomes for the Government as a whole.

PERFORMANCE INFORMATION

Vacancy Rates

Records maintained by the Authority show vacancy rates for properties managed by the Authority ranged from 1.2 per cent in July 2009 to 0.7 per cent in June 2010. This performance is comparable with the prior year when vacancy rates ranged from 0.9 per cent to 1.6 per cent. The Authority sets a vacancy benchmark of 1.5 per cent.

At 30 June 2010, 5,470 square metres representing 0.7 per cent of the Authority's office accommodation, remained vacant (5,200 square metres representing 1.2 per cent at 30 June 2009). This is better than reported vacancy rates for Sydney commercial office space, being 8.5 per cent at July 2010 and 7.7 per cent at July 2009.

OTHER INFORMATION

Property Portfolio

The Authority's property portfolio includes:

At 30 June	2010 \$'000	2009 \$'000
Land and buildings held for operations and investment	707,803	728,319
Vacant land	124,192	152,563
Finance lease assets	78,574	81,793
Emerging interests in properties subject to long term leases	1,800	5,750
Work in progress	3,836	3,912
Other	8,116	3,230
Total Property	924,321	975,567

The Authority advises its property portfolio is around 1.3 million square metres at 30 June 2010.

Vesting Program

Ownership of 86 properties and management of 552 leases vested with the Authority over the last two financial years. On 1 October 2010, a further 6 properties and 266 leases were transferred to the Authority. Substantial completion of the vesting program is expected by 30 June 2011. This will see the ultimate vesting of around 980 Government owned and leased property assets since the commencement of the program in 2008.

Premier's Memorandum 2008-06, 'State Property Authority and Government Property Principles' established the framework for management of government property assets. Key initiatives of the framework included:

- ownership of all government owned office accommodation vesting in the Authority
- transferring to the Authority management responsibility of all government leased office accommodation.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Property rental income	255,398	184,569
Grants and contributions	18,854	23,357
Other income	3,221	9,585
REVENUE	277,473	217,511
Property related outgoings	201,956	121,031
Depreciation and amortisation	25,313	21,983
Other operating expenses	20,358	12,132
Employee related expenses	16,021	17,272
EXPENSES	263,648	172,418
Loss on disposal and revaluation of property	(15,420)	(1,903)
(DEFICIT)/SURPLUS	(695)	43,190
(Loss)/gain on revaluation of property	73,787	(163,521)
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	73,092	(120,371)

Property rental income and related outgoings increased as a result of the additional owned and leased properties obtained during 2009-10.

Grants and contributions received from the State Government include \$13.7 million (\$17.4 million in 2009) for major capital projects and asset renewals.

The Authority made distributions to Government of \$97.7 million during 2009-10 (\$39.0 million). Distributions represent \$32.6 million of surplus on rental operations (\$39.0 million) and \$65.1 million of proceeds from asset sales (nil).

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	169,509	232,566
Non-current assets	989,372	925,716
TOTAL ASSETS	1,158,881	1,158,282
Current liabilities	71,002	59,801
Non-current liabilities	374,833	324,918
TOTAL LIABILITIES	445,835	384,719
NET ASSETS	713,046	773,563

Current assets include cash and cash equivalents of \$96.4 million (\$94.7 million) set aside for remediation of land acquired by the government from BHP Billiton in 2002. Cash and cash equivalents also includes \$2.8 million (\$13.9 million) held in trust for another government agency for property acquisitions in progress.

At 30 June 2010, current and non-current provisions for remediation totalled \$115 million (\$97.1 million).

AUTHORITY'S ACTIVITIES

The *State Property Authority Act 2006* established the Authority as a statutory body from 1 September 2006. The Authority's principal objectives are to:

- improve operational efficiencies in the use of properties by government agencies
- manage properties of government agencies in a way that supports the delivery of government services by agencies
- advise government on property matters
- operate at least as efficiently as any comparable business

The Authority is subject to the control and direction of the Minister for Lands.

For further information on the Authority, refer to www.lpma.nsw.gov.au/spa.

Minister for Mineral and Forest Resources

Mine Subsidence Board

Mine Subsidence Board

AUDIT OPINION

The audit of the Board's financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

FINANCIAL INFORMATION

The following information relates to the Board's finances:

Year ended 30 June	2010 \$'000	2009 \$'000
Revenue	24,828	25,115
Expenditure	18,285	12,068
Surplus	6,543	13,047
Net assets (at 30 June)	58,420	51,877

The increase in expenditure was mainly due to increased subsidence claims, \$6.7 million. The increase in net assets was mainly due to an increase in the value of investment bonds and term deposits by \$10.9 million. This was offset by a \$5.7 million increase in the provision for subsidence claims and preventive works.

BOARD ACTIVITIES

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

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

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

Minister for Planning

Department of Planning

Landcom

Barangaroo Delivery Authority

Sydney Harbour Foreshore Authority

Refer to Appendix 1 for:

Festival Development Corporation

Hunter Development Corporation

Department of Planning

AUDIT OPINION

The audit of the Department's financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

KEY ISSUE

Accounting for Revenue

Last year, I noted a number of issues with the recognition of development application fees and development contributions in the financial statements. At that time the Department advised it would review revenue procedures and controls in 2009-10.

The Department's Internal Auditors reviewed revenue management processes in 2009-10 and found that while some issues persist around establishing the debt and reconciliations, significant progress has been made to address the issues. I will continue to monitor and report actions taken by management during 2010-11 to address the remaining issues.

OTHER INFORMATION

Annual Leave Balances

At 30 June 2010, 81 (86 at 30 June 2009) employees had accrued annual leave entitlements in excess of 40 days. This represents 11.4 per cent (11.0 per cent) of all employees. The accumulation of excessive annual leave entitlements may result in increased financial costs, because the entitlements will be paid out at higher salary rates in the future, and may have occupational health and safety implications.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Employee related	72,083	67,757
Other operating expenses	17,081	19,290
Grants and subsidies	28,421	32,632
Other expenses	1,839	1,319
TOTAL EXPENSES	119,424	120,998
Sale of goods and services	35,878	39,369
Other revenue	7,681	14,359
TOTAL REVENUE	43,559	53,728
Other losses	3,590	13,644
NET COST OF SERVICES	79,455	80,914
Government contributions	66,224	69,111
TOTAL COMPREHENSIVE EXPENSE	(13,231)	(11,803)

Employee related expenses increased by \$4.3 million due to the engagement of additional staff to accelerate rezoning and development assessments and planning reforms. Grants and subsidies decreased by \$4.2 million mainly due to the cessation of funding for the South West Rail corridor.

Revenue from the sale of goods and services decreased by \$3.5 million. This was largely due to the reduction of personnel services revenue resulting from the restructure of government agencies. Other revenue decreased by \$6.7 million mainly due to the recognition of development contributions associated with two large developments in the previous year. Other losses decreased \$10.1 million largely due to land transferred to other government agencies in the previous year.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	29,743	22,833
Non-current assets	14,347	18,836
TOTAL ASSETS	44,090	41,669
Current liabilities	20,581	11,822
Non-current liabilities	17,405	10,513
TOTAL LIABILITIES	37,986	22,335
NET ASSETS	6,104	19,334

Current assets increased by \$6.9 million due to a delay in the payment of developer contributions and an increase in major project debtors in June 2010. Non-current assets have decreased by \$4.5 million mainly due to the decrement in the revaluation of coastal lands.

Current liabilities are higher by \$8.8 million mainly due to payables for developer contributions, grants to councils for coastal cycleways and contractor expenses. Non-current liabilities are higher due to a \$7.0 million increase in new loans to fund the operations of the Growth Centres Commission.

Service Group Information

Year ended 30 June	Net Cost of Services			Net Assets	
	2010 Budget \$'000	2010 Actual \$'000	2009 Actual \$'000	2010 Actual \$'000	2009 Actual \$'000
Strategies and land release	19,504	22,141	22,641	(14,320)	(6,465)
Plan making and urban renewal	36,549	33,218	42,978	14,195	18,877
Development assessment	18,632	24,096	15,295	6,229	6,922
Total all service groups	74,685	79,455	80,914	6,104	19,334

The actual net cost of services was \$4.8 million higher than budget primarily due to a loss on disposal of property, plant and equipment and a decrement on the revaluation of coastal land.

DEPARTMENT ACTIVITIES

The Department oversees and implements Government policies on land use planning and development, and facilitates and manages sustainable growth.

It plays a critical role in key State investment decisions in its role as lead agency advising the Minister and Government on the approval of major development and infrastructure projects of significance to New South Wales' economy and employment.

The Department leads and coordinates State-wide planning strategies to guide growth and development, and to inform infrastructure planning, staging and delivery.

Key legislation includes the *Environmental Planning and Assessment Act 1979*, the *Heritage Act 1977* and the *Coastal Protection Act 1979*.

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

Landcom

AUDIT OPINION

The audit of Landcom's financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

PERFORMANCE INFORMATION

Financial Performance

The table below compares Landcom's financial results against targets set in its Statement of Corporate Intent (SCI). Landcom exceeded all its financial targets for 2009-10.

Year ended 30 June	Target*	Actual				
	2010	2010	2009	2008	2007	2006
Earnings before interest and income tax (\$m)	43.7	53.1	51.6	59.5	68.4	72.6
Dividend to Consolidated Fund (\$m)	41.3	51.8	42.9	36.0	39.6	44.3
Income tax to Consolidated Fund (\$m)	10.9	12.6	15.3	15.1	17.7	17.5
Return on equity (%)	7.7	9.6	9.6	9.8	11.6	12.3
Return on assets (%)	3.9	4.5	4.8	5.0	5.8	7.3
Debt to total equity (%)	49.3	27.1	32.8	48.3	56.5	48.6

* Performance indicators included in Landcom's 2009-10 SCI.

Landcom's five-year performance against economic, social, environmental and governance targets have been published in its Annual Report for 2010.

OTHER INFORMATION

Human Resources

This year I reviewed the following areas relating to human resources:

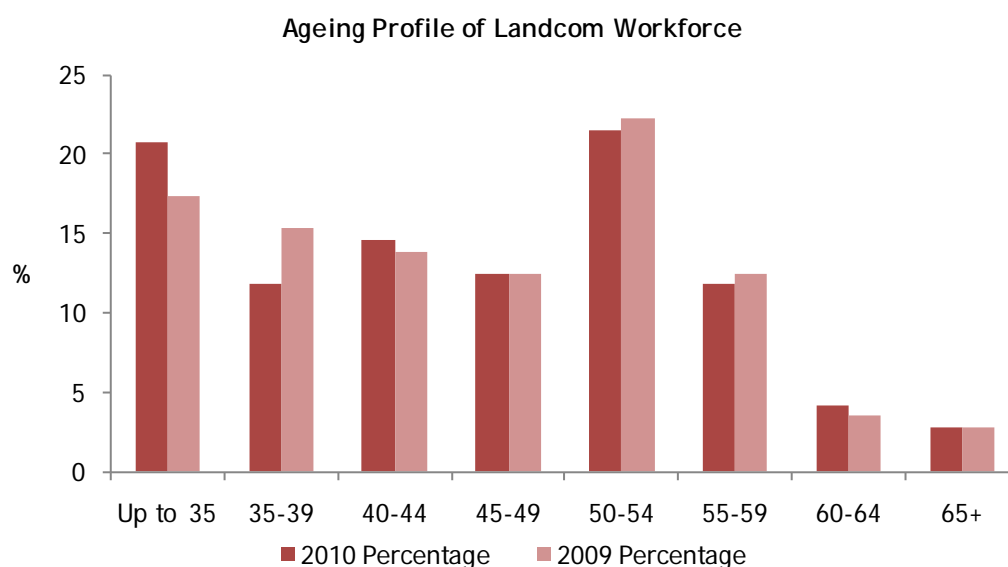
- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risk arising
- trend in long service leave liabilities
- management of annual leave balances
- extent of overtime.

A summary of the results of my review follows.

Workforce Ageing

Nineteen per cent of Landcom's employees are over 55 years of age and 41.0 per cent are over 50. A large number of employees are likely to retire over the next five to ten years increasing the risk of losing critical knowledge and skills. Landcom has introduced strategies in recent years to mitigate this risk, the impact of which is reflected in the increase in the under 35 demographic from 17.0 per cent to 21.0 per cent.

The age profile of Landcom employees is shown below:



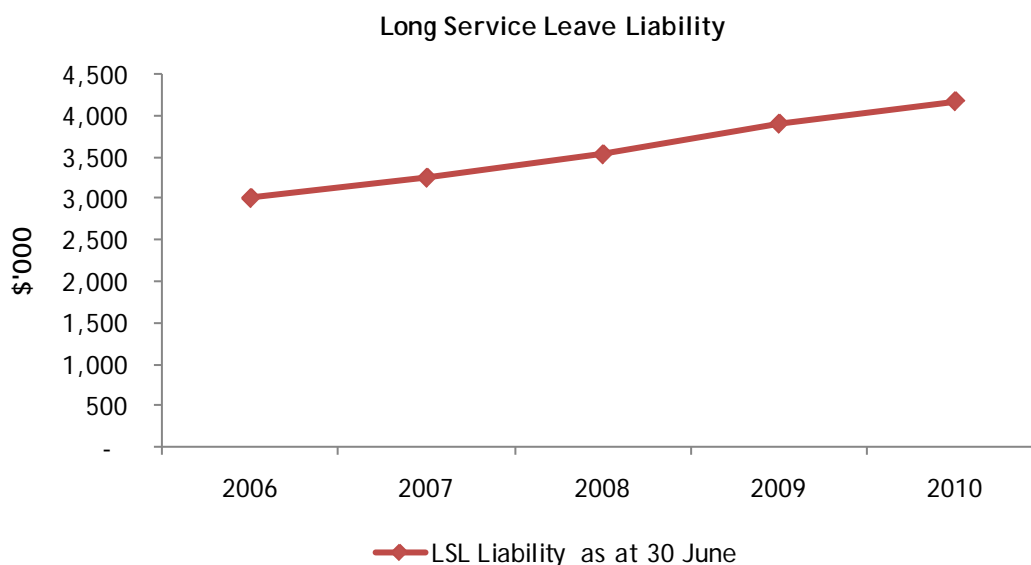
At 30 June Age Group	2010	2009
	No. of Employees	No. of Employees
Up to 35	30	25
35-39	17	22
40-44	21	20
45-49	18	18
50-54	31	32
55-59	17	18
60-64	6	5
65+	4	4
Total	144	144

Source: Landcom Human Resources Department (unaudited)

Landcom advises that it will implement a Graduate Program and talent development strategies to develop skills of younger staff and provide knowledge sharing from retiring staff. The Board will also review the personnel mix each year.

Long Service Leave Liability

Landcom's long service leave liability of \$4.2 million at 30 June 2010 (\$3.9 million at 30 June 2009) has increased by 38.4 per cent over the last five years.



Source: Landcom 2006 - 2010 audited financial statements

The increase in the long service leave liability is mainly driven by remuneration increases and the accumulation of staff service.

Annual Leave Balances

Landcom has actively managed employees with excessive annual leave balances in recent years with positive results. The number of employees with annual leave balances in excess of 40 days has declined from 15 at 30 June 2007 to seven at 30 June 2010. The annual leave liability as a percentage of total employee liabilities (excluding superannuation) has also dropped from 28.3 per cent in 2007 to 21.3 per cent in 2010.

Overtime

Overtime payments in 2009-10 amounted to \$17,871 which was only 0.1 per cent of base salary expense for the year. On average, 8 Landcom employees received \$2,234 in overtime payments in 2009-10 and 5.6 per cent of employees received a payment for working overtime.

Distribution to the Treasury

Landcom's dividend payment is agreed with its shareholders annually as part of the Statement of Corporate Intent process. For 2009-10, it agreed to pay 100 per cent of the net profit after tax, adjusted for certain non-cash items, and \$18.2 million from retained earnings as a dividend. The dividend totalled \$51.8 million, which equated to 166 per cent of net profit after tax (\$42.9 million or 129 per cent in 2008-09).

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Sales income	384,526	278,665
Cost of sales	290,735	187,375
GROSS PROFIT	93,791	91,290
Other income	8,074	1,924
Employee related expenses	(15,917)	(13,205)
Other expenses	(32,852)	(28,392)
PROFIT BEFORE INTEREST AND INCOME TAX	53,096	51,617
Finance income	3,710	9,985
Finance expense	(12,959)	(13,060)
Income tax equivalent expense	(12,627)	(15,329)
PROFIT	31,220	33,213
OTHER COMPREHENSIVE INCOME		
Superannuation actuarial losses (net of income tax)	(1,065)	(3,608)
Other	--	11
TOTAL COMPREHENSIVE INCOME	30,155	29,616

Sales income increased by \$105.9 million primarily due to the improved property market, and Australian and State Government initiatives, such as the First Home Buyers Grant.

Despite the increase in sales, the gross margin dropped from 32.8 per cent in 2008-09 to 24.4 per cent in 2009-10 mainly due to the completion of the Prince Henry, Potts Hill East, Punchbowl - Carrissbrook, and Greenway Views projects, which suffered from low margins in the final stages of the projects.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Inventory	498,696	488,281
Other	193,336	203,375
TOTAL ASSETS	692,032	691,656
Borrowings	88,088	113,519
Other	279,076	231,632
TOTAL LIABILITIES	367,164	345,151
NET ASSETS	324,868	346,505

Inventory increased primarily due to additional development costs for various projects, particularly the Ponds and Oran Park.

Other assets reduced mainly due to the repayment of a \$25.0 million loan from New South Wales Treasury Corporation (TCorp) and the transfer of \$9.4 million in deposits for Schofields Pole Site during the year. These were partially offset by an increase in trade debtors of \$23.3 million.

Total liabilities increased largely due to increases in the provision to complete projects of \$17.3 million, creditors and accruals of \$13.7 million, provision for distribution to The Treasury of \$8.9 million and current tax liabilities of \$6.5 million. This was offset by the repayment of the TCorp loan mentioned above.

LANDCOM ACTIVITIES

Landcom is constituted under the *Landcom Corporation Act 2001*. Landcom develops and sells residential, commercial and industrial properties. As part of urban management, it develops land for residential purposes and redevelops inner city land for medium/high density housing. It also provides for the development of shopping centres, aged care and commercial facilities to complement its residential developments.

The principal objectives of Landcom are to:

- be a successful business, and to this end:
 - to operate at least as efficiently as any comparable business
 - to maximise the net worth of the State's investment in it
- exhibit a sense of social responsibility by having regard to the interests of the community in which it operates
- protect the environment by complying with the principles of ecologically sustainable development contained in section 6(2) of the *Protection of the Environment Administration Act 1991*
- approach regional development and decentralisation responsibly
- undertake, or assist the Government in undertaking, strategic or complex urban development projects
- assist the Government in achieving its urban management objectives
- be a responsible developer of residential, commercial and industrial land.

For further information on Landcom, refer to www.landcom.nsw.gov.au.

Barangaroo Delivery Authority

AUDIT OPINION

The audits of the Authority and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

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

KEY ISSUE

Project Governance Risks

I recommend the Authority enhance its project governance arrangements to manage the increasing risks during the implementation of this landmark project.

Barangaroo development is a significant landmark waterfront project that will be delivered at no cost to tax payers. The developer estimates the total investment value of this project on completion is approximately \$6.0 billion. The delivery of the development comprises three phases, namely Barangaroo South, Central and the Headland Park.

Barangaroo South phase has commenced and will:

- add 430,000 square metres of commercial, residential and retail space
- accommodate over 23,000 workers and residents.

The project governance risks are increasing as the project progresses to the implementation stage. The Authority's risk profile includes the global financial crisis, public confidence, infrastructure outcomes, etc. Failure to implement robust risk identification and mitigation strategies may result in project delays and potential loss of share of its revenue from the financial success of the project.

Management advised it has the appropriate team and processes to proactively identify and manage project risks on a continuous basis.

OTHER INFORMATION

Headland Park

Headland Park will cover six hectares of picnic areas, walking paths, water access and tidal pools with an expected floor area of over 10,000 square metres. Construction of the park is expected to commence in 2011 with completion expected by 2014.

Management advised that the Cabinet Standing Committee approved this project in principle in 2009. The formal planning approval is still in progress.

Working Capital

At balance date, the Authority's current liabilities of \$68.4 million exceeded current assets of \$621,000. The Board confirmed the Authority is a going concern because its borrowing is guaranteed by the Government and it received a letter of financial support from The Treasury.

Major Projects

The table below provides the forecast completion dates and costs for the Authority's major projects.

Year ended 30 June 2010	Initial Estimated Completion Date	Forecast Completion Date	Initial Project Estimate* \$m	Cost to 30 June 2010 \$m	Forecast Final Cost \$m	Forecast Variance \$m
Headland Park	2014	2014	150	2.8	na	--
Contribution to Pedestrian Link to Wynyard station	2014	2014	100	1.1	na	--

Source: Barangaroo Delivery Authority (unaudited).

* The initial project estimate provided by the Authority.

na not available

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June 2010	Consolidated		Authority	
	2010 \$'000	2009 \$'000 *	2010 \$'000	2009 \$'000 *
Other revenue	172	12	172	12
TOTAL REVENUE	172	12	172	12
Employee related expense	2,618	324	2,618	324
Finance costs	9,133	1,821	9,133	1,821
Other expenses	30,194	2,334	30,194	2,334
TOTAL EXPENSE	41,945	4,479	41,945	4,479
DEFICIT	41,773	4,467	41,773	4,467
OTHER COMPREHENSIVE INCOME				
Gain on revaluation of land	20,000	--	20,000	--
TOTAL OTHER COMPREHENSIVE INCOME	20,000	--	20,000	--
TOTAL COMPREHENSIVE EXPENSE	(21,773)	(4,467)	(21,773)	(4,467)

* Financial information for 2009 covers activities for three months from 1 April to 30 June 2009.

The increase in other expenses was due to a change in estimating a property development expense and interest on increased borrowings.

Gain on revaluation of land represents the movement on the market value of the land asset.

Abridged Statement of Financial Position

At 30 June	Consolidated		Authority	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	621	2,853	621	2,853
Non-current assets	414,346	410,028	414,346	410,028
TOTAL ASSETS	414,967	412,881	414,967	412,881
Current liabilities	68,442	4,465	68,442	4,465
Non-current liabilities	234,102	274,220	234,102	274,220
TOTAL LIABILITIES	302,544	278,685	302,544	278,685
NET ASSETS	112,423	134,196	112,423	134,196

Total assets represent the value of the Barangaroo land asset. Total liabilities reflect provisions for property development and borrowings.

The movement between current and non-current liabilities reflects the reclassification of borrowings due for settlement in the next 12 months to 30 June 2011.

AUTHORITY ACTIVITIES

The Authority is a statutory body under the *Barangaroo Delivery Authority Act 2009*.

Its principal role is to manage the development of the Barangaroo site as a vibrant, commercial, sustainable location for national and global business.

For further information on the Authority, refer to www.barangaroo.com.

CONTROLLED ENTITY

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

Entity Name	Website
Office of the Barangaroo Delivery Authority	*

* This entity does not have a website.

Sydney Harbour Foreshore Authority

AUDIT OPINION

The audits of the Authority and its controlled entities' financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

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

KEY ISSUES

Governance Arrangement

Following a Cabinet decision on 20 September 2010, the Board of the Authority was replaced by an interim Board comprising the Chief Executive Officer of the Land and Property Management Authority and the Director General of NSW Planning.

PERFORMANCE INFORMATION

The Authority provided the following information regarding its performance.

Property Management

Year ended 30 June	Target*	2010	2009	2008	2007	2006
Number of rental properties	na	135	134	133	134	135
Value of rental properties (\$m)	na	598.0	598.0	516.0	487.0	475.0
Rental revenue (\$m)	na	50.5	51.6	52.7	54.7	56.9
Return on rental properties (%)	na	8.5	8.6	10.2	11.2	12.3
Commercial Vacancy Rate (%)	< 7.8	17.1	17.9	15.9	2.3	na
Retail Vacancy Rate (%)	< 6.0	2.4	1.6	1.8	4.1	na

Source: Sydney Harbour Foreshore Authority (unaudited)

* Target is set by management

na not available.

The decrease in rental revenue was mainly due to reclassification of a major lease to a separate venue hire arrangement. The decrease in rental revenue in prior years was a result of disposal of certain rental properties.

Lease Profile

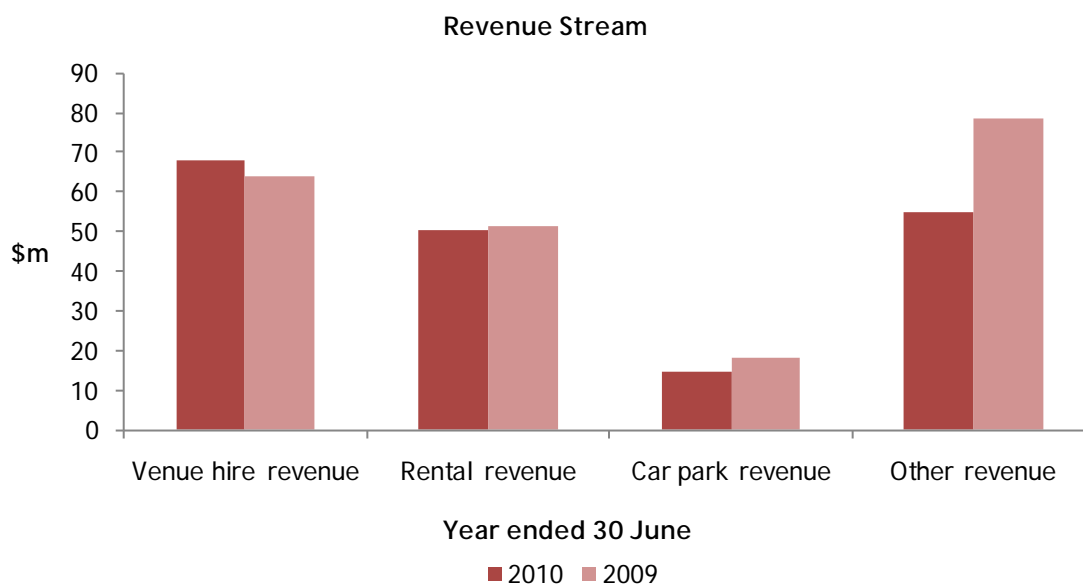
Year ended 30 June	2010	2009	2008	2007	2006
Number of new leases	13	21	24	24	30
Number of lease renewals	21	17	42	12	18
Value of rent abatement (\$'000)	86	24	145	82	267
Number of lease incentives	7	6	11	14	22
Value of lease incentives (\$'000)	240	168	217	560	385

Source: Sydney Harbour Foreshore Authority (unaudited)

The increase in rental abatements and lease incentives has resulted from the soft market conditions.

Revenue Streams

The following chart shows the Authority's sources of revenue.



Conferences and Exhibitions

Year ended 30 June	Target*	2010	2009	2008	2007	2006
International events	14	25	26	23	31	25
Attendance ('000s)	26	31	22	23	24	21
National conferences	388	579	538	524	495	422
Attendance ('000s)	656	759	837	1,027	969	1,040
Contribution to NSW's economy (\$m)	> 398	501	466	474	478	482

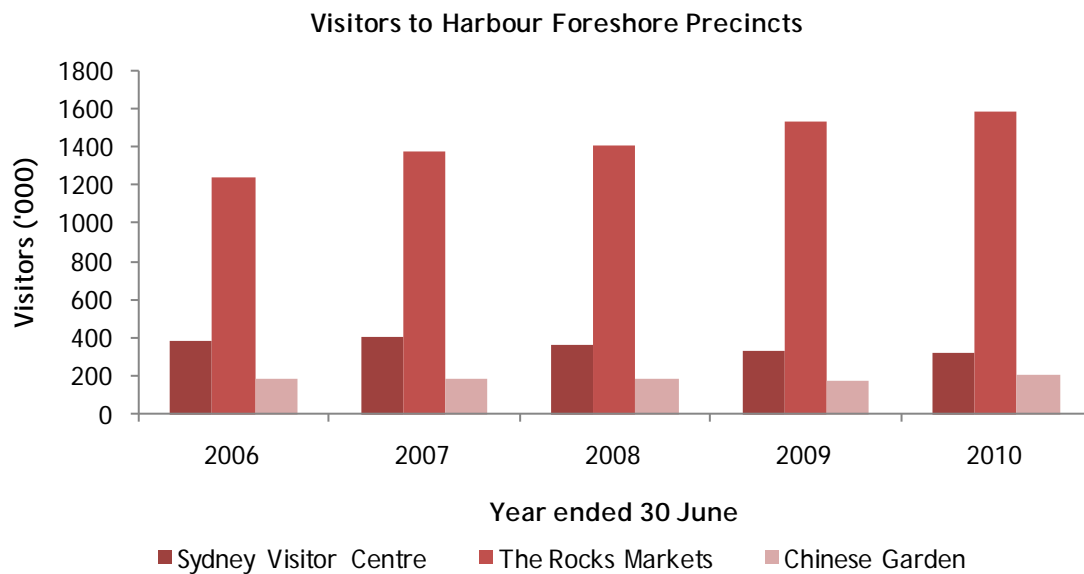
Source: Sydney Harbour Foreshore Authority (unaudited)

* Target is set by management

na: not available

Visitors to Harbour Foreshore Precincts

The chart below illustrates the trend in the number of visitors to the Harbour Foreshore Precincts.



Source: Sydney Harbour Foreshore Authority (unaudited).

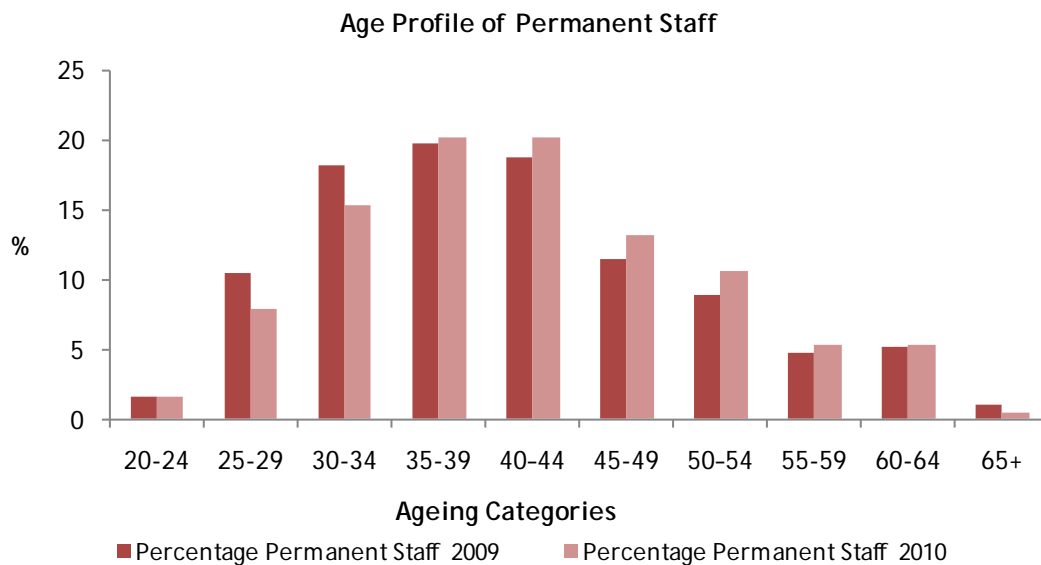
OTHER INFORMATION

Divestment of Commercial Leases

In November 2008, the Government announced a divestment plan for some of the Authority's \$168 million commercial leases excluding the Darling Walk property. Following a tender process, the Authority disposed of two properties in November 2010 at a total value of \$26.5 million. The Authority recognised a surplus on disposal of these assets.

Workforce Ageing

Just over 11.0 per cent of the Authority's employees are over 55 years of age and 21.7 per cent are over 50. The age profile of the Authority's employees, as shown below, does not indicate that the Authority faces the same risks many other public sector entities face from an aging workforce.

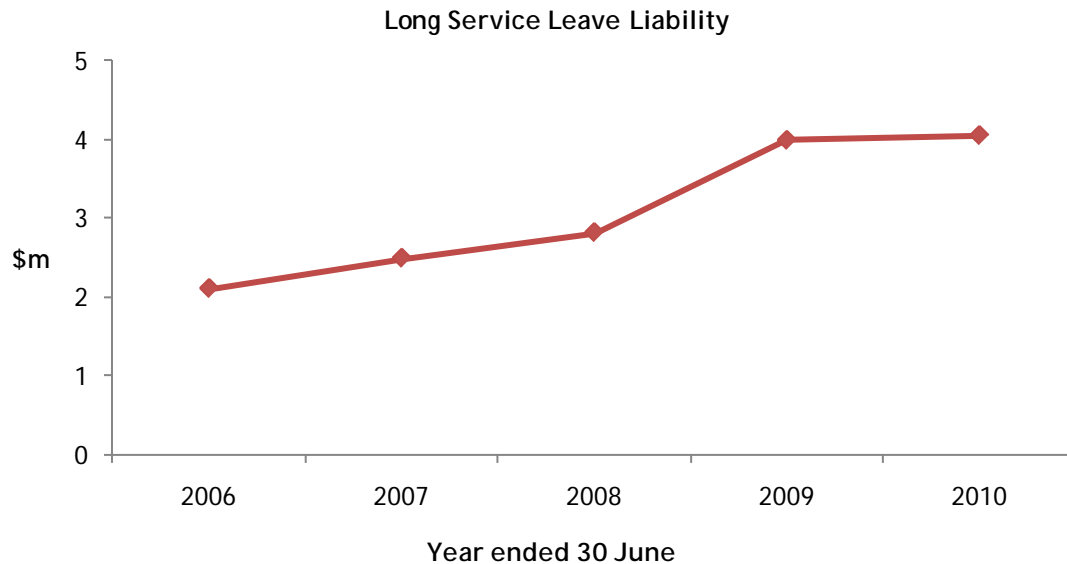


As at 30 June Age Group	2010		2009	
	No. of Staff	%	No. of Staff	%
20 - 49	148	78.3	154	80.2
50 - 54	20	10.6	17	8.9
55 - 59	10	5.3	9	4.7
60 - 64	10	5.3	10	5.2
65+	1	0.5	2	1.0
Total	189	100.0	192	100.0

Source: Sydney Harbour Foreshore Authority (unaudited)

Long Service Leave Liability

The Authority's liability for long service leave entitlements at 30 June 2010 amounted to \$4.0 million. This liability has increased by 92.6 per cent over the last five years.



The increase in the long service liability has resulted from continuous growth in long service leave balances and the increase in employee remuneration levels. It also increased due to the impact of a reduced Government bond rate used to discount the liability to present value.

Although the Authority has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities, which generally increase over time with increase in employee remuneration levels.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Venue hire revenue	67,916	64,113	67,916	64,113
Rental revenue	50,494	51,601	50,494	51,601
Car park revenue	14,818	18,033	14,818	18,033
Other	55,126	78,692	55,126	78,692
TOTAL REVENUE	188,354	212,439	188,354	212,439
Property related expenses	73,065	68,983	73,065	68,983
Employee related expenses	27,992	29,220	27,992	33,791
Depreciation and amortisation	16,940	18,380	16,940	18,380
Other expenses	40,155	58,623	40,155	58,623
TOTAL EXPENSE	158,152	175,206	158,152	179,777
SURPLUS	30,202	37,233	30,202	32,662
OTHER COMPREHENSIVE EXPENSE				
Superannuation actuarial losses	--	(4,571)	--	--
Loss on revaluation of land and buildings	--	(55,109)	--	(55,109)
TOTAL OTHER COMPREHENSIVE EXPENSE	--	(59,680)	--	(55,109)
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	30,202	(22,447)	30,202	(22,447)

Car park revenue fell by \$3.2 million due to a one-off parking levy accounting adjustment in 2008-09.

The decrease in other revenue was mainly due to a lower gain from the valuation of investment properties.

Abridged Statement of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	114,644	64,208	114,644	64,208
Non-current assets	1,197,137	1,215,315	1,197,137	1,215,315
TOTAL ASSETS	1,311,781	1,279,523	1,311,781	1,279,523
Current liabilities	60,915	53,211	60,915	53,211
Non-current liabilities	448,435	441,914	448,435	441,914
TOTAL LIABILITIES	509,350	495,125	509,350	495,125
NET ASSETS	802,431	784,398	802,431	784,398

The increase in current assets is mainly due to \$38.9 million of cash receipts from a legal settlement.

AUTHORITY ACTIVITIES

The Authority's roles are to:

- protect and enhance the natural and cultural heritage of the foreshore area
- promote, coordinate, manage, undertake and secure the orderly and economic development and use of the foreshore area, including the provision of infrastructure
- promote, coordinate, organise, manage, undertake, secure, provide and conduct cultural, educational, commercial, tourist, recreational, entertainment and transport activities and facilities.

The Authority owns and manages land within its precincts, including The Rocks and Darling Harbour. The Authority also manages the Cooks Cove project in Arncliffe and the Luna Park Reserve Trust.

The Authority provides place management services on behalf of other organisations including the Circular Quay and King Street Wharf promenades and Blackwattle Bay.

The Authority was established under the *Sydney Harbour Foreshore Authority Act 1998*.

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

CONTROLLED ENTITIES

Cooks Cove Development Corporation

In January 2006, the Corporation contracted with a private entity for development at the Cooks Cove site. In April 2009, the contracted developer went into voluntary administration. The status of the project is still under negotiation.

Office of the Sydney Harbour Foreshore Authority

The Office of the Sydney Harbour Foreshore Authority was abolished by the *Public Sector Employment and Management (Land and Property Management Authority) Order 2010*. All employees of the Authority other than the casual employment division were transferred to the Land and Property Management Authority from 4 June 2010.

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

Entity Name	Website
Sydney Harbour Foreshore Authority Casual Staff Division	*

* This entity does not have a website.

Minister for Primary Industries

Department of Industry and Investment

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

New South Wales Rural Assistance Authority

NSW Food Authority

Refer to Appendix 1 for:

Agricultural Scientific Collections Trust

Banana Industry Committee

Belgenny Farm Agricultural Heritage Centre Trust

C.B. Alexander Foundation

Game Council of New South Wales

NSW Ovine Johne's Disease Transaction Based Contribution Scheme

Rice Marketing Board for the State of New South Wale

Riverina Citrus

Veterinary Practitioners Board

Department of Industry and Investment

AUDIT OPINION

The audit of the Department's financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

KEY ISSUES

Amalgamation Arrangement

I recommend the Department establish appropriate governance arrangements throughout its cluster, including seeking Crown Solicitor's advice, if necessary.

On 1 July 2009, the former Department of Primary Industries, State and Regional Development as well as the Energy function of the former Department of Water and Energy were abolished and their functions transferred to the Department of Industry and Investment as a result of the Public Sector Employment and Management (Departmental Amalgamations) Order 2009. In March 2010, the former Office of Rural Affairs was incorporated into the Department of Industry and Investment.

The Forestry Commission of New South Wales is no longer a controlled entity upon the formation of the Department.

Following the amalgamation order, the Department established a single audit and risk committee for the new department and encouraged other authorities within its cluster to use its committee. A summary follows.

Entity	Uses Department's Committee	Board
Department of Industry and Investment	Yes	No
Forestry Commission of New South Wales	Yes	No
NSW Food Authority	Yes	No
Mine Subsidence Board	No, own Committee	Yes
NSW Rural Assistance Authority	No, own Committee	Yes
Screen NSW	Yes	No
Game Council of New South Wales	No, own Committee	Yes

I have concerns as to the legality of autonomous agencies having common audit committee arrangements. My concerns are:

- agency staff in attendance at committee meetings are informed of the operations and issues of other agencies
- my staff are unable to discuss matters relating to an agency if staff of another agency are in attendance due to confidentiality obligations under the *Public Finance and Audit Act 1983* (PF&A Act).

As mentioned in Volume Three of my Report, I advised that legal advice indicates that these arrangements are not contemplated by either the PF&A Act or the Treasury's Policy Paper 'Internal Audit and Risk Management Policy for the New South Wales Public Sector' (TPP09/05).

Value for Money

In addition to the Public Sector Employment and Management (Department Amalgamation) Order 2009, the New South Wales Government announced the Better Service and Value Plan in its 2009-10 budget. One of the five initiatives was a 'value for money' review on expenditure. Management has advised that:

- no performance measures were established to measure whether the amalgamation produces value for money for the Department and Government
- one of the initial actions undertaken on the creation of the Department was to centralise the corporate services function. Substantial work has occurred in this area and will result in efficiencies and savings in the provision of these services
- the Department has been reviewed by the Better Services Value Taskforce (BSVT). Once the final report of the BSVT has been approved by Cabinet a series of performance targets will be established and reported to Cabinet in May and August 2011.

Derelict Mines

I recommend the Department seek adequate funding to identify, assess and rehabilitate derelict mine sites.

The Derelict Mines Program maintains a database of more than 570 derelict mines, which is regularly updated as new derelict mines are found and assessed.

The Derelict Mines Program received \$1.9 million this year (\$1.9 million in 2009), which was used to rehabilitate 26 mines (28 mines). The Department advised these funds were allocated on a risk basis to manage the more critical environmental and safety issues at derelict mine sites.

To qualify for inclusion in the Derelict Mines Program, a derelict mine must meet the following criteria:

- mining must have been formerly authorised by a title that is now extinguished and mining permanently discontinued
- no person or company can be located that has direct responsibility for the rehabilitation of the site.

The Department has no legislative responsibility for the rehabilitation of derelict mines. However, the State Government provides annual funding to undertake rehabilitation works through the Derelict Mines Program which is administered by the Department. The aims, direction and selection of major projects are determined by the Derelict Mines Steering Committee which consists of representatives from the Department of Environment, Climate Change and Water, Land and Property Management Authority (LPMA) and the New South Wales Minerals Council.

PERFORMANCE INFORMATION

Key Performance Indicator (KPI) Targets

Management of Natural Resources

Year ended 30 June	Target#	Actual		
	2010	2010	2009	2008
Mines operating to agreed operation plans and management subsidence plans (%)	97	97	97	97
Primary/target and secondary fish species harvested at biologically sustainable levels (%)	90	89	>91	>90
Reduction in net emissions from primary industries (%)	3	3	2	3

Source: Department of Industry and Investment (unaudited).

Current estimates at 30 June 2010, based on latest available data from The Treasury Budget Estimates (2010-11).

In 2009-10, the Department met its KPIs on management of natural resources.

Safety, Health and Biosecurity

Year ended 30 June	Target#	Actual		
	2010	2010	2009	2008
Compliance with National Animal Health performance standards (%)	95	95	97	97
Fatal injury frequency rate in the mining industry				
- Coal five year average	--	0.02	0.04	0.04
- Non- coal five year average	--	0.02	0.04	0.04

Source: Department of Industry and Investment (unaudited).

Current estimates at 30 June 2010, based on latest available data from The Treasury Budget Estimates (2010-11).

To continue to improve occupational, health and safety (OHS) performance in the mining industry, the Department is working with the industry on an OHS cultural change program through the Mine Safety Advisory Council. The Department is also carrying out audits of mine sites to assess the level of implementation of the new legislation (*Health and Safety Act 2004*, the *Coal Mine Health and Safety Act 2002* and the associated regulations).

OTHER INFORMATION

Human Resources

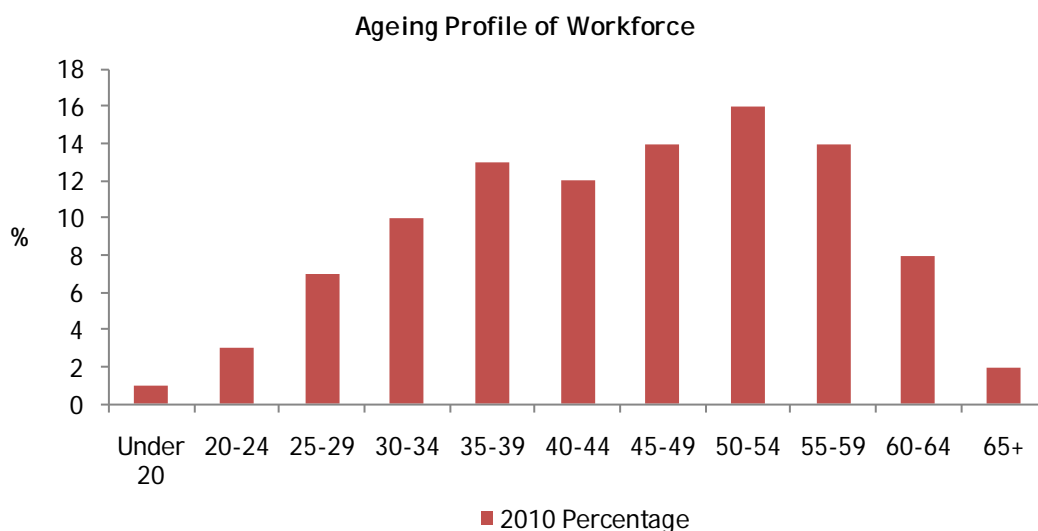
This year I reviewed the following areas relating to human resources:

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- management of excessive flex leave balances
- extent of overtime
- extent of contract staff.

Workforce Ageing

The Department has 24 per cent of its employees over 55 years of age and 40 per cent of its employees over 50. This represents a large number of employees who are likely to retire over the next five to ten years. This will result in a potential loss of knowledge and skills for the Department.

The age profile of the Department's employees is shown below:



At 30 June Age Group	2010	
	No. of Employees	%
Up to 34	715	21
35-39	462	13
40-44	427	12
45-49	505	14
50-54	573	16
55-59	510	14
60-64	297	8
65+	83	2
Total	3,572	100

Source: The Department of Industry and Investment (unaudited).

The Department advised it has established the People Learning and Culture Branch which is working towards addressing ageing workforce concerns.

Annual Leave Balances

The Department has actively managed employees with excessive annual leave balances in recent years. Of the 3,572 employees, 447 had annual leave balances in excess of 40 days, this category represented 12.5 per cent of total employees at 30 June 2010.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts future cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

The Department has advised that staff are regularly advised of their leave balances and reminded of the need to reduce their entitlements. The Department has a close down period for the Christmas holidays and this assists in decreasing the leave liability. A recent change to the Conditions of Employment Award allows staff to be denied access to flex leave until they reduce their annual leave to below 40 days. Managers have been given the responsibility to manage the leave balances of their staff and they are progressively working through this issue.

Flex Leave

I recommend the Department develop mechanisms to centrally review flex time records to ensure excessive flex time credits are not being forfeited by staff.

The Department has actively managed its flex leave policy whereby managers are responsible for ensuring their staff do not regularly work excessive hours. There are approximately 10 different flex schemes in operation within the Department. The most commonly used agreement allows staff to carry forward a credit of 40 hours. If staff exceed this amount then these hours are forfeited.

I note that management of flex time is a manual process and a system is not in place to allow central monitoring of the management of excessive flex leave.

Overtime

Overtime payments in 2009-10 amounted to \$1.1 million which was 0.4 per cent of base salary expense for the year.

The Department advised that it continually reviews its budget reports and that line managers are accountable for the justification of any overtime.

Use of Contract Staff

I recommend the Department maintain a central register for contractors not paid through the human resource systems to reduce the risk of non-compliance with taxation and employment legislation.

The Department engaged the services of many contractors during 2009-10. A list of these contractors is kept by each of the different divisions which utilise these staff. The Department does not assess annually whether long-term contractors are entitled to employee related entitlement and the Department liable for related taxes.

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

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

Fisheries

The *Fisheries Management Act 1994* has been amended as a result of the *Fisheries Management Amendment Act 2009*. Changes include increased penalties, recognition of Aboriginal cultural fishing activity and practices, and to give further powers to fisheries officers. A review is being undertaken by the Department to determine whether the *Fisheries Management Act 1994* is fulfilling its purpose and will be tabled in Parliament in November 2010.

The table below summarises the activities carried out by the Department during the year.

	2010	2009
Prosecutions		
Commercial Prosecutions (\$'000)	29.7	31.7
Recreational Prosecutions (\$'000)	432.3	485.2
Fines		
Number of Commercial Prosecutions	80	80
Number of Recreational Prosecutions	1,647	1,925

Source: The Department of Industry and Investment (unaudited).

Improving Internal Controls

I identified opportunities to improve internal controls, which have been discussed and reported to the Department. These include:

- reconciling the Department's land holdings to the Governments Property Register maintained by the LPMA
- addressing expired security deposits for mining
- ensuring current security deposits are sufficient
- addressing general journal control deficiencies.

Drought Relief

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

Drought Transport Subsidies	Number of Claims			Claim Amounts Paid		
	2010	2009	2008	2010 \$'000	2009 \$'000	2008 \$'000
Agistment	2,755	2,226	3,434	5,876	3,731	4,614
Bee food	3	4	--	17	3	--
Fodder	5,021	5,035	8,228	7,734	6,669	10,307
Slaughter/sale	3,180	3,540	5,029	2,941	3,048	3,250
Stock water	408	511	990	292	378	834
Domestic water	782	726	1,021	203	164	269
Total	12,149	12,042	18,702	17,063	13,993	19,274

Source: Department of Industry and Investment (unaudited).

The significant increase in claim payments in 2009-10 is attributable to an increase in the amounts paid per claim for fodder and agistment payments. Since 30 June 2010, the State has been declared drought free for the first time in 10 years.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000
Employee related	361,014
Other operating expenses	143,377
Depreciation and amortisation	23,428
Grants and subsidies	223,884
Finance costs	1,276
Other expenses	102,408
OPERATING EXPENSES	855,387
Sales of Goods and Services	71,688
Investment Income	4,511
Retained taxes, fees and fines	13,257
Grants and Contributions	84,950
Other revenue	7,660
Personnel services revenue	66,505
OPERATING REVENUE	248,571
Gain/(loss) on disposal	473
Other gains	346
NET COST OF SERVICES	605,997
Government contributions	641,136
SURPLUS	35,139
OTHER COMPREHENSIVE INCOME	
Increase in Property Plant and Equipment Asset Revaluation Reserve	5,056
Available for sale financial assets valuation gains	938
TOTAL OTHER COMPREHENSIVE INCOME	5994
TOTAL COMPREHENSIVE INCOME	41,133

Employee related expenses were higher than budget mainly due to an approved redundancy program of \$9.0 million.

Grants and subsidies were lower than budget with under expenditure in the:

- Energy Division for the Pensioner Energy Rebate and Energy Accounts Payment Assistance schemes
- Primary Industries Division for the Clean Coal program relating to the sequestration of carbon by-product from coal generated electricity
- State and Regional Development Division.

Sale of Goods and Services was lower than budget as recovery of mining exploration costs is above budget.

Abridged Statement of Financial Position

At 30 June	2010 \$'000
Current assets	237,618
Non-current assets	421,131
TOTAL ASSETS	658,749
Current liabilities	186,494
Non-current liabilities	75,401
TOTAL LIABILITIES	261,895
NET ASSETS	396,854

Abridged Service Group Information

The Department's net cost of services on a service group basis is detailed below:

Year end 30 June	Net Cost of Services		Net Assets
	2010 Budget \$'000	2010 Actual \$'000	2010 Actual \$'000
Division of Primary Industries			
Agriculture, Biosecurity and Mine Safety	108,509	113,617	108,504
Mineral Resources	14,604	16,362	58,738
Fisheries and Compliance	37,887	42,285	66,394
Science and Research	90,048	91,781	171,620
Personnel services	--	--	(55,334)
Investment and Industry Development/Investment Attraction	72,828	35,726	4,854
Division of Energy			
Enterprise, Small Business & Regional Development	87,821	68,851	(2,237)
Division of State and Regional Development			
International Markets and Trade	--	12,381	(80)
Innovation and Research Policy	52,355	58,079	181
Tourism	46,486	49,028	1,062
Energy Supply and Use	173,965	122,040	29,913
Not attributable	--	(4,153)	13,239
Total	684,503	605,997	396,854

The Primary Industries division advised the actual net cost of service for Agriculture, Fisheries and Compliance was higher than budget because of salary related expenses (voluntary redundancies). The Energy division advised the actual net cost of service for Energy Supply and Use was lower than the budget because of underspend on Energy Projects and Reform, pensioner energy rebates, life support rebates, energy accounts payments assistance, customer assistance policy, administration for energy concessions, contribution to PIAC, and renewable remote power generation.

ADMINISTERED ACTIVITIES

The Department administers certain activities on behalf of the Crown Entity, including the collection of royalties from mining. Mineral royalties and fees collected in 2009-10 totalled \$989 million (\$1.3 billion). The decrease of 24 per cent from mining is mainly because the significant drop in the coal prices in 2009-10. Coal prices rose to unprecedented levels in 2008-09 due to the strong demand for coal from Asia and supply constraints from key exporter nations. As a result the value of New South Wales coal exports rose to a historic high of \$17.1 billion, which resulted in the high royalty in 2009. However, over the course of 2009-10 coal prices, in particular coking coal prices eased quite sharply on the back of a decline in demand, driven in particular by lower demand from traditional thermal coal markets such as Japan and a decline in global steel production.

DEPARTMENT ACTIVITIES

The Department of Industry and Investment was established to assist in building a diversified state economy that creates jobs. The Department aims to attract investment to New South Wales and support innovative, sustainable and globally competitive industries through strong technical knowledge and scientific capabilities. It aims to achieve this through effective partnerships with the State's industry sectors and by linking them to the State's knowledge and skills capacity. The key duties of the Department are:

- increased jobs and investment across New South Wales
- competitive and productive industries
- Sydney and New South Wales highly valued for tourism and investment
- secure, efficient and affordable energy supplies
- sustainable management and use of natural resources
- safe, healthy and biosecure industries
- positive business environment
- service delivery excellence.

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

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

AUDIT OPINION

The audits of the Commission and its controlled entities' financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

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

KEY ISSUES

Valuation of Softwood Plantations and Native Forests

I recommend the Commission continues to review and improve its valuation method for its plantation and native forests.

Cash flow projections for native forests show a negative cash flow position. As a result, the valuation of these estates was nil at the 30 June 2010 (nil at 30 June 2009).

The valuation approach was implemented in 2008-09. It is a complex approach and the Commission is committed to continuous refinement. For 2010-11, the Commission will ensure that inputs for the valuation model, such as the weighted average cost of capital and overhead costs, are accurate and reflect the Commission's position at each reporting date. The 2010-11 process should also focus on valuing new native forest contracts, if any.

Land Valuation

Each year, agencies must consider whether there are impairment indicators for their assets. Last year I recommended the Commission perform a land valuation.

The Commission adopted the indexation approach in valuing its land at 30 June 2010. The indices were applied for each financial year subsequent to the Commission's full revaluation in 2006-07. The resulting adjustment to the land values was an increase in land value of \$7.7 million (net).

Deferred Tax Liability

Non-current liabilities increased by \$239 million due to the removal of \$797 million in plantation establishment costs from the Commission's deferred tax liability calculation. This followed advice received from The Treasury.

OTHER INFORMATION

Human Resources

This year I reviewed the following areas relating to human resources:

- the trend in annual leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies
- the extent of contract staff.

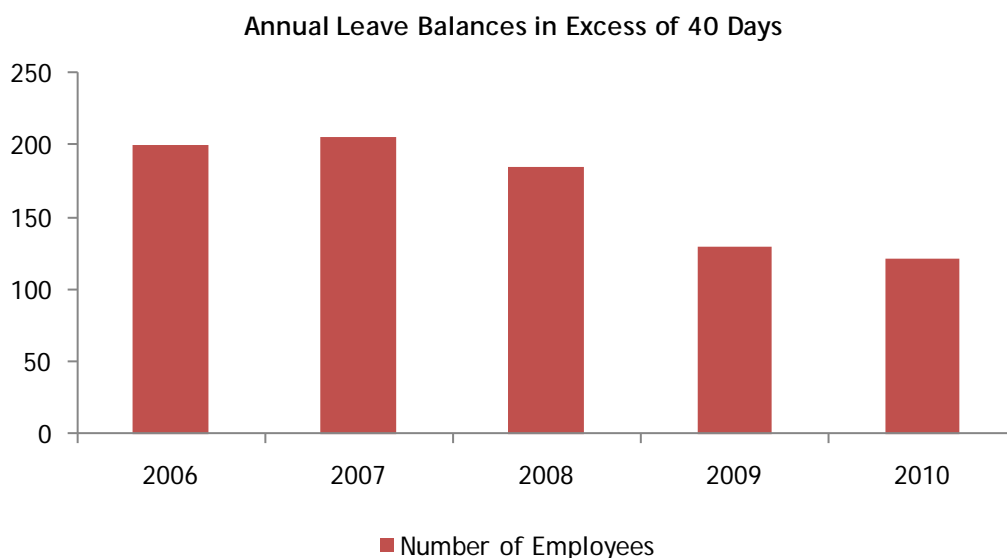
Issues identified from my review will be reported in a management letter to the Commission. A summary of the results of my review follows.

Annual Leave

I recommend the Commission continue to enforce individual plans with employees to reduce excessive annual leave balances within an acceptable timeframe.

The Commission's liability for annual leave entitlements at 30 June 2010 amounted to \$7.3 million (\$7.1 million in 2009). Although the Commission has improved cash flows, it will need to ensure it has an adequate plan to fund these liabilities, which generally increase over time with increases in employee remuneration levels. This will be compounded as other liabilities will also be payable with the pending retirement of a significant portion of the ageing workforce.

The Commission continues to actively manage employees with excessive annual leave balances. At 30 June 2010 there were 121 employees with annual leave balances in excess of the maximum threshold allowed under the Commission's leave policy of 40 days. This represented 14.4 per cent of total employees.



Excess leave balances can adversely affect an organisation. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

Employment of Contractors

I recommend the Commission maintain a central register for contractors not paid through the human resource systems to reduce the risk of non-compliance with taxation and employment related legislation.

The Commission has advised that it has implemented changes to policies, practices and procedures to better manage taxation compliance risks associated with contractors. However, the Commission does not hold a central register for contractors unless paid through the human resources systems. This increases the risk of non-compliance with taxation and other employment laws and regulations.

Company Acquisition

During 2009-10, the Commission acquired Tokyo Electric Power Company International. The company's principal activity is forestry development and the production of carbon credits. Prior to acquisition, the Commission provided the company with forestry services. Once acquired, the Commission changed the company's name to Timber and Carbon Plantation Pty Ltd. The company was purchased for \$4.6 million and holds 7,058 hectares of plantation forests.

Annual Report

The continuing accounting and reporting process improvements made by the Commission contributed to its 2009-10 Annual Report being tabled in Parliament on time and the Independent Auditor's Report being issued earlier than last year.

Other Control Issues

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

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Forest sales	286,864	262,893	286,864	262,893
Other Revenue	41,848	23,366	42,515	23,366
TOTAL REVENUE	328,712	286,259	329,379	286,259
Expenses from operations	213,565	203,018	213,560	203,018
Employee related	26,615	28,085	--	--
Personnel services	62,349	106,613	91,280	141,629
Other	21,574	40,236	24,348	40,236
TOTAL EXPENSES	324,103	377,952	329,188	384,883
PROFIT/(LOSS) BEFORE FAIR VALUE ADJUSTMENT	4,609	(91,693)	191	(98,624)
Gain (Loss) in fair value of estates	(8,723)	45,020	(9,443)	45,020
LOSS BEFORE TAX	(4,114)	(46,673)	(9,252)	(53,604)
Income tax benefit/(expense)	(228,103)	2,402	(228,103)	2,402
LOSS AFTER TAX	(232,217)	(44,271)	(237,355)	(51,202)
OTHER COMPREHENSIVE INCOME				
Realised gain on disposal of assets	805	11,199	805	11,199
Superannuation actuarial gain(loss)	(2,316)	(6,931)	--	--
Income tax on other comprehensive income	350	11,714	350	11,714
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENCE)	(1,161)	15,982	1,155	22,913
TOTAL COMPREHENSIVE EXPENSE	(233,378)	(28,289)	(236,200)	(28,289)

The increase in other revenue was mainly due to losses of \$16.0 million incurred on the disposal of assets in 2008-09.

Personnel services expenses decreased by 41.5 per cent mainly due to a decrease in superannuation liabilities. The movement in the value of the forests estates was mainly due to changes in valuation assumptions. Estimates for overhead costs were increased and the rate used to discount the valuation to present values decreased from 10.0 per cent to 9.8 per cent.

Abridged Statement of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	128,751	117,643	128,862	117,643
Non-current assets	1,744,152	1,754,222	1,741,219	1,754,222
TOTAL ASSETS	1,872,903	1,871,865	1,870,081	1,871,865
Current liabilities	176,171	122,837	163,347	109,581
Non-current liabilities	626,912	440,806	639,736	454,062
TOTAL LIABILITIES	803,083	563,643	803,083	563,643
NET ASSETS	1,069,820	1,308,222	1,066,998	1,308,222

COMMISSION ACTIVITIES

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

- conserving and utilising the timber on Crown-timber lands and other land it controls
- supplying timber from these lands for building, commercial, industrial, agricultural, mining and domestic purposes
- preserving and improving, in accordance with good forestry practice, the soil resources and water catchment capabilities of these lands
- encourage the use of timber derived from trees grown in the State.

It manages approximately 2.4 million hectares of native forests across New South Wales of which one million hectares is mapped as harvestable. The largest areas are concentrated on the coast and coastal escarpment. The Commission has established softwood and hardwood plantations to complement wood products harvested from native forests. Plantations include approximately 209,000 hectares of softwood and approximately 63,000 hectares of hardwood.

From 1 July 2009, the Commission was no longer considered a controlled entity of the Department of Industry and Investment as a result of the Public Sector Employment and Management (Department Amalgamations) Order 2009. This Order had no effect on the Commission as a Corporation Sole.

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

CONTROLLED ENTITIES

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

Entity Name	Website
Forestry Commission Division	*
Timber and Carbon Plantation Pty Ltd	*

* This entity does not have a website.

New South Wales Rural Assistance Authority

AUDIT OPINION

The audit of the Authority and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

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

OTHER INFORMATION

Rural Adjustment Scheme

This Scheme assists farmers and small businesses through the provision of grants to a maximum of 80 per cent of the interest payable on loans. The Australian Government contributes 90 per cent of this Scheme's funding and the New South Wales Government ten per cent. The amount of subsidy to an approved applicant can be up to \$100,000 per year. Special assistance is provided under the Exceptional Circumstances (EC) provisions of the Scheme, which requires areas to be specifically declared an EC area.

Exceptional Circumstances Interest Rate Subsidy - Primary Producers

Year ended 30 June	2010	2009	2008	2007	2006
Applications received	4,920	10,504	9,081	10,183	5,649
Applications withdrawn	22	15	91	61	25
Applications declined	568	765	931	899	813
Applications approved	4,609	8,741	9,604	7,614	4,825
Amount approved (\$m)	188	246	385	242	155
Pending 30 June	1,151	1,430	447	1,992	383

Source: NSW Rural Assistance Authority (unaudited).

Exceptional Circumstances Interest Rate Subsidy - Small Business

In November 2006, the Australian Government introduced EC assistance for small rural businesses (those with less than 100 employees) in recognition of the extreme hardship they were facing due to the drought and their direct reliance on primary producers.

Year ended 30 June	2010	2009	2008	2007
Applications received	544	1,068	1,030	640
Applications withdrawn	5	4	23	3
Applications declined	147	222	269	121
Applications approved	457	785	795	351
Amount approved (\$m)	13.1	17.6	24.5	11.1
Pending 30 June	100	165	108	165

Source: NSW Rural Assistance Authority (unaudited).

Natural Disaster Relief Assistance Scheme

This Scheme provides loan funds to farmers and small businesses in rural and regional New South Wales to allow them to continue operations following a natural disaster (e.g. bushfires, hailstorms and floods). Assistance is by way of a concessional, fixed interest rate loan, to a maximum of \$130,000. There is an interest and repayment-free period of two years followed by a maximum repayment term of ten years. The interest rate for loans at 30 June 2010 was 2.56 per cent (2.85 per cent at 30 June 2009).

Additional assistance measures have been available since June 2007 as part of the Community Recovery Package to provide immediate relief to eligible primary producers and small businesses for clean-up and restoration costs in the aftermath of extreme natural disasters.

During March to May 2010, inclusive, there was a significant increase in the number of applications for recovery grants. 2,447 of these applications were in relation to the North Coast Floods.

Year ended 30 June	2010	2009	2008	2007	2006
Applications received	2,806	505	3,288	268	169
Applications withdrawn	32	15	61	5	7
Applications declined	473	110	399	19	68
Applications approved	2,575	186	2,848	139	98
Amount approved (\$m)	46	11.3	31.2	3.4	7.1
Pending 30 June	30	304	110	130	25

Source: NSW Rural Assistance Authority (unaudited).

Special Conservation Scheme

This Scheme is an incentive based scheme aimed at promoting improved land management practices in rural New South Wales. These loans are for up to 90 per cent of the net cost of eligible works to a maximum of \$150,000. A maximum repayment term of 15 years is available with half yearly repayments in line with the client's cash flow. The interest rate applicable to the Scheme at 30 June 2010 was five per cent (five per cent at 30 June 2009).

Year ended 30 June	2010	2009	2008	2007	2006
Applications received	214	371	371	556	240
Applications withdrawn	59	115	45	155	77
Applications declined	25	28	125	49	37
Applications approved	158	270	204	319	137
Amount approved (\$m)	10.2	18.6	11.7	12.8	5.4
Pending 30 June	11	39	81	84	51

Source: NSW Rural Assistance Authority (unaudited).

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related and other operating expenses	5,856	6,692	5,856	6,692
Finance costs	6,110	5,410	6,110	5,410
Grants and subsidies	232,797	270,519	232,797	270,519
TOTAL EXPENSES	244,763	282,621	244,763	282,621
TOTAL REVENUE	37,493	12,041	37,493	12,041
NET COST OF SERVICES	207,270	270,580	207,270	270,580
Government contributions	209,240	273,487	209,240	273,487
SURPLUS	1,970	2,907	1,970	2,907
OTHER COMPREHENSIVE INCOME	--	--	--	--
TOTAL COMPREHENSIVE INCOME	1,970	2,907	1,970	2,907

Grants and subsidies decreased in 2009-10 due mainly to a fall in expenditure for the Rural Adjustment Scheme. The decrease in expenditure resulted from a reduction in geographical areas eligible for assistance. This reduction is a result of significant improvement in general seasonal conditions and the withdrawal of Exceptional Circumstances drought declarations as determined by the Australian Government. The New South Wales Government contributions fell in line with the reduced expenditure.

Total revenue increased due to more natural disasters resulting in increased government reimbursements.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	50,795	46,484	50,795	46,484
Non-current assets	89,352	81,638	89,352	81,638
TOTAL ASSETS	140,147	128,122	140,147	128,122
Current liabilities	25,650	23,149	25,650	23,149
Non-current liabilities	89,598	82,044	89,598	82,044
TOTAL LIABILITIES	115,248	105,193	115,248	105,193
NET ASSETS	24,899	22,929	24,899	22,929

The increase in current assets was due to a rise in cash held at year-end from \$29.0 million to \$34.1 million. Non-current assets and liabilities increased due to the extent of new loans issued throughout 2009-10.

AUTHORITY ACTIVITIES

The Authority was constituted under the *Rural Assistance Act 1989*. Its principal function is to assist and administer financial assistance schemes for farmers and other eligible borrowers. The Authority is subject to the control and direction of the Minister.

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

CONTROLLED ENTITY

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

Entity Name	Website
Office of the Rural Assistance Authority	www.raa.nsw.gov.au

NSW Food Authority

AUDIT OPINION

The audit of the Authority and its controlled entities' financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

OTHER INFORMATION

The 'Name and Shame' Register

The Authority maintains a 'Name and Shame' register, which gives consumers access to important food safety information. The register publishes the names of food businesses around the State that received penalty notices or convictions for alleged food breaches. The register only publishes breaches assessed to have the potential to cause a public health and safety issue. The name and shame register continued to be accessed by the public, with four million hits on the site recorded since its inception two years ago.

Food Regulation Partnership

The Food Regulation Partnership (FRP) between the 152 local councils in New South Wales and the Authority, has continued to evolve since its inception in July 2008. It is responsible for food surveillance in the food retail and food service industry in New South Wales. Local councils became food safety enforcement agencies under the FRP and help the Authority monitor and regulate more than 36,000 food retail and food service businesses across the State. Under the partnership, councils are required to report annually to the Authority on how they carry out their functions.

The second twelve month 'summary report of New South Wales enforcement agencies activities' for the period July 2009 to June 2010 highlighted:

- 50,055 primary inspections were conducted by councils
- 8,044 warning letters were issued
- 4,517 food complaints were received of which 99.0 per cent were investigated
- 1,399 improvement notices were issued
- 2,049 penalty notices were issued
- 22 council generated prosecutions were initiated.

Compliance and Enforcement

The Authority investigates food businesses across the State for breaches of the *Food Act 2003*. It has enforcement strategies in place to ensure food sold in New South Wales is safe and correctly labelled.

The table below shows the Authority's compliance and enforcement activities:

Activity	2010	2009	2008
Improvement notices issued (a)	753	876	1,245
Prohibition orders issued (b)	16	10	17
Penalty Notices	249	220	229
Prosecutions	120	53	58

Source: NSW Food Authority (unaudited).

(a) Issued where cleaning, repair, replacement, revision of a food safety program, implementation of a food safety program or implementation of the Food Safety Standards is required.

(b) Issued to control certain activities where there is failure to comply with an Improvement Notice or to prevent or mitigate a serious danger to public health.

In 2009-10, there was 98.0 per cent (98.9 per cent 2008-09) compliance following the Authority issuing a statutory improvement notice.

Food safety Supervisors

The Food Safety Supervisor (FSS) initiative was developed to encourage safer handling of food, reduce the incidence of foodborne illnesses and improve consumer confidence in the food served by the hospitality industry in New South Wales. Poor food handling practices in hospitality businesses cause over a third of foodborne illness outbreaks in New South Wales and cost the community around \$416 million every year according to NSW Food Authority's analysis.

This mandatory program will ensure most retail foodservice and hospitality businesses in New South Wales have a designated and appropriately trained 'food safety supervisor'.

The *Food Amendment (Food Safety Supervisors) Act 2009* was passed by Parliament on 11 November 2009 to introduce mandatory food handler training. The Food Safety Supervisors must be trained by a Registered Training Organisation. The scheme is due to be fully operational by 2011 and businesses will have until 1 October 2011 to appoint their Food Safety Supervisors.

Scores on doors

A food safety ratings system, 'Scores on Doors' will be trialled from 1 July 2010 before the State-wide implementation begins on 1 July 2011. This new initiative involves providing businesses with a certificate that has a score, and indicates the businesses performance in complying with food safety regulations. This voluntary program will allow the public to see how a foodservice business complies with food safety and hygiene requirements via a 'scorecard' displayed on their door or window. The rating system ranges from 'A (excellent-highest level of compliance) to C (acceptable)'.

FINANCIAL INFORMATION

Year ended 30 June	2010 \$'000	2009 \$'000
Grants and contributions	11,461	11,747
Industry levies and licence fees	5,227	6,290
Other revenue	4,399	4,331
Expenditure	20,405	21,529
Surplus	682	839
Net assets (at 30 June)	10,493	9,647

Grants and contributions are received from Government through the Department of Industry and Investment NSW.

AUTHORITY ACTIVITIES

The Authority monitors and regulates the safe production, processing, wholesale and distribution of all primary produce and seafood for human consumption from the paddock or ocean to the point-of-sale.

The Authority is under the control and direction of the Minister for Primary Industries. It was established under the *Food Act 2003* and also has certain legislative responsibilities under the *Dairy Industry Act 2000* and the *Meat Industry Act 1978*.

On 1 July 2009, the Authority became a partner agency to the newly formed Department of Industry and Investment NSW (I&I NSW) under the Public Sector Employment and Management (Departmental Amalgamations) Order 2009.

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

CONTROLLED ENTITIES

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

Entity Name	Website
Milk Marketing (NSW) Pty Limited	*
Office of the NSW Food Authority	*
Pacific Industry Services Corporation Pty Limited	*

* This entity does not have a website.

Milk Marketing (NSW) Pty Ltd

An independent review of the objectives and functions of the Company is in progress to ensure the Authority's activities are not being duplicated.

Pacific Industry Services Corporation Pty Limited

The company has not operated for a number of years and is in the process of being wound up by 2011.

Minister for Redfern Waterloo

Redfern-Waterloo Authority

Redfern-Waterloo Authority

AUDIT OPINION

The audits of the Authority and its controlled entities' financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

However, the Independent Auditor's Reports for the Authority and its controlled entity, Australian Technology Park Precinct Management Limited, was modified by an emphasis of matter paragraph which drew attention to significant uncertainty relating to the extent to which liabilities for rates and taxes should be recognised in the financial statements.

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

KEY ISSUE

Funding Agreement

The Authority's funding agreement with the New South Wales Government expires on 30 June 2011.

Management advised that a new entity, Sydney Metropolitan Development Authority (SMDA) will be established to absorb the functions of the Authority including funding arrangements. This is expected to occur by the end of 2010.

PERFORMANCE INFORMATION

The Authority provided the following information regarding its performance.

Property Management

Year ended 30 June	2010	2009	2008	2007	2006
Value of investment properties(\$m)	158.5	176.8	213.2	166.6	132.8
Rental revenue (\$m)	14.9	12.8	10.2	9.4	8.6
Return on rental properties (%)	9.4	7.2	4.8	5.6	6.5
Average vacancy rate (%)	2.7	2.5	<2.0	<2.0	<2.0

Source: Redfern-Waterloo Authority (unaudited).

The value of investment properties decreased by \$18.3 million mainly due to softening property market conditions in Sydney. The rise in rental revenue was due to annual rent increases. Both factors contributed to the increase in return on rental properties.

Conferences and Exhibitions

Year ended 30 June	2010	2009	2008	2007	2006
Events	437	503	632	642	645
Attendance ('000)	46.8	59.9	40.9	36.9	35.4
Revenue (\$m)	3.9	4.1	4.7	4.1	2.8

Source: Australian Technology Park Precinct Management Limited (unaudited).

The decrease in the events and attendance was due to the impact from the global financial crisis.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Venue hire revenue	3,929	4,114	--	--
Rental revenue	14,865	12,769	766	766
Grants and contributions	8,635	6,499	8,635	7,585
Affordable housing voluntary contributions	6,600	6,000	6,600	6,000
Other	3,007	6,899	5,368	4,240
TOTAL REVENUE	37,036	36,281	21,369	18,591
Loss valuation of investment property	18,475	36,500	17,835	26,040
Employee related expense	4,199	4,364	2,132	2,645
Depreciation and amortisation	1,997	888	1,156	237
Other expenses	18,360	17,260	6,082	9,295
TOTAL EXPENSE	43,031	59,012	27,205	38,217
DEFICIT	(5,995)	(22,731)	(5,836)	(19,626)
OTHER COMPREHENSIVE EXPENSE	(33)	(204)	--	--
TOTAL COMPREHENSIVE EXPENSE	(6,028)	(22,935)	(5,836)	(19,626)

Grants and contributions increased by \$4.0 million largely due to additional contributions received from Department of Planning for the asset divestment program, offset by a reduction in its regular payments.

Other revenue in the prior year included a one-off saving on developer charges of \$2.7 million.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	53,912	40,060	20,605	8,460
Non-current assets	187,253	206,380	170,879	189,181
TOTAL ASSETS	241,165	246,440	191,484	197,641
Current liabilities	6,885	5,517	1,516	1,431
Non-current liabilities	53,368	53,983	43,776	44,182
TOTAL LIABILITIES	60,253	59,500	45,292	45,613
NET ASSETS	180,912	186,940	146,192	152,028

The increase in current assets was due mainly to an increased cash balance from additional contributions of:

- \$6.0 million from developers towards affordable housing in North Eveleigh
- \$4.0 million from the Department of Planning to fund the sale of Australian Technology Park Precinct Management Limited.

The decrease in non-current assets by \$19.1 million was due to investment property valuation losses on its property portfolio.

AUTHORITY ACTIVITIES

The Authority was constituted by the *Redfern-Waterloo Authority Act 2004* (the Act).

The Authority has an operational area described in the Act and has principal functions that require the Authority to promote, coordinate, manage, undertake and secure the orderly and economic development and use of the operational area. This includes the development and management of land, the provision of infrastructure, and the creation of public areas.

For further information on the Authority, refer to www.redfernwaterloo.com.au.

CONTROLLED ENTITIES**Australian Technology Park Precinct Management Limited****KEY ISSUE****Rates and Taxes**

The Australian Technology Park Precinct Management Limited (the 'Company') determined that no liabilities should be recognised for rates and taxes until it has confirmed this position with the relevant parties.

The Company is seeking confirmation of its existing tax exemptions from the Office of State Revenue and is involved in negotiations with Sydney City Council relating to council rate assessments. Until the outcome of these matters is known, the Company is uncertain as to the extent to which liabilities for rates and taxes should be recognised in the financial statements.

FINANCIAL INFORMATION

Year ended 30 June	2010 \$'000	2009 \$'000
Revenue	20,947	23,030
Expenses	20,324	33,351
Surplus/(deficit)	623	(10,321)
Net assets (at 30 June)	48,336	47,713

Revenue in the prior year included a one off saving on a negotiated settlement with a developer of \$2.7 million.

The decrease in expense is mainly due to lower loss on investment property valuation of \$600,000 (\$10.4million).

For further information on the Company, refer to www.atp.com.au.

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

Entity Name	Website
Office of the Redfern-Waterloo Authority	*

* This entity does not have a website.

Minister for Roads

Roads and Traffic Authority of New South Wales

Roads and Traffic Authority of New South Wales

AUDIT OPINION

The audits of the Authority and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

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

KEY ISSUES

Driver and Vehicle Computer System Project

I recommend the Authority strengthen its project management techniques to ensure its computer system project is managed efficiently and effectively.

The Driver and Vehicle System (DRIVES) is a vast, complex and critical computer system the Authority uses at motor vehicle registries to administer approximately seven million motor vehicle registrations and two million driver licences within the State of New South Wales.

With the growth in demand for on-line transactions, changes in computing technology and changing legal requirements, the Authority started a major project upgrade of this system in 2004.

My review of the past five year's project management identified:

- project expenditure to milestones were not adequately monitored
- the project cost was estimated at \$9.3 million in 2004, but this escalated to \$23.2 million in 2006 and \$32.0 million in 2009. This is due to increased scope and changes in direction of the project
- deficiencies in the effectiveness of project management
- insufficient project management record keeping
- improvements in project management and reporting from 2009.

Management advised it has implemented a formal project methodology and a governance framework in the past two years. The Authority now manages all system projects through its Project Management Office with appropriate project management techniques and controls. It has improved documentation for this project and will continue this to project completion.

Valuation of Land Under Roads

Following the introduction of a new Australian Accounting Standard and guidance issued by the Australasian Valuers-General in October 2009, the Authority changed the method of valuation of its land under roads for accounting purposes. The revised method decreased the value of land under roads by \$33.0 billion.

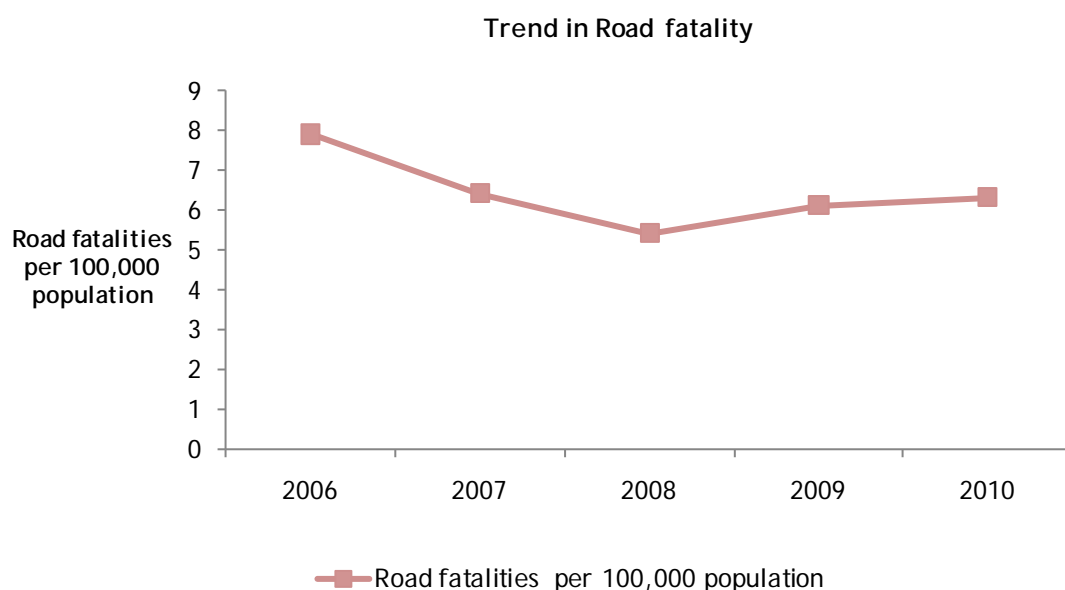
PERFORMANCE INFORMATION

The Authority provided the following information regarding its performance:

Road Safety Performance Outcomes

I recommend the Authority continue to monitor the outcome of its Road Toll Response initiatives to achieve the primary safety target by 2016.

The New South Wales Government State Plan, issued in November 2006 (State Plan), included safer roads as one of the priorities. The target of this plan is to achieve 0.7 road fatalities per 100 million vehicle kilometres travelled by 2016. The revised State Plan of October 2009 introduced a primary road safety target of 4.9 fatalities per 100,000 population by 2016. The previous measure remains as the secondary road safety target.



In March 2010, the Government announced \$170 million Road Toll Response Package to address the factors behind the recent road toll increases by focussing on the areas of speed management, road environment, heavy vehicle safety, local government roads, highway safety reviews and pedestrian safety.

Key initiatives of the package include:

- re-introduction of mobile speed cameras in New South Wales from July 2010
- speed enforcement on all 200 safety camera locations
- increase in speeding fines by five per cent from July 2010
- additional \$5.0 million funding per annum for road safety marketing for two years
- funding of \$10.0 million per annum for wire rope barriers and road widening for five years
- funding of \$10.0 million per annum for State highway route safety reviews and works for five years
- allocation of \$9.0 million per annum for targeted safety works for council managed roads for five years
- funding of \$4.0 million for pedestrian fencing at intersections and long busy roads for three years.

Statistics on fatalities and injuries from road traffic crashes were:

Year ended 30 June	Actual				
	2010	2009	2008	2007	2006
Road fatalities per 100,000 population*	6.3	6.1	5.4	6.4	7.9
Road fatalities per 100 million vehicle kilometres travelled*	0.67	0.65	0.59	0.71	0.86
Total Fatalities	456	433	376	442	536
Key Factors include**					
Speed related	187	180	131	163	205
Fatigue related	93	69	63	84	103
Illegal level of alcohol***	78	96	78	92	109
Seat belt fitted but not worn	40	69	41	51	59
Total Injuries***	20,643	24,103	24,775	26,065	25,125
Key Factors include**					
Speed related	3,531	3,916	4,039	4,221	4,298
Fatigue related	1,812	2,110	2,036	2,018	1,939
Illegal level of alcohol	1,075	1,399	1,487	1,470	1,429
Seat belt fitted but not worn	262	346	326	335	340

Source: Roads and Traffic Authority of New South Wales (unaudited).

* Fatality and population figures for 2008-09 and 2009-10 are provisional and subject to change. Fatality rates for 2008-09 and 2009-10 have been calculated using projected estimated travel growth since 2008.

** Factors are not mutually exclusive. For example, a speed related fatality may also involve illegal levels of alcohol. In this case the fatality would be counted in both the speed related and the illegal level of alcohol categories.

*** Injuries and illegal level of alcohol for 2009-10 are as at August 2010 and as such are preliminary and incomplete. Injury data for 2009-10 are therefore not comparable with 2008-09.

Pavement Rebuilding Targets (Repeat Issue)

I have previously recommended the Authority develop strategies to achieve its annual target of two per cent rebuilding of road pavements to ensure the long term sustainability of its roads.

The pavement rebuilding represents the percentage of the road surface area repaired for structural damages to the total area of road surfaces. The Authority achieved its short term target of 1.2 per cent, but not its long term target of two per cent. The Authority advised that this target is unlikely to be achieved under the existing funding arrangements.

Year ended 30 June	Target*	Actual				
	2010	2010	2009	2008	2007	2006
Pavement rebuilding rate (%)	1.2	1.4	1.2	1.1	1.1	1.0

Source: Roads and Traffic Authority of New South Wales (unaudited).

*Targets are set by the Authority.

The Authority submitted a draft ten year Strategic Asset Maintenance Plan to Treasury in 2007 with interim and long-term funding proposals to meet the long term target of two per cent pavement rebuilding. The funding needs were updated to Treasury in 2009 and 2010 via the Authority's 'Maintenance of Effort' submissions. The Plan uses a risk-based approach to determine strategic maintenance priorities and renewal of infrastructure assets.

The Strategic Asset Maintenance Plan has not been finalised due to the substantial impact of the above initiatives on the conclusions and recommendations included in the Plan. The Plan is expected to be finalised in 2010-11.

Ride Quality and Pavement Durability

Overall, the Authority achieved its target for ride quality and pavement durability for the year. Ride quality measures the 'roughness' of travel over road surfaces (including national highways) and is a primary indicator of road condition. Pavement durability measures road surface cracking on sealed State roads. These measures, as a percentage of total roads, over the last five years have been:

Year ended 30 June	Target*	Actual				
	2010 %	2010 %	2009 %	2008 %	2007 %	2006 %
Ride quality						
Good	89.0	89.2	89.1	88.6	87.9	87.5
Fair	7.0	6.8	7.0	7.2	7.7	7.9
Poor	4.0	4.0	3.9	4.2	4.4	4.6
Pavement durability						
Good	76.0	77.4	76.3	78.0	76.5	78.1
Fair	15.1	14.9	15.0	13.5	14.0	12.4
Poor	8.9	7.7	8.7	8.5	9.5	9.5

Source: Roads and Traffic Authority of New South Wales (unaudited).

*Targets are set by the Authority.

The 'Good' ride quality percentage is now a State Plan target of 93.0 per cent in 2016.

Average Travel Speed on Seven Major Routes to and from Sydney

The State Plan also charges the Authority with improving the efficiency, as measured by travel speeds, on Sydney's major roads during peak times.

Average speed trend for seven major routes to and from Sydney:

Year ended 30 June	Actual Speed (km/h)				
	2010	2009	2008	2007	2006
Morning Peak Speeds					
F3/Pacific Highway/F1	34	35	35	35	38
M2/Lane Cove Tunnel/Gore Hill Freeway**	39	36	31	38	36
M4/Parramatta Road/City West Link	28	29	28	25	31
M5/Eastern Distributor	35	41	34	40	44
Pittwater Road/Military Road/F1	25	26	26	27	25
Princes Highway	31	30	28	28	28
Victoria Road	26	21	23	22	23
Combines seven routes*	31	31	30	30	32
Afternoon Peak Speeds					
F3/Pacific Highway/F1	53	50	52	45	52
M2/Lane Cove Tunnel/Gore Hill Freeway**	65	66	61	47	40
M4/Parramatta Road/City West Link	35	39	40	38	43
M5/Eastern Distributor	54	56	48	50	50
Pittwater Road/Military Road/F1	34	38	39	38	40
Princes Highway	32	32	36	35	36
Victoria Road	34	33	32	31	32
Combines seven routes*	43	43	43	41	42

Source: Roads and Traffic Authority of New South Wales (unaudited).

* Combined seven routes average speed was calculated by the total travel distance over total travel time of the seven routes.

** From 2007-08, the Lane Cove Tunnel is part of the M2 corridor (formerly parallel sections including Epping Road).

Management advised that:

- the morning peak speed increased notably on Victoria Road, due to measures implemented by the Authority to improve the inner sections of the route and staged road works
- the afternoon peak travel speed for M4 corridor decreased due to road works to remove the toll plaza.

OTHER INFORMATION

Receipt of Motorway

At the expiry of the contract with the private operator, the ownership of the Western Motorway (M4) reverted to the Authority in February 2010. The value of the motorway at the time of hand-back was \$270 million. This represented a \$46.7 million increase over the value of the asset recognised by the Authority.

Human Resources

This year we reviewed the following areas relating to human resources:

- use of skill hire contractors
- overtime
- management of annual leave balances in excess of threshold policies
- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities.

A summary of the results of our review follows.

Use of Skill Hire Contractors (Repeat Issue)

I recommend the Authority review its application of skill hire practices to ensure it complies with its established policies, the *Income Tax Act* and other industrial relations matters.

Skill hire (contract employees) are a short term employment option used by the Authority for a period of generally not more than one year.

The number of Authority's contractors decreased to 8.4 per cent of the workforce from 8.9 per cent in 2008-09. Further, 56.6 per cent (47.7 per cent) of its contractors had been engaged for more than 12 months. The longest serving contractor has been with the Authority for over eight years.

The retention of contract staff for extended periods may result in additional costs to the Authority. Costs incurred by extended use of contractors, as well as the benefits, should be compared to hiring permanent employees. Also, critical business knowledge may be lost when contractors leave the organisation.

The Authority advised that the use of contractors is a result of:

- skill shortages in engineering and information technology
- salaries offered being below comparables available in the industry
- New South Wales government recruitment freeze
- construction and information technology industry norms within of using contingent workforces
- growth in the overall road program due to higher Australian government funding levels.

The Authority needs to review its current practices relating to use of contractors to ensure it achieves its intended outcomes. Further, it should assess its compliance with all applicable laws and regulations.

The number of skill hire contractors and the duration since the current skill hire contractor start date is shown below:

Year end 30 June	Number of skill hire contractors		
	2010	2009	2008
Cost of skill hire contractors (\$m)	93.7	92.0	75.4
Duration since current skill hire contract start date			
Over 6 years	68	73	71
5 - 6 years	18	10	14
4 - 5 years	14	24	17
3 - 4 years	44	23	26
2 - 3 years	78	69	64
1 - 2 years	173	147	124
less than 1 year	303	380	285
Total	698	726	601

Source: Roads and Traffic Authority of New South Wales (unaudited).

Overtime (Repeat Issue)

I have previously recommended the Authority review its overtime approval procedures and monitor overtime levels to ensure overtime is effectively managed and achieves desired outcomes.

Overtime for the year amounted to \$44.3 million (\$42.9 million), 7.6 per cent (7.9 per cent) of base salaries and wages. On average, Authority employees received \$5,000 in overtime and 61.4 per cent of employees received a payment for overtime. The highest amount paid to a single employee was \$118,000 (\$114,000).

Top 10 overtime earners as a percentage of overtime to salary:

Employee	2010			2009		
	Percentage of Overtime to salary	Annual Salary \$	Overtime \$	Percentage of Overtime to Salary	Annual Salary \$	Overtime \$
1	133	77,037	102,111	139	47,488	66,221
2	126	92,958	117,589	138	74,074	101,921
3	126	59,885	75,552	135	71,155	95,799
4	124	48,177	59,603	127	89,383	113,886
5	122	48,177	58,956	118	54,433	64,315
6	117	74,001	86,614	117	46,324	54,076
7	117	48,177	56,284	116	46,324	53,623
8	109	51,792	56,486	107	54,433	58,225
9	109	52,998	57,525	101	49,799	50,055
10	108	48,177	52,250	99	79,488	78,684

Source: Roads and Traffic Authority of New South Wales (unaudited).

Management advised that the monitoring of overtime is performed through quarterly reporting to directorates. The Authority's Human Resource Division works with directorates to ensure overtime worked complies with the Authority's policy.

Annual Leave Balances (Repeat Issue)

I recommend the Authority continue to monitor and manage annual leave entitlements to minimise the impact on the Authority's financial position.

The Authority actively manages excessive annual leave balances. The number of employees with annual leave in excess of 40 days has declined from 749 employees at 30 June 2007 to 542 employees at 30 June 2010. Employees in this category represented 6.3 per cent (8.1 per cent) of total employees at 30 June 2010.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

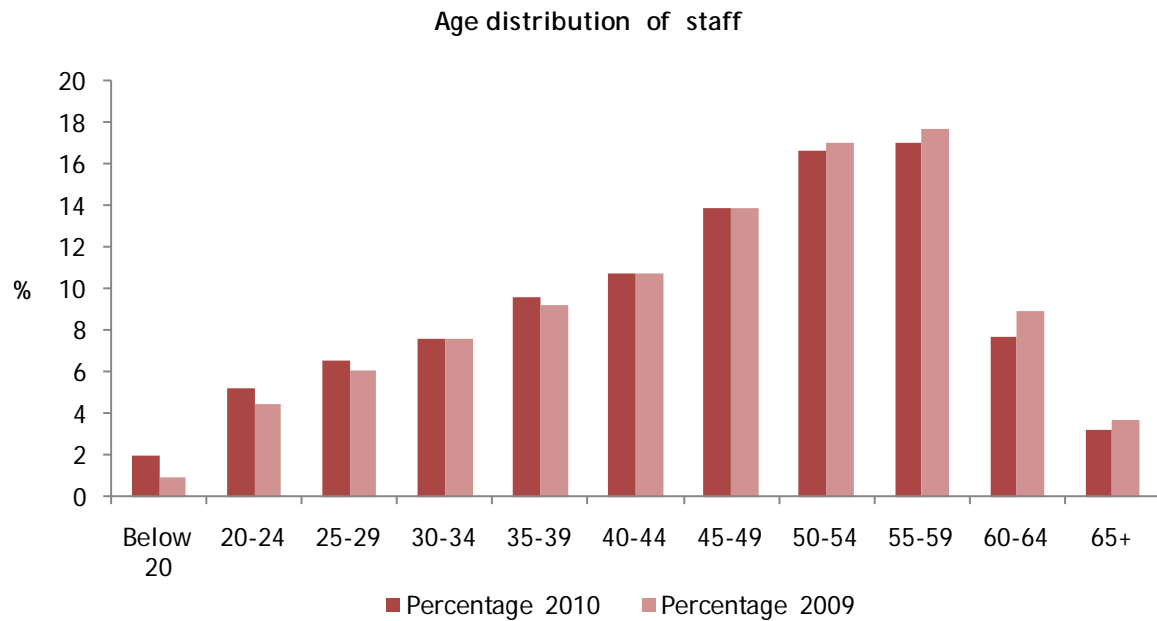
Entitlement (days)	2010			2009		
	No of Personnel	Total Days	Amount \$'000	No of Personnel	Total Days	Amount \$'000
Annual Leave						
> 100	2	213	73	1	117	40
81 - 100	9	815	301	7	625	344
61 - 80	43	2,913	1,109	58	3,950	1,209
41 - 60	488	23,025	7,824	610	28,334	8,590
Total	542	26,966	9,307	676	33,026	10,183

Workforce Ageing

I recommend the Authority continually reviews the effectiveness of its existing policies and program in managing its ageing workforce.

The Authority has 27.9 per cent of its employees over 55 years of age and 44.5 per cent of its employees over 50. This represents a large number of employees who are likely to retire over the next ten years, increasing the risk of a significant loss of accumulated knowledge and skills.

The age profile of the Authority's employees is shown below:



As at 30 June Age Group	2010		2009	
	No. of Employees (FTE)	%	No. of Employees (FTE)	%
Up to 34	1,546	21.3	1,346	18.9
35 - 39	693	9.6	650	9.2
40 - 44	777	10.7	757	10.7
45 - 49	1,006	13.9	991	13.9
50- 54	1,202	16.6	1,206	17.0
55-59	1,234	17.0	1,260	17.7
60-64	558	7.7	632	8.9
65+	229	3.2	260	3.7
Total	7,245	100.0	7,102	100.0

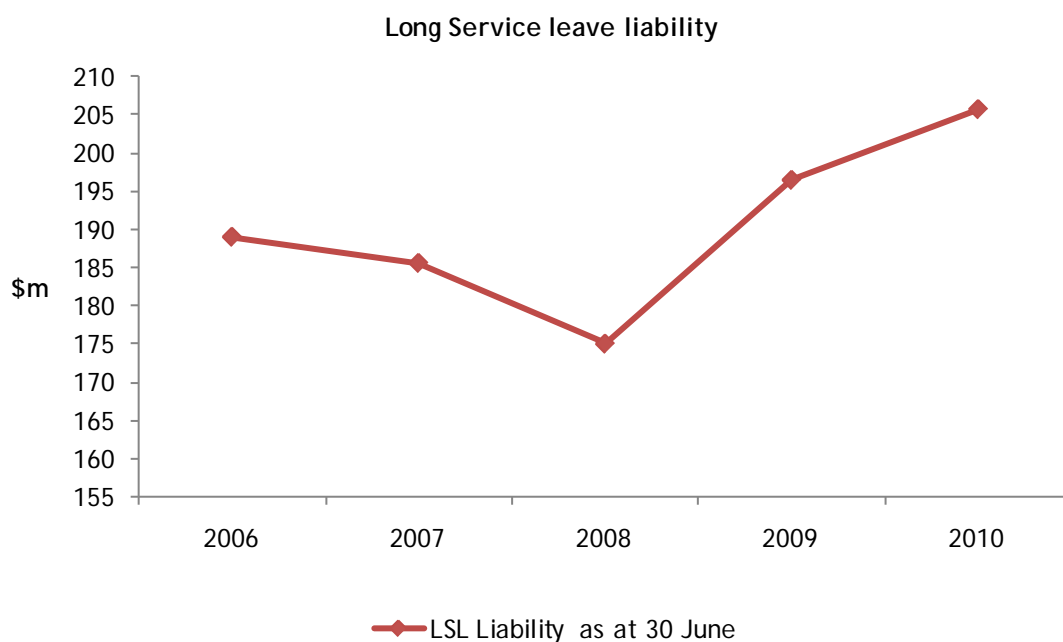
Source: Roads Traffic Authority (unaudited).

In response to this risk, the Authority advised that it actively monitors its workforce age profile. It has a workforce strategy as part of its Corporate Plan 2008-12. The strategy is to develop, recruit and retain employees whose skills are aligned with the strategic direction of the Authority.

The Authority has taken positive steps towards succession planning and has implemented a new 'MyJourney Program'. This targets all Authority's staff aged 55 and over to focus on knowledge sharing, working intentions and retirement preparedness.

Long Service Leave Liability

The Authority's liability for long service leave entitlements at 30 June 2010 amounted to \$206 million (\$196 million). This liability has increased by 8.8 per cent over the past five years.



The increase in the long service leave liability resulted from continuous growth in leave balances and increased employee remuneration levels. It also increased due to the impact of a reduced Government bond rate used to discount the liability to present value.

Although the Authority has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities, which generally increase over time with increases in employee remuneration levels. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

Transport Restructure

On 1 July 2010 the *Transport Administration Amendment Act 2010* established Transport NSW (TNSW). Under this Act, the Chief Executive of the Authority is authorised to manage and control the affairs of the Authority in accordance with the directions of the Director-General of Transport NSW for the purposes of exercising the functions of the Director-General. The Authority became a controlled entity of Transport NSW from 1 July 2010.

Further information on the transport restructure is included in the Transport Services Overview in this volume.

Major Projects

The table below provides the completion dates and costs for the highest valued projects listed in 2009-10 budget papers of the Authority.

Year ended 30 June 2010	Year of Budget Paper with Initial Estimates	Initial Estimated Completion Date per Budget Paper	Forecast/ Actual Completion Date	Initial Project Estimate* \$m	Cost to 30 June 2010 \$m	Forecast/ Actual Final Cost \$m	Forecast Variance \$m
Hunter Expressway- F3 to Branxton Freeway	2010-11	2013	2013	1,700	91	1,700	--
Hume Highway, Southern Hume Duplication	2007-08	2009	2009	900	889	905	5
Pacific Highway, Coffs Harbour (Sapphire) to Woolgoolga	2001-02	na**	2014	280	120	705	425
Pacific Highway, Ballina Bypass	1997-98	2002	2012	118	473	640	522
Pacific Highway Moorland to Herons Creek	2001-02	na**	2010	230	370	378	148
Pacific Highway Banora Point, Upgrade	2010-11	2012	2012	359	57	359	--
Bus Priority on Strategic Corridors	2005-06	2012	2012	295	230	295	--
Hume Highway, Tarcutta Bypass	2010-11	2011	2011	290	67	290	--
Hume Highway, Woomargama Bypass	2010-11	2011	2011	265	63	265	--
Pacific Highway Karuah to Bulahdelah, sections 2 & 3	2006-07	2009	2009	227	253	253	26

Source: Roads and Traffic Authority of New South Wales (unaudited).

* The initial project estimates represented the initial strategic or concept estimates prior to any detailed planning or project development.

na** Not available - The initial estimated completion dates for these projects were not reported in the respective Budget Paper because the projects were at the early stage of planning.

Management advised the key reasons for the forecast variance of the Pacific Highway Ballina Bypass include:

- initial estimate did not account for lengthy extensions of the Bruxner Highway due to the intersection added at Teven Road
- flood modelling of the area requires additional bridging through the flood plain area.

The increase in the cost of the Sapphire to Woolgoolga section of the Pacific Highway is due to:

- initial proposal based on a simple upgrade using the existing roads as one of the carriage ways, did not eventuate and was replaced by a new dual carriageway with a separate parallel route for local traffic movement
- the need for six interchanges to address access for current and planned urban development north of Coffs Harbour, not originally anticipated.

The forecast variance on the Mooreland to Herons Creek project is due to:

- scope changes to provide a higher standard upgrade including interchanges and service roads
- actual delays for wet weather during peak construction (45.0 per cent) were considerably higher than the original estimate (27.0 per cent).

School Zone Flashing Lights

In my Performance Audit 'Improving Road Safety: School Zones' in February 2010 the RTA advised:

'The RTA is continuing the risk based rollout of flashing lights in school zones, with 365 out of the proposed 565 flashing light sites installed to date. The 565 flashing light sites includes:

- pre 2008 trial sites
- additional sites such as, where fixed speed cameras have been installed
- the \$46.5 million program to install flashing lights at 400 sites (2008 to 2011).'

The Authority has advised that:

- prior to the phase one trial, 65 lights were installed during 2005-06, funded from the combined road safety, licensing and vehicle management budget and not a specific allocated program
- phase one started in 2006-07, involving the installation of 100 lights as a trial at a cost of \$9.1 million (an average cost of \$91,000 each)
- phase two, started in 2007-08, with a budget of \$23.8 million to install 400 lights and \$22.7 million to maintain all flashing light installations over the next four years. At 30 June 2010, the Authority had installed 251 lights at a cost of \$13.0 million (average cost of \$52,000 each)
- The combined average cost per unit for phases one and two to 30 June 2010 for the 351 sites is \$63,000 each.

Administered Revenue

Revenue collected on behalf of the State and remitted to the Consolidated Fund was:

Year ended 30 June	Actual				
	2010 \$m	2009 \$m	2008 \$m	2007 \$m	2006 \$m
Vehicle registration fees	270	249	243	232	223
Drivers licences fees	146	116	91	96	141
Vehicle transfer fees	38	36	38	35	35
Stamp duty	586	538	605	555	548
Motor Vehicle Weight Tax and Fines	1,316	1,236	1,191	1,118	1,062
Other	76	70	58	58	53
Total	2,432	2,245	2,226	2,094	2,062

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$m	2009 \$m	2010 \$m	2009 \$m
Employee related	569	553	673	906
Maintenance	572	605	572	605
Depreciation and amortisation	921	853	921	853
Grants and subsidies	743	310	743	310
Finance costs	96	103	96	103
Other expenses	417	474	417	474
TOTAL EXPENSES	3,318	2,898	3,422	3,251
Sale of goods and services	398	386	398	386
Other revenues	512	172	512	172
TOTAL REVENUE	910	558	910	558
Loss on disposal of non current assets	54	34	54	34
NET COST OF SERVICES	2,462	2,374	2,566	2,727
Government Contributions	3,772	3,723	3,772	3,723
SURPLUS	1,310	1,349	1,206	996
OTHER COMPREHENSIVE INCOME				
Gain on revaluation of property plant and equipment	4,534	4,579	4,534	4,579
Superannuation actuarial losses	(104)	(353)	--	--
TOTAL OTHER COMPREHENSIVE INCOME	4,430	4,226	4,534	4,579
TOTAL COMPREHENSIVE INCOME	5,740	5,575	5,740	5,575

Following a state-wide review of road classifications the Authority transferred \$361 million of roads and bridges to various councils. This is reflected in the increase in grants and subsidies expenses.

The same review also gave rise to transfers of \$313 million of roads and bridges from a number of councils, contributing to the increase in other revenue.

Abridged Statement of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$m	2009 \$m	2010 \$m	2009 \$m
Current assets	391	385	391	385
Non-current assets	62,119	56,303	62,119	56,303
TOTAL ASSETS	62,510	56,688	62,510	56,688
Current liabilities	1,233	1,132	1,880	1,667
Non-current liabilities	2,119	2,139	1,472	1,604
TOTAL LIABILITIES	3,352	3,271	3,352	3,271
NET ASSETS	59,158	53,417	59,158	53,417

The Authority's non-current assets increased by \$5.8 billion mainly due to \$2.1 billion construction of infrastructure assets and accounting adjustment for \$4.3 billion as a result of the Authority's change in accounting estimates for road earthworks.

Abridged Service Group Information

The Authority's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2010 Budget* \$m	2010 Actual \$m	2009 Actual \$m	2010 Actual \$m	2009 Actual \$m
Road development	(44)	(4)	(2)	2,149	2,603
Road management	1,827	2,103	2,042	57,030	50,796
Road user	381	263	226	(19)	20
M4/M5 cash back scheme	104	99	108	(2)	(2)
Total all service groups	2,268	2,461	2,374	59,158	53,417

* Source: New South Wales 2009-10 Budget Papers (unaudited).

Net cost of services exceeded budget as a result of the transfer of roads and bridges to councils.

AUTHORITY ACTIVITIES

The Authority is responsible for improving road and traffic safety management, enhancing road network efficiency, maintaining and renewing the existing road system and constructing new roads and bridges throughout New South Wales. Other major responsibilities include road safety education, assessing and collecting tax on the registration of motor vehicles, licensing drivers and collecting stamp duty on motor vehicle related transactions for the Office of State Revenue.

The Authority was constituted under the *Transport Administration Act 1988*.

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

CONTROLLED ENTITY

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

Entity Name

Roads and Traffic Authority Division

Minister for Small Business

Refer to Appendix 1 for:

Small Business Development Corporation of New South Wales

Minister for State and Regional Development

Refer to Appendix 1 for:

New South Wales Film and Television Office

Ministerial Corporation for Industry

Minister for Transport

Department of Transport and Infrastructure

Public Transport Ticketing Corporation

Rail Corporation New SouthWales

Rail Infrastructure Corporation

State Transit Authority of New South Wales

Sydney Ferries

Sydney Metro

Transport Infrastructure Development Corporation

Refer to Appendix 1 for:

Chief Investigator of the Office of Transport Safety Investigations

Independent Transport Safety and Reliability Regulator

Department of Transport and Infrastructure

AUDIT OPINION

The audit of the Department of Transport and Infrastructure's (now Transport NSW) financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

OTHER INFORMATION

Corporate Governance

With effect from 1 July 2010, the Department of Transport and Infrastructure was renamed and is now known as Transport NSW. This change was brought about by the *Transport Administration Amendment Act 2010*, which established a new framework for the administration and governance of the delivery of transport services and infrastructure by public transport agencies under the general direction of the Director-General of Transport NSW. The Department is referred to by its new name, Transport NSW, throughout this and other reports.

Transport NSW is the lead transport agency with primary responsibility for transport policy, planning and coordination functions as well as oversight of infrastructure delivery and asset management. The new transport structure is intended to deliver streamlined, integrated transport planning and service delivery, and consolidation of similar functions to reduce costs and provide additional funds for front line staff and services. For the year end 30 June 2011, Transport NSW will control most public sector transport agencies for consolidation purposes.

Sydney Ferries Contract

As part of the Government's response to the Special Commission of Inquiry into Sydney Ferries, the Government commenced the Sydney Ferries Market Review in October 2008. The review included a two stage expression of interest process and a request for tender (RFT). The RFT was issued to two private sector respondents. The Government used input from Sydney Ferries to develop the Public Sector Comparator as a cost and quality benchmark.

In December 2009, the Government announced that it made the policy decision that Sydney Ferries should run the ferry services as a Government agency, rather than a private operator. In making this decision, Transport NSW advises the Government noted the improved operational performance of Sydney Ferries and the opportunities arising from the creation of Transport NSW to transfer certain strategic and planning functions from Sydney Ferries to Transport NSW.

The final negotiation stage resulted in a seven year contract term between Transport NSW and Sydney Ferries. The contract also includes \$30 million funding for replacement vessels.

Transport Concessions for University Students

I have previously referred to a review by Transport NSW of processes and procedures for issuing transport concession cards to tertiary students. The review was undertaken following my enquiries into these arrangements and it identified that procedures for removing cards from ineligible students were inconsistent.

Transport NSW advises it had improved its website information regarding concession arrangements and Tertiary Issuance Guidelines in 2008. Institutions are now required to recall the cards from ineligible students or remove the eligibility sticker/bitmap from the student's identification card.

Transport NSW advises it will review and assess the impact of the improved guidance and new requirements.

Transport NSW conducted a survey in 2010 to gauge the effectiveness of the new requirements across the 2009 academic year. The survey, which focuses on processes for cancelling concession entitlements, was distributed to tertiary institutions. Transport NSW will shortly analyse the responses to determine if further mitigation strategies are required.

Private Vehicle Conveyance Scheme

I recommend Transport NSW ensure the independent review of the Private Vehicle Conveyance Scheme is finalised as soon as possible and implement accepted recommendations in a timely manner.

The Private Vehicle Conveyance (PVC) scheme is designed to help parents meet the cost of transporting their children between home and school if they live in an area with no public transport for all or part of the journey. Transport NSW paid \$24.3 million in PVC subsidies in 2009-10.

Transport NSW advises that distances detailed in the PVC application forms are only subject to random sample checks. It also advises it is developing a geospatial database, which will enable it to more efficiently check all applications to ensure distance details are correct and the applicant is entitled to a PVC subsidy.

An independent review of the PVC scheme made draft recommendations to the Minister in early 2009 to improve the transparency and efficiency of the scheme. Transport NSW advises it is arranging further advice on some of the recommendations and therefore has not yet implemented any of the major recommendations. Transport NSW is however progressing with a number of administrative improvements focussed on eligibility checking and validating benefits processes.

Nexus Taxi Licences

In accordance with recent amendments to the *Passenger Transport Act 1990*, Transport NSW advises it is taking action to standardise nexus arrangements under conditions which resemble existing arrangements. This means:

- both the nexus and paired accessible taxi must be kept in operation
- the nexus and paired accessible licence may only be transferred as a pair and only to an authorised network which is an accredited operator.

Transport NSW advises it will gazette a list of nexus and paired accessible taxi licences. It will also issue new licence documents and it will monitor compliance performance. Transport NSW advises the final report of the Select Committee Inquiry into the NSW Taxi Industry recommended no further action be taken.

Human Resources

This year I reviewed the following areas relating to human resources:

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- management of excessive flex leave balances
- extent of overtime
- extent of contract staff.

Issues identified from my review will be reported in a management letter to Transport NSW. A summary of the results of our review follows.

Employee Age Profile

I recommend Transport NSW establish appropriate policies to mitigate and manage the risks associated with its ageing workforce.

Transport NSW is facing challenges from the potential loss of a large number of retiring staff over the next 10 to 15 years. Its employee age statistics below show:

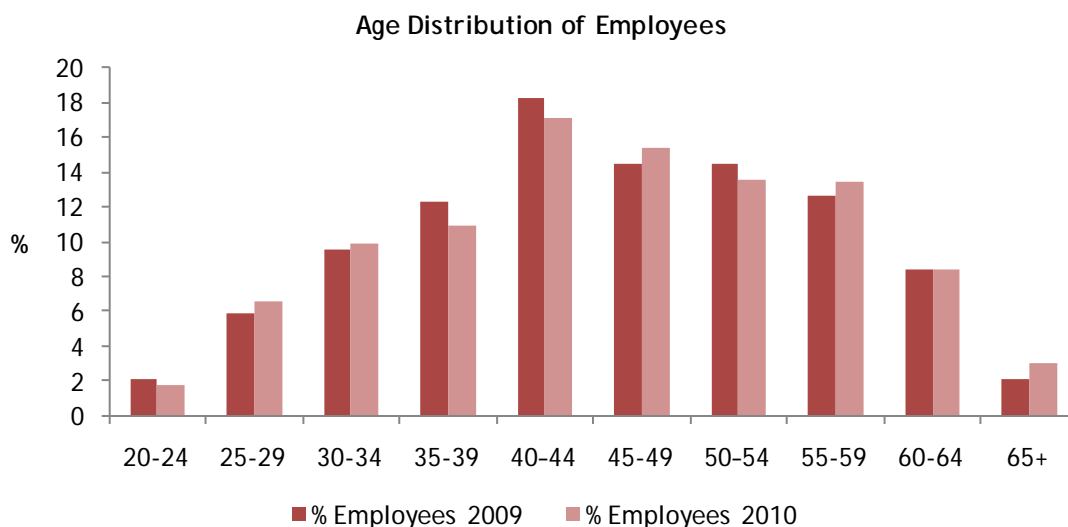
- 24.8 per cent are aged 55 years and over
- 38.3 per cent are aged 50 years and over.

As at 30 June Age Group	2010		2009	
	No. of Employees*	%	No. of Employees*	%
20 - 49	206	61.7	212	62.4
50 - 54	45	13.5	49	14.4
55 - 59	45	13.4	43	12.6
60 - 64	28	8.4	29	8.5
65+	10	3.0	7	2.1
Total	334	100.0	340	100.0

Source: Department of Transport and Infrastructure (unaudited)

* Number of employees refers to full time equivalent

The graph below demonstrates the age distribution of Transport NSW's employees.



Source: Department of Transport and Infrastructure (unaudited)

To ensure Transport NSW continues to have sufficient, appropriately skilled employees, it will need to actively monitor its workforce age profile and ensure strategies are in place to develop, attract and retain staff whose skills are aligned with its strategic direction.

Excessive Annual Leave Balances

Transport NSW appears to be actively managing excessive annual leave balances. At 30 June 2010, 36 employees (45 employees at 30 June 2009) had leave balances in excess of 40 days. Transport NSW advises that its strategies for managing this issue include developing leave plans for those employees with leave balances exceeding 40 days, as well as monitoring those plans to ensure planned leave is taken.

Flex Leave

I recommend Transport NSW consider implementing mechanisms to centrally monitor flex time records to help ensure excessive flex time is not being accrued and forfeited by staff.

Transport NSW does not know the extent to which flex time is being accrued and forfeited by staff, as it does not keep centralised records of flex time. Records are decentralised and manually maintained by each branch. If flex time is not monitored centrally, employees may be accruing and/or forfeiting excessive flex time.

Overtime

Total overtime paid to employees during 2009-10 was \$482,868 (\$485,345). This represents 1.5 per cent (1.5 per cent) of Transport NSW's salaries and wages for the year. The highest overtime payment to an employee was \$34,070 (\$30,747).

Employment of Contractors

I recommend Transport NSW develop and maintain an appropriate central register of all contractors engaged by it.

Transport NSW advises it maintains a central register of all contractors. However, the central register is not in a format which enables management to readily obtain information such as:

- total number and cost of contractors hired
- the period of service for each contractor
- total contract payments made to each contractor over the life of the contract.

Transport NSW advises it is currently developing an on-line database application which will strengthen its recording of contractor information. An appropriate centralised register will also help Transport NSW assess its overall reliance on contractors and the length of time each contractor has been engaged. Retention of contract employees for extended periods may result in additional costs to Transport NSW and it increases the risk of non-compliance with taxation and other employment laws and regulations.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000
Employee related	40,441
Grants and subsidies	3,746,602
Other expenses	1,068,972
OPERATING EXPENSES	4,856,015
OPERATING REVENUE	73,949
Loss on disposal of non-current assets	10
NET COST OF SERVICES	4,782,076
Government contributions	4,794,389
SURPLUS	12,313
OTHER COMPREHENSIVE INCOME	--
TOTAL COMPREHENSIVE INCOME	12,313

Grants and subsidies includes \$2.3 billion paid to Rail Corporation New South Wales and \$1.1 billion paid for other projects, including the South West Rail Link (\$536 million), Sydney Metro (\$384 million) and carparks and interchanges (\$123 million).

Other expenses includes \$595 million paid to the State Transit Authority and private bus operators for services provided under the Metropolitan and Outer Metropolitan bus contracts, as well as \$352 million paid for services provided under the rural and regional bus contracts.

Abridged Statement of Financial Position

At 30 June	2010 \$'000
Current assets	52,516
Non-current assets	669,246
TOTAL ASSETS	721,762
Current liabilities	65,923
Non-current liabilities	591,795
TOTAL LIABILITIES	657,718
NET ASSETS	64,044

Non-current assets and non-current liabilities include 1,452 buses acquired under a financing arrangement. In 2009-10, Transport NSW acquired 488 buses at a cost of \$229 million. The buses are used by the State Transit Authority.

Abridged Service Group Information

Transport NSW's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services		Net Assets
	2010 Budget* \$'000	2010 Actual \$'000	2010 Actual \$'000
Transport Planning, Policy and Infrastructure Programs and Initiatives	1,511,551	1,903,012	49,648
Targeted Transport Services	649,565	682,849	(5,392)
Transport Regulation, Service Provision and Contract Management	2,200,120	2,196,215	19,788
Total all service groups	4,361,236	4,782,076	64,044

Note: * Per the New South Wales 2009-10 Budget Papers of the former Ministry of Transport.

The variance between budgeted and actual is due to additional appropriations received by Transport NSW totalling \$451 million. The additional appropriations were mainly paid out as grants and subsidies to various agencies including:

- Rail Corporation New South Wales
- Transport Infrastructure Development Corporation.

DEPARTMENT ACTIVITIES

The Department of Transport and Infrastructure was established on 1 July 2009, but as mentioned above, its name was changed to Transport NSW on 1 July 2010. Transport NSW is the lead transport agency with primary responsibility for:

- transport coordination
- transport policy and planning
- transport services
- transport infrastructure.

For further information on Transport NSW, refer to www.transport.nsw.gov.au.

Public Transport Ticketing Corporation

AUDIT OPINION

The audits of the Corporation and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

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

KEY ISSUES

Electronic Ticketing System for the Greater Sydney Region

On 7 May 2010, the Corporation signed the Electronic Ticketing System (ETS) contract with Pearl Consortium. The Pearl Consortium includes Cubic Transportation Sydney (Australia) as the lead contractor, Downer EDI Engineering Power and the Commonwealth Bank of Australia. Under the contract, Pearl Consortium will build and then operate and maintain the ETS for a period of fifteen years.

The ETS will operate across greater Sydney's public transport network and extend as far as Newcastle and the Hunter region, as well as Wollongong and the Illawarra and the Blue Mountains. It will be based on the Myzone fare structure principles. Per the approved business case, the ETS will result in tangible and economic benefits that outweigh the cost. For example the ETS will result in:

- avoided capital and operating costs that operators would have incurred by introducing their own standalone systems
- more people shifting from private to public transport, resulting in greater farebox revenue, less road congestion, fewer road accidents and less environmental damage
- improved information management
- improved bus run time savings
- better customer experience resulting from reduced queues and quicker processing
- reduced fare evasion.

The total cost to build and maintain the ETS over fifteen years is about \$1.2 billion. This is made up of:

- \$398 million of fixed charges payable to Pearl Consortium
- \$250 million of variable charges payable to Pearl Consortium over approximately ten years
- \$550 million of costs to be incurred by various Government agencies and operators on managing the ETS. This cost includes commissions payable to the retail network, additional equipment for expansion of the transport network and growth in patronage.

The Corporation advised it will fund the ETS project through borrowings. The Corporation will then use operating revenue generated over the life of the ETS to repay the borrowings. The Corporation advised the rollout of the ETS is on track to meet the delivery timetable and the key dates are:

- mid 2011 - begin rollout of some equipment on the private bus network
- late 2012 - begin rollout of ETS on the ferry network
- mid 2013 - begin rollout of ETS on the train network
- 2nd half 2013 - begin rollout of ETS on government and private bus networks
- 2nd half 2014 - rollout of ETS completed across all modes of transport.

Tcard Litigation

The Corporation terminated its Tcard project on 23 January 2008 and commenced legal proceedings against the private sector contractor in the Supreme Court. The Corporation terminated the contract on the basis the contractor failed to meet the relevant milestone dates in the contract. The Corporation also claims the contractor failed to submit a satisfactory remediation program. The Corporation is seeking damages in excess of \$100 million. The contractor responded by lodging a cross claim against the Corporation. The Corporation advised the case may be heard in the second half of 2011.

OTHER INFORMATION

Use of Contract Personnel

In 2009-10, the Corporation spent \$17.5 million on contractors. This amount includes contractor personnel and external contractor services for the ETS project. At 30 June 2010, the Corporation had 62 contractor personnel, of which five had been employed for more than two years. The Corporation advised it continuously monitors the use and performance of contract personnel to ensure they represent value for money.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Corporation	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Government contributions	14,910	11,834	14,910	11,834
Other revenue	267	1,361	267	1,361
TOTAL REVENUE	15,177	13,195	15,177	13,195
Employee related expenses	1,456	1,321		
Personnel services			1,456	1,321
Finance costs	3,416	3,884	3,416	3,884
Other expenses	31,808	18,223	31,808	18,223
TOTAL EXPENSES	36,680	23,428	36,680	23,428
DEFICIT	21,503	10,233	21,503	10,233
Other Comprehensive Income	--	--	--	--
TOTAL COMPREHENSIVE INCOME	21,503	10,233	21,503	10,233

The increase in government contributions was mainly due to the Corporation receiving \$7.5 million from Department of Transport and Infrastructure to implement the Myzone project. The increase in other expenses was largely due to costs incurred on both the ETS and the Myzone projects.

Abridged Statements of Financial Position

At 30 June	Consolidated		Corporation	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	4,814	10,693	4,814	10,693
Non-current assets	17,559	475	17,559	475
TOTAL ASSETS	22,373	11,168	22,373	11,168
Current liabilities	102,608	85,274	102,608	85,274
Non-current liabilities	15,374	--	15,374	--
TOTAL LIABILITIES	117,982	85,274	117,982	85,274
NET LIABILITIES	95,609	74,106	95,609	74,106

The \$17.1 million increase in non-current assets was largely due to costs incurred on the ETS. The \$32.7 million increase in total liabilities was due to the Corporation borrowing funds to meet its operating and ETS project costs.

While the Corporation has negative net assets at 30 June 2010 of \$95.6 million (\$74.1 million), the Corporation is considered financially viable because its borrowings are guaranteed by the Government and it has loan facilities in place to meet its operating costs and ETS obligations. The Government has also guaranteed ongoing financial support to the Corporation.

CORPORATION ACTIVITIES

The Corporation is responsible for establishing and managing an electronic ticketing system for public transport users and operators in the greater Sydney metropolitan area.

On 1 July 2010, the *Transport Administration Amendment Act 2010* established Transport NSW and resulted in the removal of the Corporation's governance board. The affairs of the Corporation are now managed and controlled by the Director General of Transport NSW.

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

CONTROLLED ENTITY

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

Entity Name	Website
Public Transport Ticketing Corporation Division	*

* This entity does not have a website.

The Public Transport Ticketing Corporation Division (the Division) was dissolved on 1 July 2010. The Division's employees are now assigned to Transport NSW.

Rail Corporation New South Wales

AUDIT OPINION

The audit of RailCorp's financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

KEY ISSUES

For general transport industry information, refer to the 'Transport Services Overview' section earlier in this Report.

Recent Transport Restructure

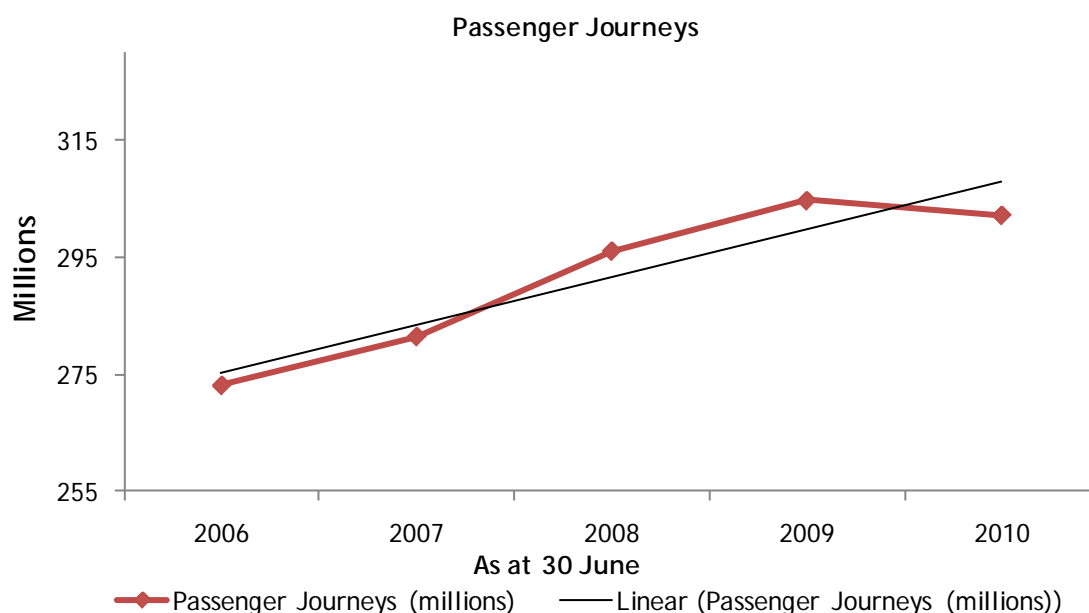
On 1 July 2010, the *Transport Administration Amendment Act 2010* established Transport NSW (TNSW) and abolished RailCorp's governance board.

Under this Act, the Chief Executive of RailCorp has the authority to manage and control the affairs of RailCorp subject to any directions of the Minister for Transport or the Director General of Transport NSW. For the year end 30 June 2011, RailCorp will be a controlled entity of Transport NSW for consolidation purposes.

For further information on the Transport restructure refer to the 'Transport Services Overview' in this volume.

Crowding on Trains

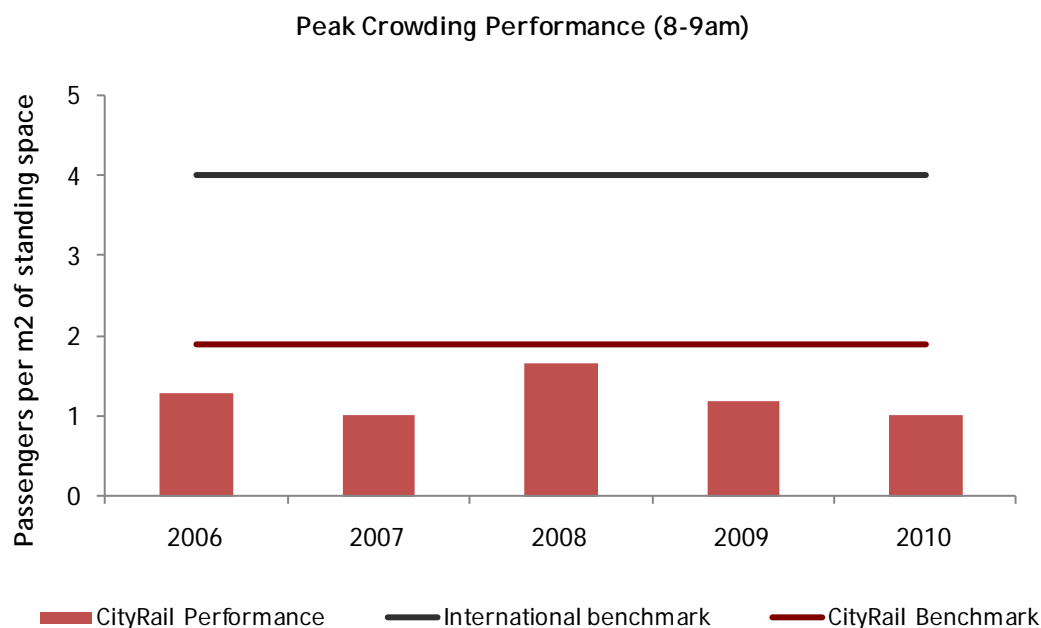
CityRail passenger journeys fell by approximately 0.8 per cent, from 305 million in 2008-09 to 302 million in 2009-10. The decrease in journeys is below the forecast annual growth rate of 1.1 per cent. Since July 2007 cumulative growth has been approximately 7.4 percent, slightly down on the State Plan target of 7.7 percent. RailCorp continues to advise the downturn was a direct result of the global financial crisis and its effect on employment, particularly in the CBD.



Source: RailCorp (unaudited)

Across the entire CityRail network, patronage grew on the Northern line (4.5 per cent) and the East Hills Line (2.8 per cent) in the 12 months to June 2010. Patronage on all other suburban and inter-city lines declined between 1.8 per cent and four per cent. The Northern and North Shore lines benefited from the integration of the Epping to Chatswood Rail Link (ECRL) plus significant station redevelopments at Chatswood and North Sydney. The Eastern Suburbs Line and South Coast Lines recorded the highest fall in patronage of 4.0 per cent.

CityRail measures passenger loads on its peak services twice yearly. RailCorp benchmarks passenger crowding on its services against other global operators. The benchmark measures the number of passengers per square metre of standing space.

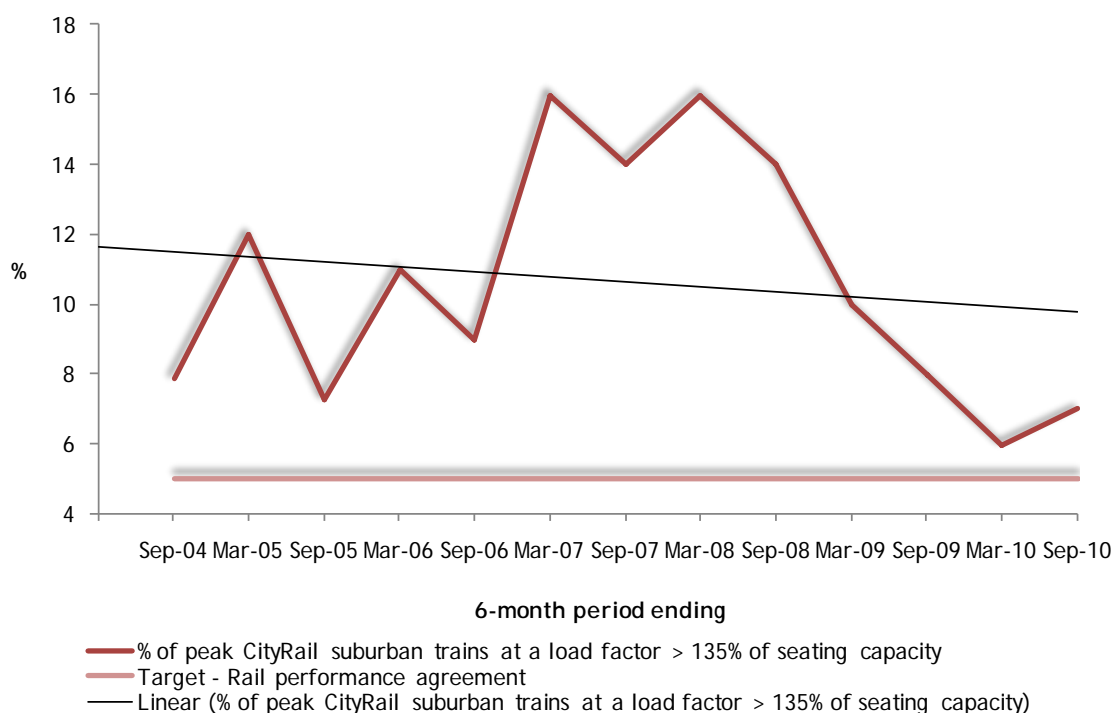


Source: RailCorp (unaudited). Surveys performed in March each year

CityRail's trains compare well against a global benchmark of no more than 4 passengers per square metre, achieving an average of 1.0 passenger in 2010 (1.2 passengers in 2009). This is well below RailCorp's own internal target of 1.9 passengers per square metre.

The percentage of peak hour trains carrying more passengers than 135 per cent of seat capacity has consistently exceeded the target of five per cent, previously set by the Minister in the Rail Performance Agreement. However, this rate is continuing to trend downwards with the percentage falling to seven per cent (eight per cent) in the September 2010 load factor survey.

Peak CityRail suburban trains at a load factor > 135% of seat capacity.



Source: RailCorp (unaudited).

The September 2010 survey indicated approximately 45 morning (8am to 9am) trains and 12 evening (5pm to 6pm) trains have passengers standing for more than 20 minutes. The Western lines had the highest number of trains exceeding seat capacity 20 minutes out from the CBD in the morning with the East Hills line the highest in the afternoon.

To deal with crowding, RailCorp commenced a range of initiatives to boost capacity and expand the reach of the network including:

- new Oscar trains for outer suburban areas, which frees up more trains to service other parts of the network
- building six car trains up to eight car trains on more services
- timetable changes in October 2009, resulting in additional seat capacity
- the new Epping to Chatswood line joining the Northern and North Shore lines, introduced in October 2009.

The above initiatives have collectively provided an additional 8,000 seats during peak periods.

Procurement System

I recommend RailCorp continue to resolve the underlying issues associated with its new procurement system to ensure it operates effectively and that suppliers are paid on a timely basis.

During 2009, RailCorp implemented a new \$35.1 million procurement system. This system is intended to standardise and enhance the processing of transactions with suppliers and to reduce the risk of fraud.

During the five month period between the go live date and 30 June 2010, over \$100 million in supplier payments were late. This resulted in a 12.0 per cent deterioration in on-time payment performance, from 74.0 per cent in the first half of 2009-10 to 62.0 per cent in the latter half of 2009-10. Furthermore, during this same five month period, over \$4.0 million in duplicate payments were made to suppliers. The majority of this balance has been recovered.

Prior to the launch of this new procurement system, management had identified a number of system defects. The system went live despite these defects as procedures were in place to minimise their impact to the business. Permanent solutions were being developed at the time of go live to address these defects.

Within the first week of 'go live', further procurement processing defects were identified. The most significant related to integration issues between the general ledger and the procurement system. This, along with other business implementation issues, resulted in a high volume of invoices being mismatched, which in turn delayed the timeliness of supplier payments. The rate of mismatched invoices to purchase orders was as high as 70.0 per cent during the launch of the system and was still as high as 20.0 per cent at June 2010.

Management has advised action is being taken to resolve the procurement system issues as a priority. Additional staff have been assigned to this project to help rectify all existing system issues and clear the backlog of supplier payments. As a result, the volume of invoices being processed have returned to historical levels and the volume of overdue supplier payments is reducing steadily.

To date, over \$0.4 million in staff overtime costs have been incurred as a direct result of dealing with these procurement system issues.

MyZone Fares

In April 2010, Transport NSW, in conjunction with RailCorp, implemented the new MyZone ticketing system. This resulted in a simplified fare structure for the greater Sydney area.

MyZone reduced CityRail fare bands from twenty to five. MyMulti tickets were introduced across three new rail zones, and CityRail ticket fares and products were standardised. MyZone fares are the same or lower than fares previously in place for over 97.0 per cent of CityRail tickets.

The Independent Pricing and Regulatory Tribunal (IPART) Order 1998 was amended on 1 April 2010 to implement a limited range of MyZone fares. The relevant fares (approximately three per cent of ticket volume) were higher than those previously determined by IPART for the equivalent CityRail products.

RailCorp advised the introduction of MyZone fares reduced ticket sales during the last quarter of 2009-10 by approximately \$9.2 million, before any increase in patronage due to the lower prices.

Cost of Vandalism

RailCorp is spending an increasing amount on the removal and repair of malicious damage, including graffiti, on RailCorp premises, such as trains and stations.

	Trend	2010	2009	2008	2007
Cost of vandalism (\$ million)	↑	55	48	35	23

Source: RailCorp (unaudited).

In 2009-10, RailCorp spent \$55.0 million as part of a new program under the Customer Charter to address previous backlogs of repair and removal of vandalism and graffiti. The amount spent in 2008-09 included a major window replacement program.

Other measures RailCorp has implemented to manage vandalism include:

- deployment of plain-clothed transit officers to graffiti-hotspots
- working closely with NSW Police through the Rail Vandalism Task Force (RVTF) to gather intelligence concerning the activities of vandals
- employment of cleaning staff roving on trains and located at maintenance centres so trains can be returned to service as quickly as possible.

Independent Commission Against Corruption Investigation - Operation Monto

I recommend the Chief Executive ensures the scope, terms of reference, timing and performance of the independent review by an external reviewer RailCorp has engaged, will provide sufficient assurance the ICAC's recommendations have been fully implemented.

From Operation Monto (November 2008), the ICAC made 40 recommendations, which focused on improving deficiencies in procurement processes, management, policies and procedures, and executive and board oversight.

RailCorp advises it has fully implemented 37 recommendations and has started implementing the remaining three, which it expects to have completed by March 2011. RailCorp's status in implementing the 40 recommendations at 30 September 2010 is shown below.

Focus of Recommendations	Number of Recommendations made	Implementation Status	
		Fully Implemented	Partly Implemented
1. Deficiencies in Procurement Processes	15	14	1
2. Management Deficiencies	11	10	1
3. Deficiencies in Policies and Procedures	9	9	0
4. Deficiencies in Executive and Board Oversight	5	4	1

Source: RailCorp (unaudited).

In 2010, RailCorp appointed an external firm to independently review RailCorp's progress reports, provided to the ICAC, to confirm they accurately reflect progress made in closing out ICAC's recommendations.

As an external independent reviewer has been engaged to review the implementation of these recommendations, I do not intend to proceed with what would be an equivalent review.

Independent Commission Against Corruption Investigation - Operation Chaucer

In September 2009, the ICAC completed Operation Chaucer, which investigated the alleged corrupt conduct of a RailCorp contractor. The investigation found that in return for a plan to solicit \$200,000 in corrupt payments over four years, the contractor improperly arranged for a contract to be awarded to a company for security guard auditing services.

The investigation identified inadequately trained staff as the major risk area that allowed the corrupt conduct to occur. The ICAC made five recommendations to help RailCorp address the systemic causes of corruption. The recommendations mainly focus on:

- procurement training for staff
- establishing access for tender evaluation committees to obtain advice on whether proper procedures are being followed
- implement a system of randomly auditing procurement approvals
- review the effectiveness of RailCorp's new procurement system.

RailCorp advised three of the recommendations have been implemented and two have been partly implemented. The final recommendations are expected to be fully implemented by March 2012.

For more information on the above reports, refer to www.icac.nsw.gov.au.

RailCorp has conducted Fraud and Corruption Prevention training throughout the organisation. At 31 October 2010, a total 16,960 managers, employees, contractors and consultants had participated in this training through attendance at either employee briefings or targeted workshops. RailCorp was recognised for this work and won a State Transport & Logistics Industry Excellence Award in the Professional Development category for its outstanding work in the entity wide roll out of training in Fraud and Corruption Prevention, Detection and Reporting.

Shortage of Signal Engineers for Testing and Commissioning

RailCorp has implemented initiatives to address the shortage of signal engineers who can test and commission new infrastructure assets, but a shortage still remains. This has led to increased project costs and delays in commissioning projects, such as the Rail Clearways Program.

Over the last 12 months, RailCorp increased its commissioning engineers from 12 to 15 and advised it needs a further 11 commissioning engineers to meet its projected workload. RailCorp advised that 15 staff will cover immediate needs, but it will need to carefully prioritise work until more staff can be recruited.

Apart from recruiting locally and overseas, RailCorp is also exploring options through its Novo Rail Alliance to increase the pool of signalling commissioning expertise. In addition, RailCorp is involved in a range of reforms to train, develop and retain critical electrical and signalling engineers on an ongoing basis, as well as succession planning to identify potential successors and managers.

Rolling Stock Acquisitions and Replacement

Over the last five years, RailCorp has initiated a range of projects to improve and expand its rail fleet. Apart from the acquisition of 74 new Outer Suburban rail cars (Stage 3), all rolling stock acquisitions were late or ran behind schedule. The current acquisition program takes RailCorp as far as 2014. It meets the required capacity for the suburban network on the assumption that patronage demand increases by 1.5 per cent per annum.

	Original Target Date	Forecast Completion Date	Months late	Project Approval* \$m	Forecast Final Cost \$m	Number of cars delivered at 30 June 2010
14 new Hunter Valley rail cars	31/12/2005	10/09/2007 ¹	21	109.0	109.0	14
41 new Outer Suburban rail cars - Stage 1	31/12/2006	31/12/2009 ²	36	171.5	171.5	41
81 new Outer Suburban rail cars - Stage 2	30/06/2008	31/12/2009 ²	18	279.0	279.0 ³	81
74 new Outer Suburban rail cars - Stage 3	30/06/2012	30/06/2012	--	370.0	370.0	--
626 new carriages via Public Private Partnership	05/09/2013	30/06/2014	10	-- ⁴	-- ⁴	--

¹ Interim Practical Completion. Practical completion on all 7 sets was completed on 22 January 2010.

² Interim Practical Completion of remaining 2 cars. Practical completion of all 122 Stage 1 and Stage 2 Outer Suburban cars was achieved on 31 March 2010.

³ Increase also related to Stage 1.

⁴ See comments below on PPP.

*This reflects the most recent project approval costs. It does not represent the original budget costs.

Source: RailCorp (unaudited).

Hunter Valley Rail Cars

All 14 cars had commenced passenger services by September 2007. RailCorp advised that the project is largely complete, achieving practical completion on 22 January 2010.

Outer Suburban Rail Cars - Stage 1 and Stage 2

The last remaining spare Outer Suburban rail car was delivered on 17 December 2009. RailCorp advised that manufacturing and testing delays experienced by the contractor were the main reasons for the forecast completion date being 36 months behind the original scheduled date. All 41 cars achieved practical completion on 31 March 2010.

Eighty Stage 2 Outer Suburban rail cars had commenced passenger services by June 2009. The last remaining spare car was delivered on 17 December 2009. RailCorp reports that manufacturing and testing delays experienced by the contractor were the main reasons for the forecast completion date being 18 months behind the original scheduled date. All 81 cars achieved practical completion on 31 March 2010.

Outer Suburban Rail Cars - Stage 3

In March 2009, RailCorp signed a contract for the manufacture of another 72 new Outer Suburban cars at a total cost of \$370 million, including works for associated stabling facilities. RailCorp advised the project is proceeding to schedule and on budget. Practical completion should be achieved by June 2012.

During the course of the year, RailCorp ordered an additional two Outer Suburban cars, within the \$370 million budget. RailCorp advised the first four-car set achieved practical completion on 24 September 2010, five weeks ahead of schedule. The stabling works at Eveleigh were completed on schedule on 30 September 2010.

Acquisition of 626 new cars via Public Private Partnership

RailCorp entered into the Rolling Stock Public Private Partnership contract with Reliance Rail on 7 December 2006 to:

- finance, design, manufacture and commission 626 new double deck cars
- finance, design, construct, manufacture and commission a new maintenance facility for these trains in Auburn
- build new train simulators for training of RailCorp drivers and guards
- ensure 72 eight car trains are available for service every day over a period of about 30 years
- maintain the new trains, the maintenance facility and train simulators, to meet specified contractual performance standards, throughout their operational periods.

The 626 new cars will be progressively introduced into service after December 2010 and by April 2011, with all cars expected to be in operation by June 2014, seven to ten months late. Initially these new cars will operate on selected corridors, which have had their electrical infrastructure upgraded. Refer to the section 'Electrical Infrastructure' appearing later in this comment for more information.

Reliance Rail is investigating a faster manufacturing delivery rate to overcome the current seven to ten month delay. However, RailCorp advised it will not agree to a faster delivery rate until Reliance Rail can demonstrate it can deliver trains at a faster rate, without compromising safety and reliability testing.

No milestone payments were made to Reliance Rail in 2009-10. Milestone payments to date total \$31.0 million.

Total payments by RailCorp to Reliance Rail, including finance costs, over the period of the contracts are estimated to be \$9.7 billion in nominal dollars. The latest cost estimate is within the original approved budget. Estimated total cost over the term of the project, including contract costs, risks not transferred to the private sector, and ancillary RailCorp costs required for the delivery of the project, was \$3.6 billion (net present costs) at 30 June 2006. RailCorp advised that aside from shifts in cash flows to later in the project, there is no net change to the overall project budgeted cost.

RailCorp provides quarterly reports to the Minister for Transport, Transport NSW, The Treasury and Cabinet on the progress of this project, including Reliance Rail's deliverables and RailCorp's commitments against the planned program, budget and proposed material variations.

Capacity to meet future needs

There is a ten year funding guarantee associated with the Metropolitan Transport Plan for additional rolling stock to be procured for South West Rail Line and Western Express services.

RailCorp advised the additional rolling stock broadly meets expected demand over the ten year period, but there may be crowding issues before delivery of the Western Express rolling stock. There are also risks associated with potential demand growth exceeding 1.5 per cent, network-wide or in particular sectors.

Customer Service Improvement Program

RailCorp continues to implement customer service improvement recommendations made by the Boston Consulting Group. These improvements are embedded in RailCorp's 'Everyday Service Essentials Program'. Since commencement of the program and release of the Customer Charter, RailCorp advised it has seen continued improvement in customer satisfaction. At June 2010, RailCorp had implemented 24 of the 30 recommendations and anticipates implementing the remaining six initiatives by 2012-13.

CityRail's Customer Charter

In December 2008, the Minister for Transport launched CityRail's first Customer Charter. The Charter outlines specific goals for improving customer service over the next three years, along with short term benefits expected to be achieved over the next 12 months.

The Customer Charter aims to improve the quality and consistency of CityRail's day-to-day service in customers' basic needs. In 2010, the new charter included an additional service area called 'Accessible Services and Facilities'. The eight areas of customers' basic needs are:

- on-time trains
- manage crowding
- fast, accurate, useful information
- secure and safe travel
- clean trains and stations
- fast ticket sales
- quick and fair complaint handling
- accessible service and facilities.

RailCorp advised it has successfully delivered all 20 commitments in the 2009 Customer Charter. Delivery of the commitments in the 2010 Customer Charter is progressing as planned, with 11 out of 25 commitments delivered at 30 June 2010. The remaining commitments are due for delivery before 31 December 2010. Some of the commitments delivered during the year include:

- increasing the frequency of the Olympic Park to Lidcombe service from every 20 minutes to every 10 minutes in peak periods
- introducing 24-hour automatic passenger information screens and announcements on seven additional stations
- installing 10 new EFTPOS only touch screen ticket vending machines across the network
- introducing paper recycling to 100 stations across the network
- extending the expiry date of weekly tickets over public holiday weekends to reduce ticket queues on Tuesday mornings.

RailCorp was awarded the National Customer Charter award recently in the Australian Service Excellence Awards. CityRail's Customer Charter was recognised by Australia's peak customer service association and the criteria used to judge the awards are based on International Customer Service Standards.

For more information on this program, refer to www.cityrail.info/about/customer_charter.

New timetable

A new CityRail timetable was introduced on 10 October 2010, which RailCorp advises has delivered faster, more frequent services on the Eastern Suburbs and Illawarra lines, as well as service improvements on the South Coast line.

RailCorp advised the new timetable has provided benefits for customers including:

- additional peak, off peak and weekend services between Cronulla and Kirrawee travelling to or from the City
- additional evening peak services to Cronulla, Waterfall and Hurstville
- additional weekend services between Cronulla and Bondi Junction as well as Glenfield and the City via Granville
- increased seating capacity and improved comfort by replacing diesel trains with electric trains between Kiama and Wollongong
- improved weekend journey time for customer travelling between Kiama and Sydney
- extension of the weekend South Coast intercity services through to Bondi Junction, while providing direct access to stations like Town Hall and Bondi Junction, without the need to change trains
- improved late night services from the City to the South Coast.

The new timetable provided 42 additional weekday services and 52 weekend services for customers at stations between Cronulla and Kirrawee. It is designed to take advantage of the increased capacity now available on the Cronulla branch line as a result of RailCorp's recent \$436 million investment in new infrastructure to improve services on the Eastern Suburbs, Illawarra and South Coast Lines.

Overtime

Overtime payments by RailCorp continue to represent a significant employee expense in 2009-10, amounting to \$128 million (\$126 million), 11.3 per cent (12.0 per cent) of base salary and wages expense for the year. On average, RailCorp employees, who were paid overtime, received \$10,352 in payments in 2009-10 (\$10,439). Just over 78.0 per cent (79.7 per cent) of RailCorp's employees received a payment for working overtime during the year.

A total of 413 employees (366 employees) were paid 50 per cent or more of their annual salary in overtime. The table below shows the number of employees who were paid overtime, split by overtime paid as a percentage of annual salary.

Year ended 30 June	2010		2009	
Overtime paid as a percentage of annual salary	Number of employees	Overtime paid \$'000	Number of employees	Overtime paid \$'000
90 - 100	--	--	4	232
80 - 89	11	454	5	258
70 - 79	23	909	27	1,053
60 - 69	95	3,555	89	3,249
50 - 59	284	8,972	241	7,739
40 - 49	713	18,349	651	16,755
30 - 39	1,268	25,418	1,394	27,040
20 - 29	2,325	32,504	2,398	33,159
10 - 19	3,136	26,480	3,114	26,391
>0 - 9	4,471	10,961	4,159	10,251
Nil overtime	3,431	--	3,078	--
Total	15,757*	127,602**	15,160*	126,127**

* Number of employees includes all staff who received payments processed through the payroll system during the year. It does not represent the RailCorp headcount at 30 June.

** Overtime paid represents the total overtime paid to employees during the year. It does not equal the overtime expense recorded in the financial statements due to the effects of accrual accounting. The overtime expense per the financial statements was \$130 million in 2010 (\$128 million).

The top 10 overtime earners in 2010, based on overtime paid as a percentage of their annual salary, have been included in the table below. The 2009 comparatives for these same employees are also shown below:

Employee	2010			2009		
	Percentage of Overtime to salary	Annual Salary* \$	Overtime \$	Percentage of Overtime to salary	Annual Salary \$	Overtime \$
A	87.9	41,819	36,748	76.5	41,819	31,970
B	86.1	56,595	48,723	63.3	56,595	35,815
C	84.9	56,595	48,046	30.8	56,595	17,446
D	84.6	41,869	35,434	73.7	41,869	30,889
E	83.8	48,822	40,900	80.0	48,822	39,072
F	82.5	50,561	41,725	77.8	50,561	39,318
G	82.1	56,595	46,468	67.7	56,595	38,336
H	81.5	41,819	34,085	73.4	41,819	30,677
I	81.5	47,595	38,778	54.0	47,595	25,698
J	80.3	55,053	44,214	82.7	55,053	45,529

* No change in annual salary from the prior year. EBA salary increases were not finalised at 30 June 2010.

The highest overtime paid to an employee was \$59,492 in 2009-10 (\$66,847).

Overtime management strategies implemented by RailCorp in 2009-10 have reduced overtime paid as a percentage of base salary and wages expense despite staff numbers and wage rates increasing over this time. However, overtime is still a significant area of controllable expenditure that needs more effective management by RailCorp.

RailCorp has advised the following initiatives were implemented to help achieve further reductions in overtime:

- better control over overtime approval
- greater accountability for budgets
- active management of workers compensation cases
- introduction of new rostering software application to increase efficiency and accountability
- requiring managers to attend training course structured to assist them manage attendance effectively
- improved relief arrangements
- review of rostering procedures
- station staff reform.

PERFORMANCE INFORMATION

Performance Reporting

I recommend RailCorp continues to liaise with benchmarking organisations, to derive industry averages that do not jeopardise the confidentiality of benchmarking participants, so it can publicly report its performance against industry averages.

RailCorp's external performance reporting is primarily against internal targets and measures. Last year, I recommended RailCorp develop a practice of comparing and reporting its performance against national and international benchmarks to help drive efficiency that leads to performance improvements.

I understand, that in 2009-10, RailCorp continued to evaluate its performance against domestic and overseas metro systems through benchmarking organisations, such as the Australasian Railways Association (National) and CoMET/Nova (International). Under current confidentiality agreements held with these organisations, RailCorp advised it cannot publicly report against the benchmarks, unless it obtains permission from the other participating operators to release the data publicly. The strict confidentiality requirements are designed to protect governance and commercial sensitivities of all members. Whilst unable to publicly disclose the results, RailCorp advises that some measures from the benchmarking exercises have been incorporated into its internal performance measures and targets.

Fleet Failures

This year, electric fleet failures impacting on peak period services decreased from an average of 44.6 to 42.0 incidents per month (i.e. on average 2.6 per cent of all carriages will suffer a failure during peak period services per month).

The table below provides an analysis of fleet reported faults for each train type monitored on a 24 hours basis.

Train Type**	No. of Carriages at 30 June 2010	Average Age (Years)	Average Monthly Carriage Reported Faults				
			Trend	Actual 2010	Rate* 2010 %	Rate* 2009 %	Rate* 2008 %
'R, S, L' Sets	496***	33.0	~	93	19	20	19
'K' Sets	160	27.0	↑	30	19	16	16
'V' Sets	224	25.4	↑	81	36	32	31
'C' Sets	56	23.4	↑	18	32	32	29
Tangara - 'T' Sets	393	18.8	~	95	24	23	25
Tangara - 'G' Sets	52	15.4	~	13	24	25	20
Millennium - 'M' Sets	141	6.6	↓	28	20	23	24
OSCAR - 'H' Sets	122	2.2	~	25	21	18	19
Total electric fleet	1,644	23.0	~	382	23	23	23

* Rates are measured as a percentage of total electric fleet.

** See www.cityrail.info for more information.

*** Carriages in revenue service.

na not applicable.

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

Source: RailCorp (unaudited).

In 2009-10, 23.0 per cent of all carriages had a reported fault every month on average on a 24 hour basis. In 2009-10, the train sets 'K', 'V', 'T' and 'H' experienced more reported faults than the previous year.

At 30 September 2010, 84.0 per cent (84.0 per cent) of RailCorp's electric fleet was more than ten years old, 63.0 per cent (63.0 per cent) more than 20 years old, and 31.0 per cent (31.0 per cent) more than 30 years old. Typically, new trains will experience teething problems that impact reliability, for the first few years of operation. This is usually followed by long periods of relative stability with much higher levels of reliability, which decline during the final phase of the train's life, as levels of reliability progressively fall.

To reduce fleet failure rate in the shorter term, RailCorp is continuing its fleet reliability program, which includes replacing door motors and other initiatives, mentioned later in this comment. In the longer term, RailCorp is continuing its rolling stock replacement program.

Fleet Maintenance

Maintenance expenditure on the electric fleet during the year exceeded the budget of \$282 million by \$23.2 million, while expenditure on the diesel fleet was \$3.5 million below the budget of \$65.4 million.

Fleet type	2010			2009		
	Actual \$m	Budget \$m	Variance \$m	Actual \$m	Budget \$m	Variance \$m
Electric Fleet	305.2	282.0	23.2	260.4	246.8	13.6
Diesel Fleet	61.9	65.4	(3.5)	59.5	55.6	3.9

The electric fleet maintenance expenditure was over budget mainly due to the performance of additional customer service tasks, such as vestibule painting and glass replacement. At present, RailCorp does not have data which splits maintenance costs by train set type. However, RailCorp advised that through its maintenance reform program, it will establish standard maintenance times for all inspections and associated work orders, and have maintenance costing data by individual car from December 2011.

At 30 June 2010, 15 cars' (63 cars') scheduled component change-outs were overdue, 48 less than the previous year. On average, the 15 cars are overdue by 48 days, with the longest overdue period being 123 days. RailCorp advised the backlog of component change-out does not affect the safety and reliability of the fleet and it believes it will clear the backlog before the target date of March 2011. The cost of backlog fleet maintenance is around \$4.5 million (\$18.9 million).

RailCorp advised about 23.0 per cent (24.0 per cent) of incidents causing delays in peak periods are attributable to train failures. RailCorp implemented the following initiatives to reduce failures:

- the Six Sigma program to improve the operation of Tangara passenger doors, Double Deck Suburban traction motors and Intercity (V Set) doors
- the replacement program for Tangara passenger doors
- projects to modify or change brake levers (now 100 per cent complete)
- projects to replace Train Radio Handsets and PA reliability (now complete).

Infrastructure Assets Maintenance

RailCorp advised the safety and reliability performance of its infrastructure has improved significantly over recent years. This is reflected by a downward trend in the average number of monthly peak incidents attributable to infrastructure from 26.3 in 2005-06 to 18.2 in 2009-10. The average number of delays per month also decreased from 195 in 2005-06 to 96.8 in 2009-10.

Year ended 30 June	Trend	2010	2009	2008	2007	2006
Number of incidents (Monthly Average)	↓	18.2	19.2	22.8	24.6	26.3
Number of delays (Monthly Average)	--	96.8	87.7	136.3	152.5	194.6

Key: ↓ Trend downwards, - No trend.

Source: RailCorp (unaudited).

RailCorp advised that around 18.2 per cent (19.2 per cent) of incidents causing delays in peak period are due to infrastructure failures, of which 57.0 per cent (58.0 per cent) of these are signalling failures.

The 'Financial Gap' indicator is the difference between the actual funding level on the assets and the estimated 'steady state' funding level. RailCorp advised the estimated financial gap for infrastructure assets at 30 June 2010 was \$27.0 million (\$29.5 million), and that, subject to funding, it will progressively eliminate this gap. Furthermore, the maintenance backlog will also reduce through renewal activities planned as part of RailCorp's capital works program.

Reliability Indicators

CityRail's on-time running performance during the year exceeded the target of 92.0 per cent, with a record 95.9 per cent of peak services arriving at their destination on-time.

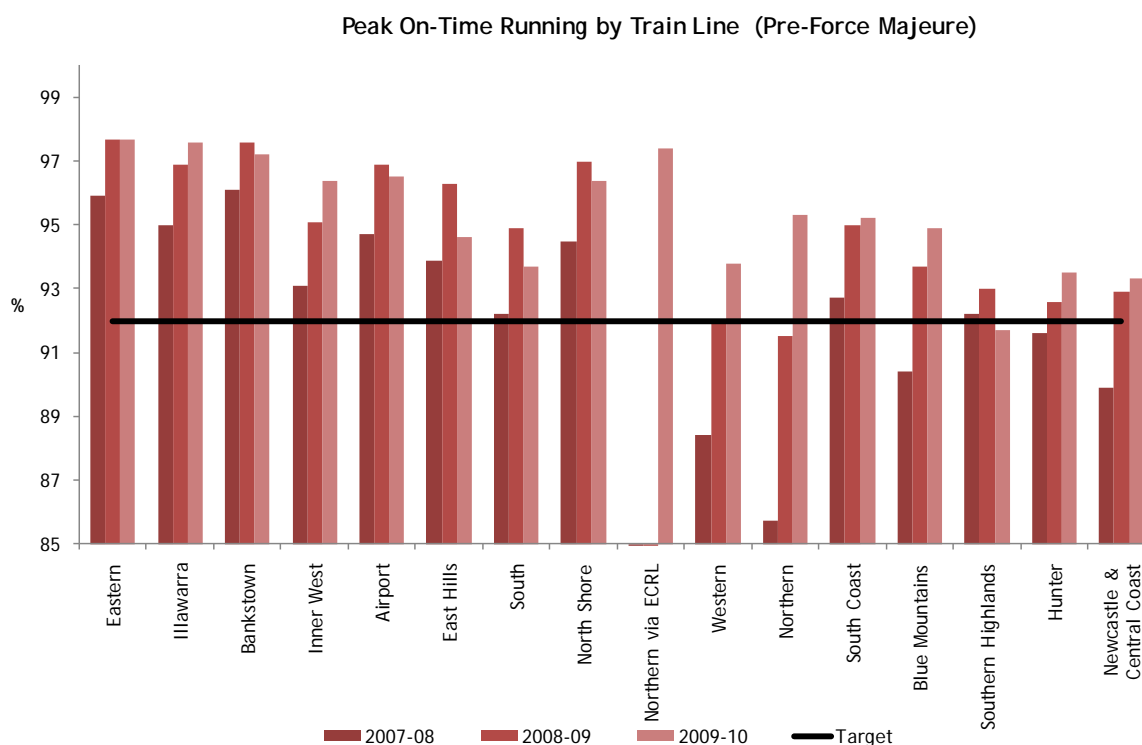
While CountryLink on-time running performance has improved significantly since 2007-08, it did not meet the target of 78.0 per cent. The last time CountryLink met its on-time running performance target was during 2002-03, when 79.3 per cent of services ran on-time. External factors beyond its control and outside the RailCorp network include track possessions by the Australian Rail Track Corporation (ARTC), speed restrictions and natural disasters such as bush fires and floods.

Year Ended 30 June	Target	Actual*		
	2010	2010	2009	2008
Percentage On-time Running				
CityRail - suburban	92.0	96.1	95.6	93.0
CityRail - intercity	92.0	94.3	93.7	90.8
CityRail - total	92.0	95.9	95.4	92.7
CountryLink	78.0	74.7	76.6	70.5

* Before adjustment for force majeure.

Source: RailCorp (unaudited).

All lines on the CityRail network met or exceeded the target of 92.0 per cent, with the exception of the Southern Highlands line which achieved 91.7 per cent on time running. A majority of lines improved on-time running performance this year. The on-time running by line over the last three years is shown in the table below.



Source: RailCorp (unaudited).

Factors affecting on-time running performance include bad weather, mechanical and electrical failures (such as door, signal, track, overhead wiring and points, and power failures), vandalism and anti-social behaviour, staff related issues, passenger and freight incidents, crowding in the centre carriages, and station dwell times.

Peak on-time running for CityRail services is measured as a percentage of timetabled peak train services reaching their destinations within five minutes of scheduled arrival time for suburban services, and six minutes for intercity services. For CountryLink services, the measure for on-time running is within ten minutes of scheduled arrival time.

Force majeure refers to incidents that are beyond the control of either CityRail or customers. They come into effect when a single external event impacts on ten or more peak services, including those service which do not reach their final destination, for example cancelled services.

Causes for cancellations of peak services are similar to those for on-time running. Trains may skip one or more scheduled stations to support on-time running. The target for cancellation of peak services and skipped stops has been reduced from one per cent to 0.5 per cent from 1 January 2010. Performance indicators in 2009-10 for both cancellation of peak services and skipped stops were 0.3 per cent, which compare favourably to the target.

Safety Performance

RailCorp's key safety performance indicator, the Safety Incident Index, has trended favourably for most of the last 12 months. Within this measure there were 49 (63) defined safety incidents in 2009-10. RailCorp has implemented a number of initiatives to reduce the number of incidents.

Year Ended 30 June	Target*	Actual		
	2010	2010	2009	2008
Safety Incident Index (total number of defined safety incidents per million passenger journeys) based on 12 month rolling average	0.181	0.162	0.207	0.159

* This is the progressive target based on the target of 0.175 for 2010-11.
Source: RailCorp (unaudited).

Capital Expenditure Program

Asset replacement and provision for growth through its capital expenditure program is a key focus for RailCorp in improving its safety and reliability performance. Total expenditure of \$1,043 million was 42.0 per cent higher than 2008-09, reflecting improved program and project management. Capital expenditure was 7.6 per cent below budget largely due to delays in some key projects and the timing of required expenditure. RailCorp's capital spend for the year is shown in the table below.

Year ended 30 June	2010		
	Actual \$m	Budget* \$m	Below/(Over) \$m
Rail Clearways project	388.1	350.0	(38.1)
Waratah rolling stock - enabling and ancillary works	84.2	117.3	33.1
Traction supply upgrade	60.4	71.0	10.6
Easy access	26.3	27.9	1.6
South Sydney Freight Line	10.1	15.0	4.9
Digital train radio	21.7	28.5	6.8
Business Finance Improvement	8.9	13.5	4.6
Critical and vital infrastructure	12.0	15.2	3.2
Operational critical data network	12.1	11.6	(0.5)
Stations commuter car parking	16.2	23.1	6.9
Heritage	10.4	10.6	0.2
Outer Suburban cars Stages 1 & 2	10.4	10.2	(0.2)
Outer Suburban cars Stage 3	125.2	125.0	(0.2)
All other capital projects	256.6	309.3	52.7
Total Capital Expenditure	1,042.6	1,128.2	85.6
Capitalised maintenance works	209.9	160.0	(49.9)
PPP lease - Auburn Maintenance facility	219.3	219.3	--
Total Capital Investment	1,471.8	1,507.5	35.7

* Revised budget.

Source: RailCorp (unaudited).

RailCorp advised additional works was the main reason for spending \$38.1 million more than budget on the Rail Clearways project. The additional works were carried out on the Kingsgrove-Revesby amplification, Quakers Hill-Schofields duplication and Homebush Turnback. The Transport Infrastructure Development Corporation, now known as the Transport Construction Authority, is responsible for delivering this project. Further information on the Rail Clearways Program can be found later in this comment.

The Waratah rolling stock - enabling and ancillary works were \$33.1 million below budget. The underspend in 2009-10 is attributable to milestone payment claims not being made during the year, a slower ramp up in project management cost, information technology costs and enabling works expenditure.

Deferred lead time in equipment expenditure, delays in awarding contracts and lack of resources (mainly design) in various substation projects was the main reason for the traction supply upgrade being \$10.6 million below budget for the year. The lower than budgeted spend on the Digital Train Radio was largely due to substantial changes in terms and conditions of scheduled payments.

The \$52.7 million underspend on 'All other capital projects' relates to a large range of projects. Major underspends include \$23.2 million on Business Communication and Technology Upgrades; \$14.2 million on Station Precinct upgrades; and \$13.5 million on non-operational assets.

Customer Feedback

The total number of complaints made in 2009-10 increased by 23.9 per cent or 5,084 to 26,318. The table below shows that complaints about cleanliness, security, internal matters and claims related complaints fell in 2009-10. All other complaints by KPI increased in 2009-10. Compliments increased by 12.7 per cent on the prior year.

Complaints by KPI	2010	2009 ¹	Favourable/ (Unfavourable)	Favourable/ (Unfavourable) (%)
Service	4,205	3,212	(993)	(30.9)
Staff	3,676	3,459	(217)	(6.3)
On-time running	2,959	2,501	(458)	(18.3)
Ticketing	2,847	2,211	(636)	(28.8)
Information	2,330	1,549	(781)	(50.4)
Timetable	2,153	551	(1,602)	(290.7)
Facilities	1,819	1,756	(63)	(3.6)
Environment	1,759	1,278	(481)	(37.6)
Cleanliness	1,440	1,580	140	8.9
Security	1,376	1,428	52	3.6
Safety	1,194	1,076	(118)	(11.0)
Internal matters	426	439	13	3.0
Claim	134	194	60	30.9
Total Complaints	26,318	21,234	(5,084)	(23.9)
Total Compliments	2,449	2,173	276	12.7

¹Data has been reclassified due to improvements in the categorisation of complaints by KPI.

Source: RailCorp (unaudited).

Complaints about service replaced complaints about staff as the major area of complaint, representing 16.0 per cent of all complaints during 2009-10. Service complaints relate to comfort and convenience of trains and stations, which include levels of crowding and lack of air conditioning. The increase in service complaints primarily related to temperature levels on train services. RailCorp advised the progressive replacement of non-air conditioned rolling stock will reduce this complaint.

Timetable complaints increased significantly, by 290.7 per cent to 2,153 (551) complaints. RailCorp advised the increase is largely due to feedback received from customers who were consulted on the proposed 2009 timetable, as well as complaints about the timetable, following its introduction. An increase in customer complaints was anticipated as the new timetable changed some customers' established travel patterns.

As part of the Customer Charter - 'quick and fair complaints handling', RailCorp has set itself a target of resolving phone and email customer complaints within five working days. For 2009-10, 91.8 per cent of all feedback lodged via web channels were resolved and closed within the target of five working days, while 96.6 per cent of feedback lodged by phone was resolved and closed within the specified period.

RailCorp has introduced a 'meet the manager' program across the network. The events provide customers with an opportunity to directly discuss their issues and feedback with management.

OTHER INFORMATION

Property Leases

At 30 June 2010, RailCorp was the landlord for over 1,000 property leases, of which, 685 (or 68.0 per cent) had expired. About 285 of the expired leases relate to sites being used for either retail, commercial or industrial sites and generate some \$9.4 million of revenue each year. The remaining expired leases relate to sites of low value or limited alternative use. These sites are generally leased to community and government organisations who occupy adjoining properties.

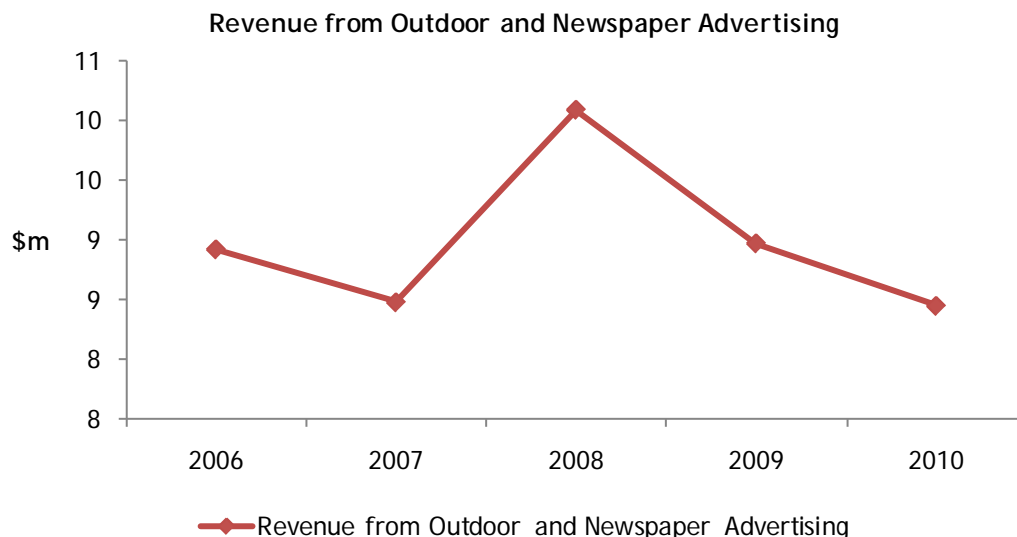
RailCorp engaged its property managing agent to undertake a comprehensive review of its expired leases. The 31 October 2010 review concluded that 102 (15.0 per cent) lease renewals of the total 691 leases (39.0 per cent of the total rental value) had minimal changes made to the existing rents. The review was performed on higher rent leases. The review has not identified instances of tenants being charged below market rates.

RailCorp advised that 378 expired leases of the 589 holdover leases do not require significant lease renewals. A further 85 Telecommunication lease renewals, the rentals for which are influenced by IPART guidelines, will be reviewed and completed by June 2011. The remaining 126 expired leases are being progressively reviewed.

RailCorp advised that whilst some of the leases expired as far back as the 1990's, the leases do contain annual holdover clauses. The holdover clauses include an annual adjustment (usually three per cent) to the rental charge.

Advertising Revenue

RailCorp's advertising revenue consists of the revenue earned from outdoor advertising in the Sydney Metropolitan area and licence for exclusivity in the distribution of the MX newspaper. RailCorp assets used for outdoor advertising include rail billboards, ad shells and painted sign portfolio.



Note: No revenue from Newspaper advertising in 2006 as the newspaper commenced in 2007.
Source: Advertising revenue provided by RailCorp (Unaudited)

Outdoor advertising revenue decreased by 6.0 per cent (11.0 per cent) compared to the prior year to \$8.5 million (\$9.0 million). RailCorp advised advertising revenue decreased mainly due to the removal of some assets from RailCorp corridors, as part of its safety and compliance initiative. RailCorp will coordinate with Transport NSW to improve its advertising strategy and renegotiate the contract to drive increased revenue.

Contractors (Repeat Issue)

I recommend RailCorp improve its contractor register and continue to periodically review the roles and responsibilities of all its contractors to ensure:

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

RailCorp's use of contract staff has decreased from around 690 contractors at 31 October 2009 to around 590 at 30 June 2010. Over 45.0 per cent of the total contractors at 30 June 2010 have been engaged by RailCorp for more than twelve months and four staff have been contracted for more than six years. RailCorp advised it spent \$110 million on contractor staff during 2009-10.

Contractors are employed by RailCorp in a range of business units filling vacant positions, working on projects or completing short term work assignments. While RailCorp implemented a centralised contractor's register in the prior year, the information contained in the register is still not complete. To be effective the register needs to be updated in a timely and consistent manner and be modified to include other important information, such as contractor costs. Management advised the register is continually being updated.

RailCorp records show over 170 contractors cost RailCorp at least \$1,000 each per day. These contractors should be subject to continuing review to ensure they represent value for money.

While the use of contractors has benefits, particularly on projects, extensive reliance on this employment arrangement can result in higher employment costs and less ownership and commitment to organisational goals and objectives.

Station Staff Reform

RailCorp completed its station staff reform program during the year. As a result, the number of established positions on stations has reduced by 161 although actual staff numbers increased by around 140, more than the number employed before the reform. Since the prior year, station overtime hours have reduced by approximately 20.0 per cent. Management has advised there was no loss of employment as a result of staff reviews. At October 2010, 70 displaced employees had yet to be placed.

During 2009-10, the program resulted in savings of approximately \$14.0 million. RailCorp advised it is on target to achieve estimated savings of \$20.0 million per annum.

The station staff reform program was part of the 2008 RailCorp Union Collective Agreement. The program looked at identifying appropriate station staffing levels that would result in a balance between the requirements of safety, customer service and efficiency.

Electrical Infrastructure

The Traction Supply Upgrade (TSU) Waratah Program was initiated to deliver critical electrical infrastructure to support the 626 new, air conditioned, Waratah trains. The Waratah trains, which will replace 496 in service non-air conditioned 'R, S, L' sets, will have significantly better acceleration characteristics, but will require more power to operate effectively. Other reasons for the upgrade include the increasing number of trains with eight car sets, new infrastructure associated with the Clearways program and proposed new timetables to increase capacity.

RailCorp estimates it will need to spend \$870 million over eight years to upgrade its electrical infrastructure assets so it can operate future Waratah services without compromising reliability. Total expenditure to date is \$92.9 million (\$37.2 million).

While RailCorp has identified this upgrade program as high risk because of the short timeframes and resource constraints, it is confident the scheduled introduction of the new Waratah cars will not be affected. If critical upgrades are not completed before the scheduled introduction of the Waratah cars, RailCorp will use strategies to maintain service reliability, which could include revised operating procedures for the Waratah trains and electricity substations.

Commuter Car Parking Program (CCPP)

RailCorp is managing the construction of three commuter car parks under stage one of the CCPP. The CCPP is made up of 29 commuter car parks, most of which are being delivered by TIDC. The CCPP will deliver around 7,000 new car spaces for rail commuters.

Details of the three car parks RailCorp is managing are listed in the table below.

Location		Original completion date	Current forecast completion date	Original Budget (\$m)	Forecast (\$m)
1	Holsworthy	Dec-09	Dec-09	15.5	13.1
2	Morisset	Dec-09	Aug-10	4.5	4.9
3	Windsor	Jan-10	Mar-10	8.2	6.6
Total budget				28.2	24.6

Source: RailCorp (unaudited).

Holsworthy achieved practical completion within budget and delivery timeframes. Windsor car park experienced minor delays. Completion of Morisset car park was delayed as the original contractor was removed part way through the project, which also increased costs.

Information technology projects

RailCorp's capital works program at 30 June 2010 included several information technology projects. The details of the top ten projects, whose revised budget is at least \$5.0 million, are listed in the table below.

	Original Target Date	Forecast Completion Date	Months Late	Original Budget \$m	Forecast Final Cost \$m	Variation \$m
Ellipse Upgrade	May 2008	June 2010	25	4.9	5.4	0.5
Enterprise Content Management Technology Solution Implementation	April 2009	May 2009	1	4.9	5.7	0.8
Virtual Plan Room - Stage 2&3	April 2010	Dec 2012	20	5.8	7.9	2.1
Central Station Emergency Warning & Preliminary Intercommunications system	June 2011	June 2013	24	8.4	11.3	2.9
Station Passenger Information Rollout	June 2010	June 2012	24	8.7	18.4	9.7
Business Finance Improvement Build and Implementation	April 2011	June 2011	2	9.7	19.4	9.7
Timetable Distribution Management System Stage 2*	Dec 2009	June 2010	4	10.6	9.3	(1.3)
Procurement Transformation	July 2009	Jan 2010	7	20.4	35.1	14.7
Expansion & Support for the Automatic Ticketing Machine 08/09 - 10/11	June 2013	June 2013	--	21.4	27.4	6.0
Common Telemetry Infrastructure Program	Sept 2013	Sept 2013	--	22.7	19.0	(3.7)
Total Major ICT Projects				117.5	158.9	41.4

* This project was terminated in 2009-10.
Source: RailCorp (unaudited).

The cost of the Station Passenger Information Rollout Project increased \$9.7 million above its original budget. This is attributed to an extension in the scope of the project as further stations have been included in the Improvement Rollout process. This has also resulted in a 24 month delay in completing the project.

The Procurement Transformation project has a revised forecast final cost of \$14.7 million above its original budget. A reassessment of the project identified it was more complex and costly than initially budgeted.

An additional \$6.4 million is required for the Expansion and Support for the Automatic Ticketing Machine project. This was implemented pending introduction of the new Electronic Ticketing System and involves replacing 466 electric gate motors to ensure the long term performance and reliability of the ticketing gates.

The Ellipse project was completed in June 2010, 25 months behind schedule, because further work was required to implement the employee self service module within Ellipse and to ensure it met all RailCorp's business requirements.

The Central Station project has been delayed by 24 months. This is primarily due to the increased number of audio zones, which has also resulted in additional costs of \$2.9 million.

The 20 month delay in the virtual plan room is due to RailCorp being unable to negotiate a contract with the preferred tenderer for seven months. The remainder of the delay is attributable to a revised project scope.

Independent Pricing and Regulatory Tribunal (IPART) Review of CityRail's fares

In December 2008, IPART put in place a determination, setting fares for CityRail services for the period 4 January 2009 to 31 December 2012. In December 2009, IPART released a CityRail 'Prices and Services' report which set out fares from 3 January 2010 under the four year determination. An average increase of 4.7 per cent was determined, which was 2.8 per cent lower than last year's fare increase of 7.5 per cent.

In February 2010, the New South Wales Government announced a new fare structure for public transport in the greater Sydney area called MyZone. As a result, on 1 April 2010, the New South Wales Government amended the IPART (Passenger Train Services) Order 1998 to implement a limited range of MyZone fares that might otherwise be subject to an IPART pricing determination.

The amended Order has temporary effect and removes IPART's responsibility for setting maximum prices for these fares. Under this Order, IPART may not determine these fares before April 2011. Maximum prices for CityRail fares, not specified by the amendment, continue to be regulated by the current IPART determination.

Further information on the price determination can be found at www.ipart.nsw.gov.au.

Rail Clearways Program

The Rail Clearways program will separate the existing 14 metropolitan rail routes into five mainly independent clearways to reduce the sharing of critical infrastructure and train paths. This in turn will improve capacity and reliability on the CityRail network. The program involves 13 key projects (previously 15 key projects before the 2008 Mini Budget) to build additional platforms, turnbacks and train crossing loops. At 30 June 2010, eight Rail Clearways projects had been completed.

The revised Rail Clearways program is expected to be completed by 2015, some five years after the original completion date.

The Government has approved additional expenditure, which increases the previous budget of \$1.89 billion to \$2.02 billion.

For further information on the Rail Clearways Program, refer to the comments on TIDC in this volume.

Epping to Chatswood Rail Line (ECRL)

The ECRL was handed to RailCorp on 19 December 2008 and passenger services commenced on 23 February 2009. At 30 June 2010, the final forecast cost for the ECRL remained unchanged at \$2.3 billion (excluding interest costs on borrowings). It is anticipated that further minor rectifications works, currently underway, will be completed within the final forecast cost.

The ECRL project was fully integrated into the CityRail network following the introduction of the new timetable in October 2009. Its integration has increased the overall network capacity by allowing additional services on the Western line.

ECRL's integration into the network provides a new link to parts of Sydney which were previously not accessible by rail. Recent patronage counts in May 2010 indicate approximately 11,500 passengers use the ECRL stations each day.

For further information on the ECRL, refer to the comments on TIDC in this volume.

Enterprise Agreement 2010

The Rail Corporation New South Wales Union Collective Agreement 2008 expired on 31 March 2010. Negotiations with the Combined Rail Unions for the new RailCorp Enterprise Agreement 2010, which commenced on 11 February 2010, have been completed.

Under the new Agreement employees will receive an initial 4.0 per cent increase, back dated to 1 April 2010, and annual increases of 3.5 per cent each April for the years 2011-2013.

The Agreement will expire on 31 March 2014, but will have effect until the next agreement is finalised.

Workforce Ageing

I recommend RailCorp continue to develop and implement effective policies to manage its ageing workforce.

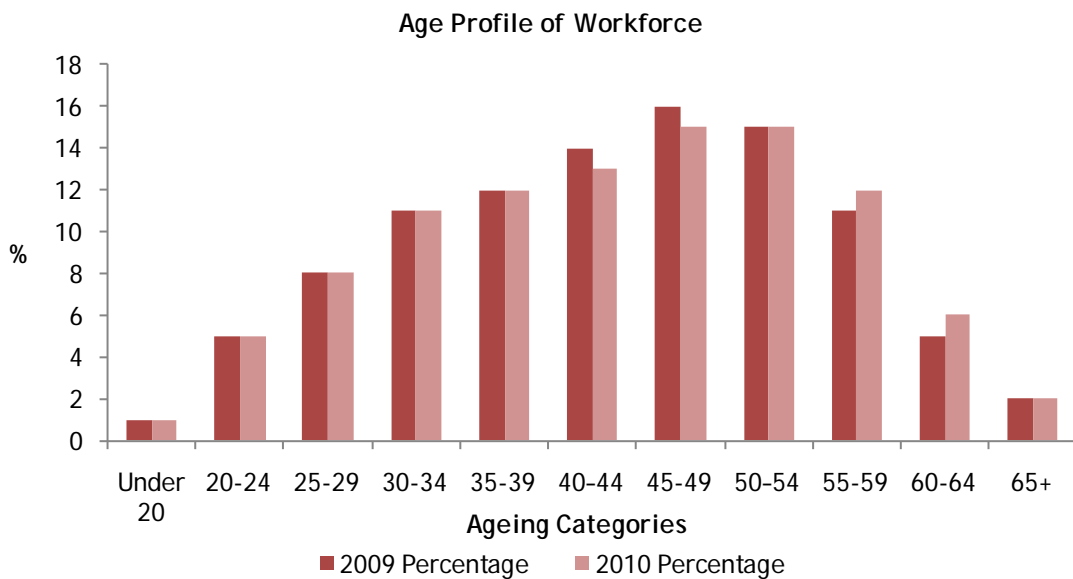
Twenty per cent of RailCorp's employees are over 55 years of age and 35.0 per cent are over 50. This represents a significant proportion of RailCorp employees, who are likely to retire in the next 5 to 15 years, potentially resulting in a significant loss of rail specific knowledge and skills.

The age profile of RailCorp employees is shown below:

At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
Up to 35	3,760	25	3,549	25
35 - 39	1,831	12	1,780	12
40 - 44	2,000	13	1,958	14
45 - 49	2,305	15	2,354	16
50 - 54	2,253	15	2,118	15
55 - 59	1,670	12	1,603	11
60 - 64	864	6	740	5
65+	305	2	278	2
Total	14,988	100	14,380	100

Source: RailCorp (Unaudited).

The graph below further demonstrates the age structure of RailCorp employees.



Source: Information provided by RailCorp (Unaudited).

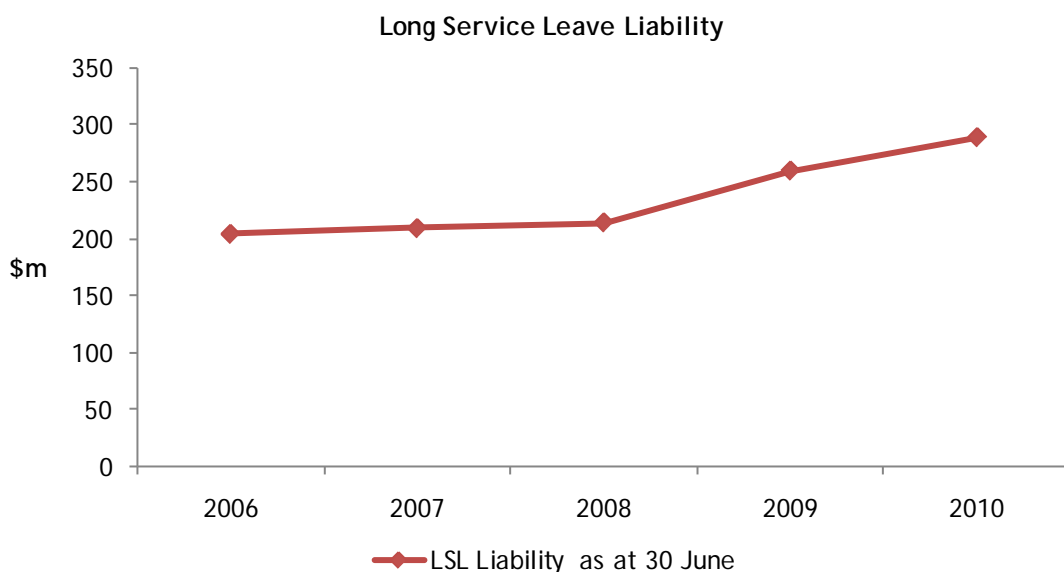
To ensure an adequate supply of staff, including drivers and guards, RailCorp should actively monitor its workforce age profile and have strategies in place to develop, attract and retain staff whose skills are aligned to the strategic direction of the entity.

In response to this risk, RailCorp advised it has implemented the 'Our Future Workforce Program' and the 'Build Knowledge and Skills Program' with the objective of attracting, developing and retaining suitable numbers of people at the right levels with the right operational, technical and soft skills to meet current and future requirements.

Long Service Leave Liability

RailCorp's liability for long service leave entitlements at 30 June 2010 was \$287 million (\$259 million). This liability has increased by 41.0 per cent over the last five years.

The growth in the long service leave entitlement is illustrated in the graph below.



Source: RailCorp Audited Financial Statements.

The increase in liability from 2009 to 2010 is attributed to growth in employee entitlements, the impact of a lower Government bond rate to discount the liability to present value, and an increase in the actuarial assessment of the 'cash-out' rate.

RailCorp advised that all employee entitlements arising since creation of the entity in 2003-04, are fully funded by The Treasury on a cash basis. RailCorp has been discussing the funding of the employee entitlements vested to it from the former State Rail Authority and Rail Infrastructure Corporation in 2003-04 with The Treasury.

RailCorp will need to monitor its future cash flows to ensure it has an adequate plan to fund these liabilities as they emerge. The funding requirements will be compounded as other liabilities arise from the pending retirement of a large proportion of its ageing workforce.

Annual Leave Balances (Repeat Issue)

I recommend RailCorp continue to review the effectiveness of its policies and procedures for managing excessive annual leave balances.

RailCorp continues to experience difficulties reducing excessive annual leave balances. The number of employees with accrued annual leave balances in excess of 40 days (non shift workers) or 50 days (shift workers) has increased from over 930 at 30 June 2009 to over 1,050 at 30 June 2010. This represents 7.0 per cent (6.5 per cent) of all employees. At 30 June 2010, the number of employees with accrued annual leave balances in excess of 100 days has also increased to 16 employees (13 employees).

The results indicate actions taken have not been effective in reducing excessive annual leave balances.

RailCorp advised it introduced new initiatives to help manage excessive annual leave more effectively. A new leave procedure became effective on 1 September 2010 and changes have been proposed to the new Enterprise Agreement requiring employees to reduce excessive annual leave within twelve months. The Human Resources Group is continuing to adopt a more proactive approach to ensure business groups are complying with RailCorp policies and the conditions of the employment award.

Excess leave entitlements can adversely affect an organisation. Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

FINANCIAL INFORMATION

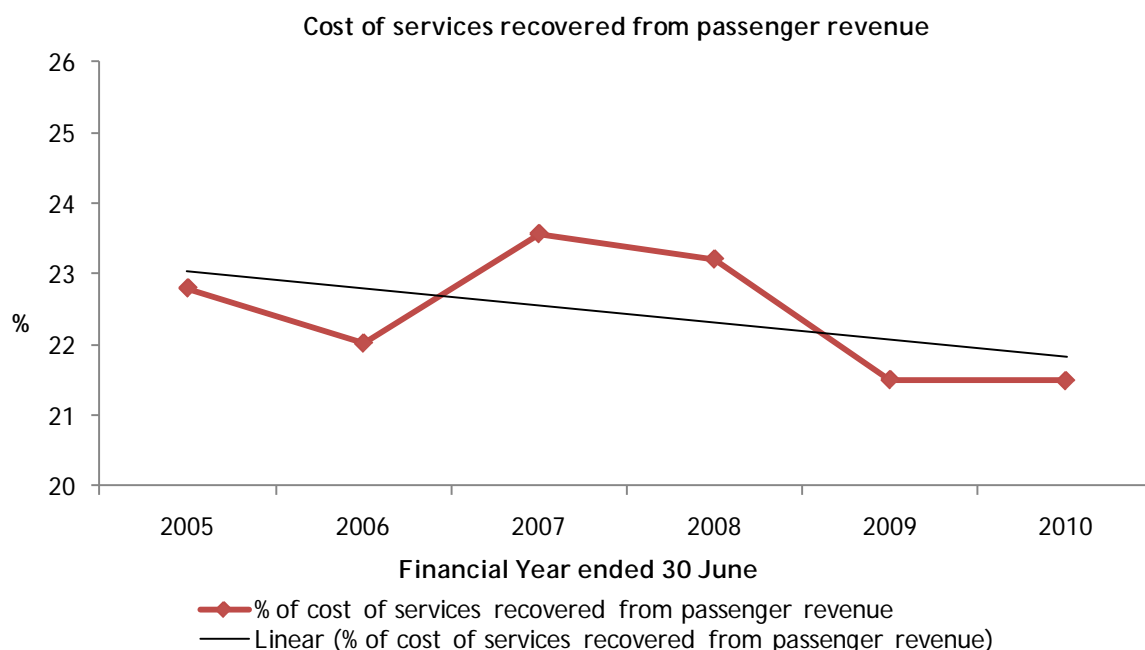
Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Government reimbursement for services and concessions	1,605,406	1,465,905
Capital and other Government contributions	711,170	932,880
Passenger revenue	693,278	660,814
Other revenue	270,747	277,232
TOTAL REVENUE	3,280,601	3,336,831
Employee related	1,377,073	1,308,774
Depreciation	761,386	703,262
Other expenses	1,087,436	1,060,637
TOTAL EXPENSES	3,225,895	3,072,673
SURPLUS	54,706	264,158
OTHER COMPREHENSIVE INCOME:		
Net loss in forward foreign exchange	(1,719)	(10,082)
Net gain/(loss) in commodity swaps	3,265	(11,966)
Revaluation increase/(decrease) of Property Plant and Equipment	(86)	165,627
Superannuation actuarial losses on defined benefit schemes	(89,252)	(278,411)
TOTAL OTHER COMPREHENSIVE EXPENSE	(87,792)	(134,832)
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	(33,086)	129,326

The increase in passenger revenue was due to increased CityRail fares, partly offset by a drop in patronage over the year and the implementation of the MyZone fare structure in April 2010. The average increase in fares effective from 3 January 2010 was 4.7 per cent, whilst the number of passenger journeys on CityRail services decreased by 0.8 per cent from the prior year.

The increase in employee related expenses was mainly due to increases in rates of pay and staff numbers. The increase in depreciation expense was primarily due to RailCorp revaluing its assets as at 30 June 2009 and the first full year of depreciation on the Epping Chatswood Railway Link (ECRL).

In 2009-10, passenger revenue covered approximately 21.0 per cent of the cost of services provided. The cost of services recovered from passenger revenue has declined over the last three years, as shown in the graph below.



Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	187,741	380,234
Non-current assets	19,645,503	18,949,956
TOTAL ASSETS	19,833,244	19,330,190
Current liabilities	1,099,790	889,691
Non-current liabilities	707,100	374,451
TOTAL LIABILITIES	1,806,890	1,264,142
NET ASSETS	18,026,354	18,066,048

The reduction in current assets was largely due to RailCorp using its cash reserves to fund debt based capital programs, thereby deferring borrowings. The increase in non-current assets is largely attributed to asset additions including the Auburn Maintenance Facility.

The increase in non-current liabilities was mainly due to increased provisions, derivative financial instruments and the recognition of a finance lease in relation to Auburn Maintenance facility of \$213 million.

CORPORATION ACTIVITIES

RailCorp became a statutory authority on 1 January 2009 by amendments made to the *Transport Administration Act 1988*. Prior to this, RailCorp was constituted as a State owned corporation under the *State Owned Corporations Act 1989* and the *Transport Administration Act 1988*.

RailCorp provides passenger rail transport to greater Sydney through CityRail and rural passenger services in New South Wales through Countrylink. It is responsible for the safe operation, crewing and maintenance of passenger trains and stations. It owns and maintains the metropolitan rail network and provides access to freight and passenger operators.

For further information on RailCorp, refer to www.railcorp.info.

Rail Infrastructure Corporation

AUDIT OPINION

The audit of the Corporation's financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

KEY ISSUES

For general transport industry information, refer to the 'Transport Services Overview' section earlier in this report.

Transport Restructure

Following amendments to the *Transport Administration Act 1988*, with effect from 1 July 2010, the Corporation was renamed the Country Rail Infrastructure Authority, and changed from a State owned corporation to a statutory body, although its objectives essentially remained the same. The Act also abolished the Corporation's governance board and resulted in it becoming a controlled entity of Transport NSW for consolidation purposes.

I have referred to the former Corporation by its new name, the Country Rail Infrastructure Authority (the Authority), throughout the rest of this report.

Country Regional Network

At present the Australian Rail Track Corporation (ARTC) continues to manage and maintain the country regional network under a 60 year management agreement. This agreement commenced in September 2004.

On 2 October 2009, the Authority sought Expressions of Interest for the management and maintenance of the country regional network. Three proponents were chosen to proceed with a request for proposal on 30 April 2010.

The Authority advised that if it chose to terminate the 60 year management agreement it would not be liable for any penalties. However, it would be liable for disengagement costs. Actual disengagement costs will not be known until ARTC develops a disengagement plan. To date, notice of contract termination has not been provided by the Authority to ARTC, and as such the Authority is currently not liable for any disengagement costs.

The decision to enter into a new arrangement was made by the Government in the 2008-09 Mini Budget to achieve greater efficiencies and increased innovation. The Authority expects to award a contract during 2010-11. The exact date is not yet known and is subject to Government approval to proceed to contract negotiations.

The Authority paid \$177 million to ARTC in 2009-10 to manage and maintain the country regional network (\$185 million in 2008-09).

Gap to Narrabri improvements

During June 2010, the Authority completed the Gap to Narrabri capacity improvements project. The project has resulted in increased track capacity for freight services in the north west of the State.

The Authority and two mining companies executed a project deed in February 2009, which contractually requires the companies to pay for the improvements. The mining companies have also provided bank guarantees to the Authority to minimise the risk of any costs being borne by the Government.

Under the project deed, the mining companies will repay costs incurred over a 15 year period. In return the Authority will provide specified access capacity to the mining companies to enable the transport of coal to the Newcastle port. The payments by the mining companies for access paths will cover the Authority's repayments to New South Wales Treasury Corporation for loans it has taken out to finance the project.

On completion of the project, the Authority had spent \$55.8 million.

OTHER INFORMATION

Major Capital Projects

The Authority spent \$88 million on capital works in 2009-10 (\$125 million). The original and current direct cost estimates and service delivery dates for major capital projects are listed in the table below.

Project	Original Completion Date	Forecast Completion Date	Months late	Original Budget	Forecast Final Cost	Total Costs to 30 June 2010
				\$m	\$m	\$m
Steel resleepering program	June 2010	June 2010	Nil	45.9 ¹	49.1	49.1
Gap to Narrabri improvements	June 2009	June 2010	12	59.4	55.8	55.8
Signalling & train control systems	June 2009	June 2011	24	32.0	30.8	26.7

Source: Country Rail Infrastructure Authority (unaudited).

¹ Additional scope was added to the program as funds became available during 2009-10.

During the year the Authority installed 297,662 sleepers under the annual resleepering program at a cost of \$49.1 million.

The delay in the Gap to Narrabri improvements project is mainly due to a local council requesting a change to the design of a road bridge. As a result the Corporation had to alter the bridge design and tender for its construction. Despite this delay, the rail capacity improvement component of the project was completed and commissioned prior to 30 June 2009.

Whilst final completion of the signalling and train control systems project has been delayed by 24 months, the Authority expects to complete the project within the original budget of \$32.0 million. The bulk of the physical work has been completed and the Authority advises the delay is due to ARTC's contractor requiring more time to develop the required computer software.

Maintenance activities

The table below shows the Authority decreased its maintenance spend to \$129 million in 2009-10 (\$135 million) excluding major capital projects. The Authority still has a significant amount of backlog maintenance. At 30 June 2010, backlog maintenance totalled \$731 million (\$698 million). The 4.7 per cent increase was attributed to better information being available to estimate the cost of bridge replacements.

Year ended 30 June	2010 \$m	2009 \$m
Actual maintenance expenditure*	129.1	134.8
Backlog maintenance:		
- Timber sleepers	504.4	555.0
- Timber under bridges	85.4	86.0
- Timber over bridges	141.0	57.0

Source: Country Rail Infrastructure Authority (unaudited).

* Excludes major capital projects.

The Authority's maintenance spend in 2009-10 was \$5.7 million (or 4.2 per cent) lower than the previous year. The reduction occurred because \$8.4 million of works was carried forward for completion during 2010-11.

Despite the existence of backlog maintenance, the Authority advises the safety of the network is never compromised. It also advises that based on its asset management plan, current funding allocations and appropriate indexation of funding allocations, it should clear the backlog over the next 10-12 years.

As a result of the Authority's maintenance activities and investment in capital works, the condition of the country regional network has marginally improved based on the Authority's track quality measure.

Australian Rail Track Corporation Lease

ARTC has provided the Authority with the 2009-10 Annual Asset Condition Report for the Leased Network. The Authority has reviewed the report and advised that ARTC met all key performance indicators under the lease agreement.

The Leased Network is made up of the Hunter Valley and Interstate network. It was leased to ARTC for a period of 60 years from September 2004.

Career Transition Centre

The Authority continued to maintain responsibility for the management of displaced staff during the year. The staff became displaced following the transition of functions to RailCorp and ARTC. The staff were managed through the Career Transition Centre (CTC).

Since inception of the CTC in September 2004, 640 staff members were permanently redeployed, 2,253 accepted voluntary redundancy and 11 exited for other reasons. Redeployed staff comprise 289 redeployments to other government agencies and 351 transfers to ARTC.

The Authority advised that at 13 November 2009 all displaced staff had been either redeployed or exited the Authority's employment and the CTC was closed.

Workforce Ageing

I recommend the Authority continues to develop and implement effective policies to manage its ageing workforce.

The age profile of staff for the Authority is shown below:

At 30 June Age Group	2010		2009	
	No. of Employees*	%	No. of Employees*	%
Up to 35	1	5	4	9
35 - 39	1	5	4	9
40 - 44	2	10	6	15
45 - 49	5	24	13	30
50 - 54	9	46	13	30
55 - 59	1	5	1	2
60 - 64	1	5	2	5
65+	--	--	--	--
Total	20	100	43	100

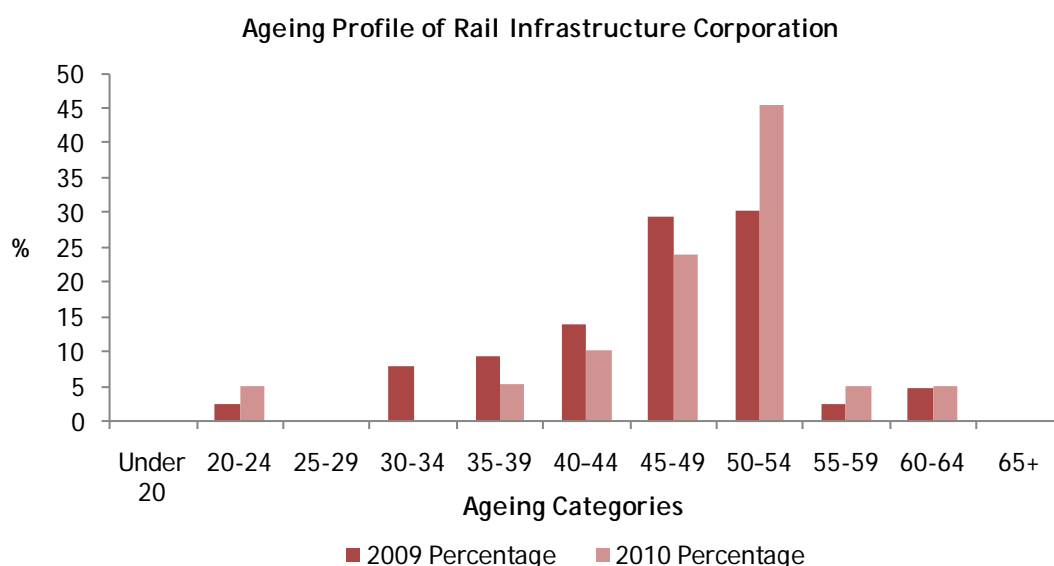
Source: Information provided by the Country Rail Infrastructure Corporation (Unaudited).

* The Authority provided this information based on Full-Time-Equivalent staff at 30 June.

Ten per cent of the Authority's employees at 30 June 2010 (7 per cent at 30 June 2009) were aged 55 years or older and 56 per cent (37 per cent) were over 50. A large number of these employees are likely to retire in the next 5 to 15 years, increasing the risk of a significant loss of knowledge and skills from the Authority.

Management has advised the Authority does not have a strategy to deal with its ageing workforce at this time. Clarity of the Authority's future status from the recent Transport reforms will allow longer term planning to be put in place.

The graph below further demonstrates the age structure of staff.



Source: Information provided by the Authority (Unaudited).

To ensure an adequate supply of frontline staff, the Authority should continue to actively monitor its workforce age profile and have appropriate strategies in place to develop, attract and retain staff whose skills will be required to maintain service delivery standards.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Government contributions	174,987	263,889
Access fees	17,968	16,182
Other revenue	14,746	15,912
OPERATING REVENUE	207,691	295,983
Employee costs	2,808	5,483
Superannuation	12	6,446
Depreciation	133,244	128,324
Maintenance and contractors	97,110	99,071
Tripartite agreement payment	11,487	23,239
Finance costs	3,190	1,882
Other expenses	3,037	22,963
OPERATING EXPENSES	250,888	287,408
SURPLUS/(DEFICIT)	(43,197)	8,575
OTHER COMPREHENSIVE INCOME		
Superannuation actuarial losses	--	(14,557)
Asset revaluation reserve increase	112,189	--
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	112,189	(14,557)
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	68,992	(5,982)

The decrease in government contributions was largely due to the finalisation and demobilisation of the Authority's Career Transition Services Group during 2009.

The reduction in employee costs was due to a reduction in staff. At 30 June 2010, the Authority had 21 employees, a reduction from 44 employees since June 2009. Superannuation has declined due to the Authority's unfunded superannuation liability being assumed by the Crown from 1 July 2009. The decrease in other expenses was largely due to a one-off non-cash adjustment associated with the transfer of the Authority's workers' compensation liabilities in prior year.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	66,554	68,394
Non-current assets	2,200,489	2,133,922
TOTAL ASSETS	2,267,043	2,202,316
Current liabilities	46,798	55,601
Non-current liabilities	57,145	163,666
TOTAL LIABILITIES	103,943	219,267
NET ASSETS	2,163,100	1,983,049

Non-current assets include \$1.9 billion of trackwork and infrastructure assets (mainly the residual country regional network). The increase in non-current assets was primarily due to the Authority revaluing its land at 30 June 2010, which resulted in a \$112 million increase in the value of land.

The decrease in current liabilities was largely due to the Authority settling a number of its legal claims liabilities during 2009-10. The decrease in non-current liabilities was mainly due to the transfer of the Authority's \$111 million defined benefit superannuation liability to the Crown.

AUTHORITY ACTIVITIES

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

State Transit Authority of New South Wales

AUDIT OPINION

The audits of the Authority and its controlled entities' financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

KEY ISSUES

For general transport industry information, refer to the 'Transport Services Overview' section earlier in this Report.

Recent Transport Restructure

On 1 July 2010, the *Transport Administration Amendment Act 2010* established Transport NSW and resulted in the State Transit governance board being abolished.

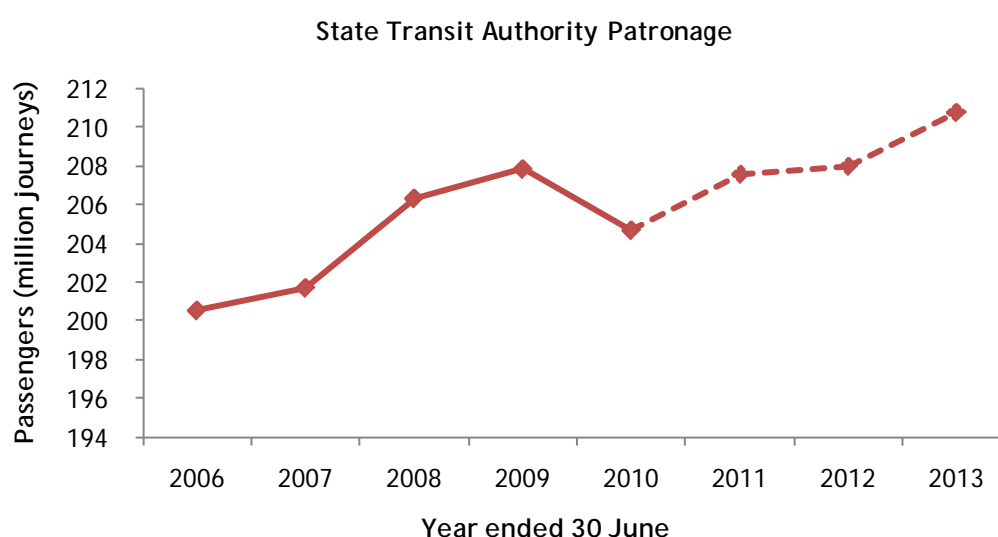
Under this Act, the Chief Executive Officer of State Transit has the authority to manage and control the affairs of State Transit subject to any directions of the Director General of Transport NSW. For the year end 30 June 2011 State Transit became a controlled entity of Transport NSW for consolidation purposes.

For further information on the Transport restructure refer to the 'Transport Services Overview' in this volume.

PERFORMANCE INFORMATION

The Authority provided the following information regarding its performance.

Growth in Patronage and Bus Services

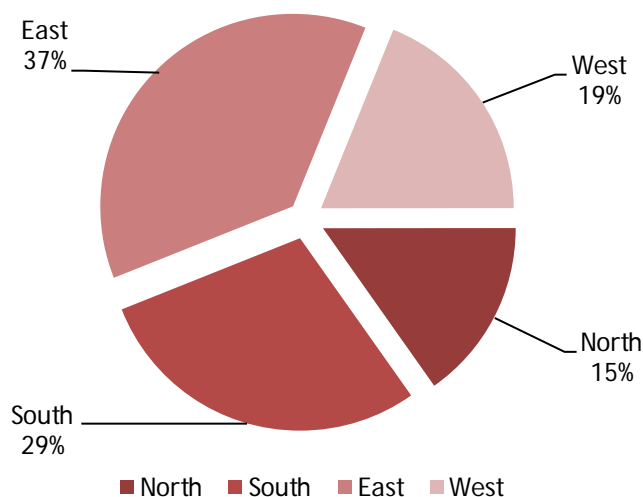


Source: Actual passengers from 2009/10 unaudited State Transit Annual Report. Projections provided by State Transit (unaudited).

State Transit's patronage decreased by 1.5 per cent over the prior year (0.7 per cent increase in 2008-09) to 205 million passenger journeys (208 million). A modal shift to rail resulting from the opening of the Epping-Chatswood rail link in February 2009 and subsequent reduction to bus services in the area accounted for 0.8 per cent of the decrease.

Sydney Buses carried 190 million passengers (193 million), a decrease of 2.9 million passengers over the prior year. Newcastle Buses and Ferry Service patronage remained relatively stable at 12.2 million passengers (12.4 million) and patronage on the Liverpool to Parramatta Transitway was 2.6 million (2.6 million).

Sydney Buses Total Passenger Journeys in 2009-10 by Region



Source: Passenger journey information provided by State Transit (unaudited).

Sydney Buses operates 288 routes in the Sydney Metropolitan area.

In 2009-10, State Transit operated an additional 21,979 services, which is an additional 422 services per week. In October 2009, Sydney Buses rolled out two new Metrobus routes to meet expected demand. The new routes have provided an additional 160,000 passenger spaces per week to Sydney Bus services.

The Authority advised the factors impacting the level of patronage in 2009-10 included the opening of the Epping to Chatswood rail line, a drop in the price of fuel and less tourists visiting Sydney due to the continuing effects of global financial crisis.

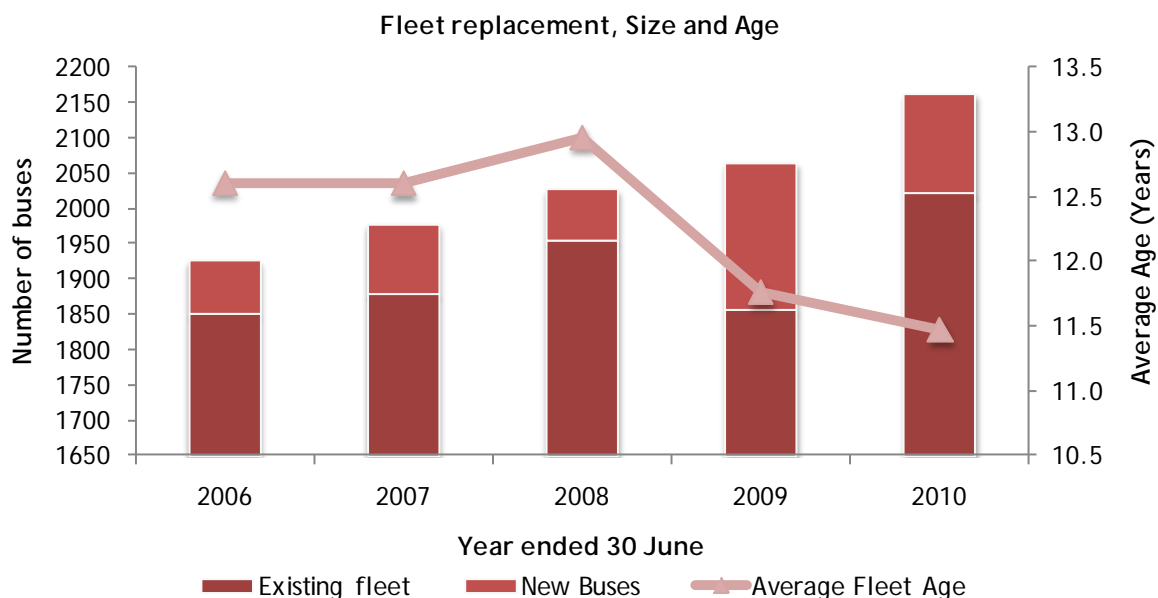
Patronage is expected to increase by an average of two per cent over the next three years. State Transit plans to accommodate this growth by adding additional Metrobus services and expanding its bus fleet.

Kilometres travelled is a measure of the extent of services delivered. During 2009-10, State Transit buses travelled 92 million kilometres. Sydney Buses accounted for a majority of this with all four Sydney metropolitan regions travelling a combined total of 82 million kilometres.

An additional 0.9 million service kilometres provided across the four Sydney Buses regions contributed to approximately \$3.2 million in additional revenue. To resource the increased service levels, 165 new bus drivers were employed to meet the expanded or new services.

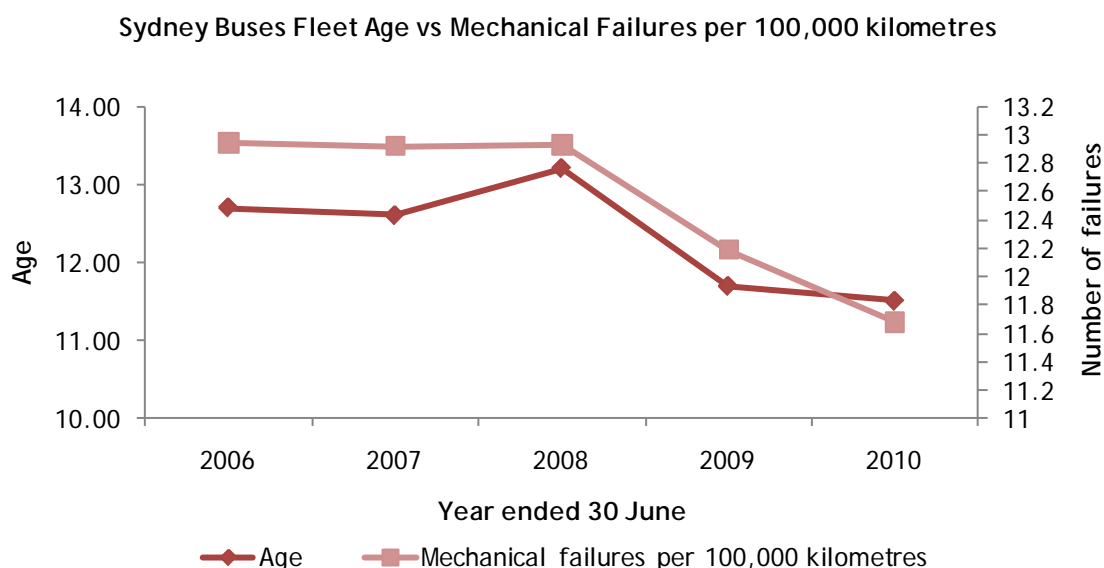
Bus Fleet

At 30 June 2010, the Authority's bus fleet totalled 2,163 buses (2,065). The Authority acquired 142 new buses (210) during the year and 235 new buses are planned for 2010-11. Under the Metropolitan Bus System Contracts, the average age of the fleet is to remain below 12 years. The acquisition of new buses and retirement of older buses during the year resulted in a decline in the average age of the fleet from 11.7 to 11.5 years.



Source: Fleet replacement, size and age data from 2009/10 State Transit Annual Report (unaudited).

As older buses are retired and replaced the incidence of mechanical fleet failures is decreasing.



Source: Fleet age and mechanical failure data from 2009-10 State Transit Annual Report (unaudited).

MyZone Fares

State Transit implemented the new MyZone ticketing system in April 2010.

To support the launch of the MyZone fares, State Transit established an additional 601 ticket resellers during 2009-10, increasing the number of resellers to 1,568. This expansion of the ticket reseller network included private bus operator service areas.

Overtime

Overtime payments in 2009-10 were \$40.4 million (\$42.9 million), 13.6 per cent (15.2 per cent) of base salaries and wages expense. For those employees paid overtime, on average, they received \$8,089 (\$8,656) in overtime payments. Almost 90.0 per cent (90.1 per cent) of employees received a payment for working overtime during the year.

The table below shows the number of employees who were paid overtime, split by overtime paid as a percentage of annual salary.

Year ended 30 June	2010		2009	
Overtime paid as a percentage of annual salary and wages	Number of employees	Overtime paid \$'000	Number of employees	Overtime paid \$'000
90 - 100	--	--	1	42
80 - 89	--	--	--	--
70 - 79	3	105	2	64
60 - 69	10	301	8	216
50 - 59	53	1,266	70	1,693
40 - 49	218	4,213	257	5,014
30 - 39	615	9,125	744	11,110
20 - 29	1,329	14,195	1,403	14,832
10 - 19	1,372	8,965	1,218	7,908
>0 - 9	1,388	2,175	1,255	2,038
Nil overtime	568	--	542	--
Total	5,556	40,346	5,500	42,916

The highest amount of overtime paid to a single employee in 2009-10 was \$41,400 (\$41,659). For thirteen employees, overtime paid was more than 60.0 per cent of their annual salary and wages.

State Transit advises that under its award conditions all work on Sunday is paid as overtime and bus operators work a six day roster. Most of the overtime expenditure reported above relates to payments made for this reason rather than to staff working excess hours. State Transit monitors bus driver hours worked to ensure all bus operators are working within the occupational health and safety guidelines.

Status of Key Transport Projects

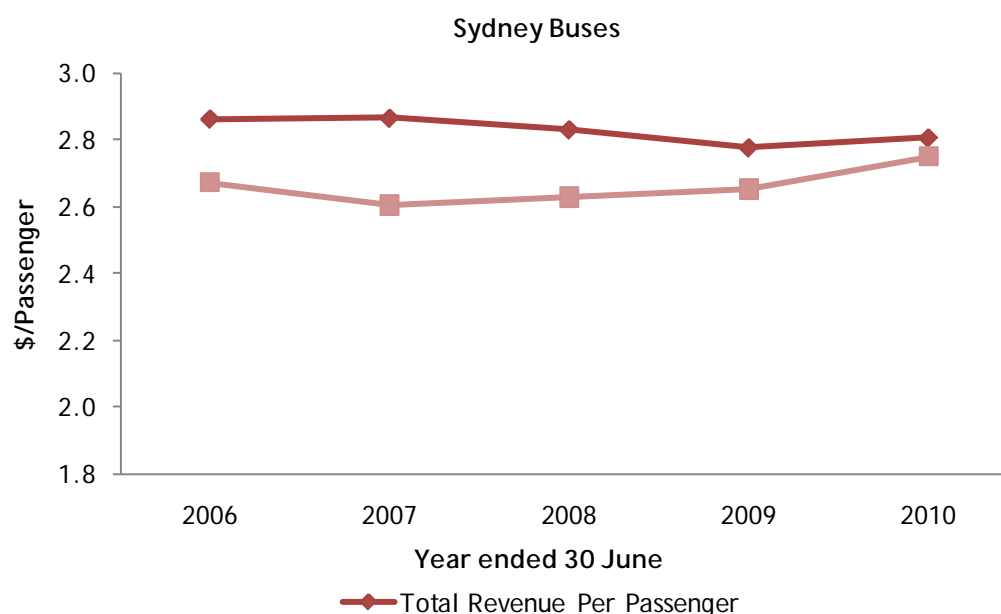
At 30 June 2010, the following represent State Transits key transport capital projects:

Project Name	Original Target Date	Forecasted Completion Date	Months Delayed	Original Budget \$'000	Revised Budget \$'000
90 replacement buses	30-Jun-10	30-Jun-10	--	49,809	47,006
150 articulated buses	30-Jun-11	30-Jun-11	--	113,750	111,309
Ryde depot redevelopment	30-Jun-10	30-Jun-11	12	10,148	12,122
Recommissioning of Tempe	30-Jun-10	30-Jun-11	--	10,210	10,210
New depot in Western Sydney	30-Jun-11	30-Jun-12	12	20,420	26,410

In 2009-10, 124 rigid (including 40 additional growth buses) and 18 articulated growth buses were delivered to State Transit, with the remaining 150 articulated buses expected to be delivered in 2010-11.

The establishment of a new depot in Western Sydney has been delayed by a year to allow State Transit to pursue various options to secure adequate capacity in the Western Region. Ryde depot will be completed in 2010-11 with significant hardstand improvements underway. The works on Tempe depot are proceeding to schedule.

Revenue versus Cost (per passenger) in 2009-10



Source: Revenue and patronage data from 2009/10 unaudited State Transit Annual Report. Total costs sourced from management accounts (unaudited).

Note:

- Revenue includes payments received under the provisions of the Metropolitan and Outer Metropolitan Bus System Contracts.
- Due to volatility, the actuarial gains/(losses) relating to defined benefit superannuation schemes, have been excluded from the total cost per passenger.

Total revenue per passenger has marginally increased to \$2.80 (\$2.71). This is primarily due to the decrease in patronage growth rates. Under the Metropolitan Bus Contracts, the Authority receives revenue to operate the services. Part of the revenue represents a recovery of fixed costs, which remain constant in real terms over the term of the contract. Therefore as patronage decreases, revenue per passenger increases.

Total cost per passenger has increased to \$2.75 (\$2.65). This is primarily due to increase in employee benefits and finance costs. The increase in finance costs resulted from increase in interest rates and increased level of borrowing, required to fund the acquisition of buses and depot redevelopments.

On-time running

On-time running performance is measured as the percentage of monitored buses departing from the terminus within five minutes of the scheduled timetable. A minimum of one per cent of total bus trips are monitored. On-time running performance for Sydney Buses has remained relatively stable over the last five years.

The Authority has fitted all State Transit buses with the Public Transport Information and Priority System (PTIPS) as at September 2009. PTIPS uses GPS Technology to provide real time tracking of buses and priority through traffic lights to help keep bus services to timetable. This tracking allows the Authority to measure on-time running performance, produce accurate running times and more suitable timetables.

The Authority has various strategies to maintain and improve on-time running, including the expansion of prepay services to minimise boarding times. The Authority, in consultation with the Roads and Traffic Authority, Transport NSW and local councils, has also introduced clearways on busy corridors and extended bus lanes and the hours of operation.

OTHER INFORMATION

Human Resources

This year I reviewed the following areas relating to human resources:

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies
- extent of contract staff.

A summary of the results of my review are as follows.

Workforce Ageing

I recommend State Transit continues to develop and implement effective policies to manage its ageing workforce.

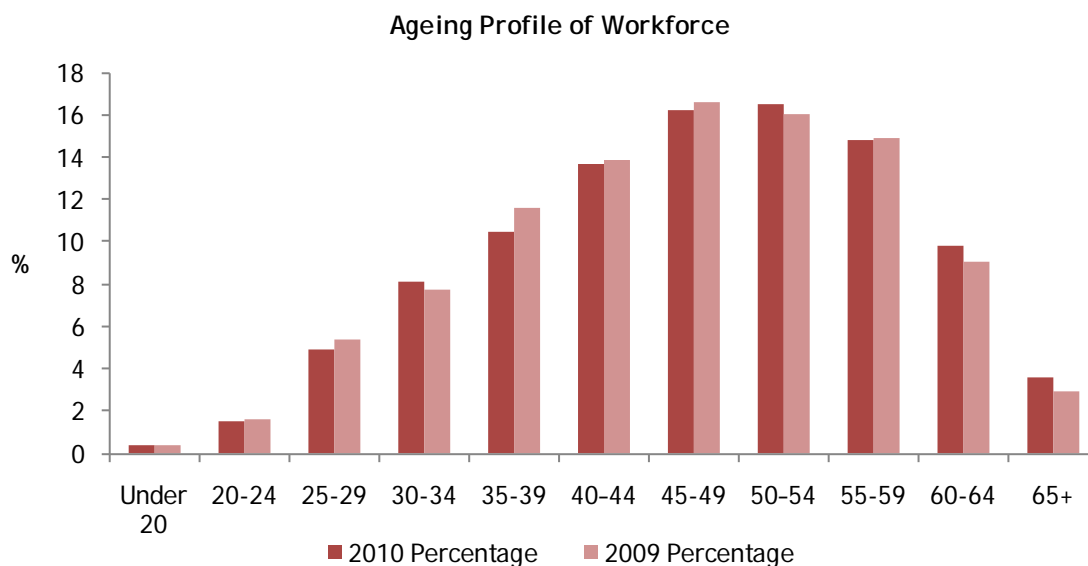
Twenty nine per cent of State Transit's employees are over 55 years of age (27.0 per cent in 2009) and 46.0 per cent are over 50 (43.0 per cent). This increases the risk of a large number of employees retiring in the next five to ten years with the potential loss of knowledge and skills.

The age profile of State Transit employees is shown below:

At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
Up to 35	745	15	737	15
35-39	520	10	564	12
40-44	680	14	676	14
45-49	808	16	810	17
50-54	821	17	783	16
55-59	736	15	729	15
60-64	486	10	441	9
65+	177	4	142	3
Total	4,973	100	4,881	100

Source: State Transit (Unaudited).

The graph below further demonstrates the age structure of State Transit employees.

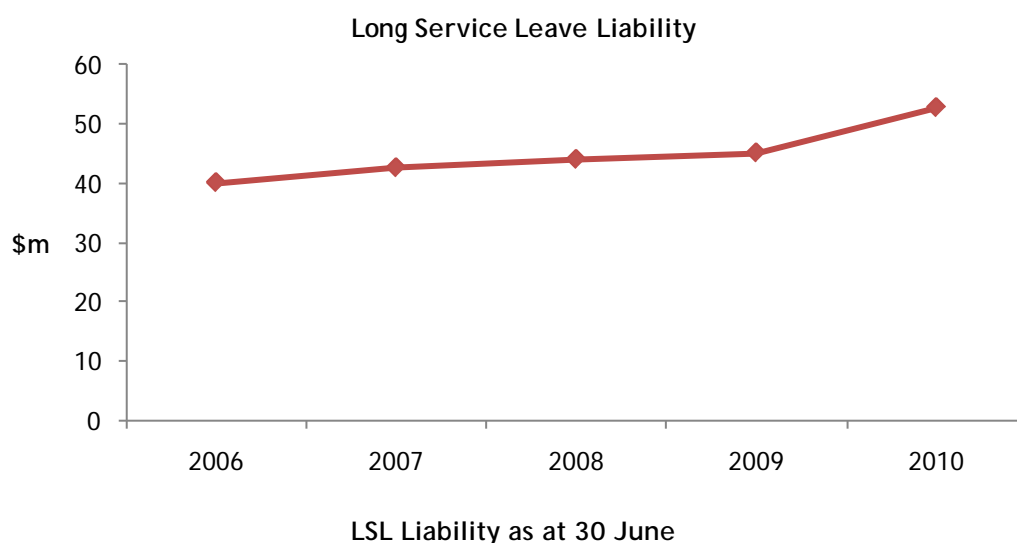


To ensure an adequate supply of staff, including drivers, State Transit should actively monitor its workforce age profile and have strategies in place to develop, attract and retain staff whose skills are aligned to the strategic direction of the entity.

In response to this risk, the Authority advised that it is conducting succession planning through apprenticeships, cadetships and graduate programs.

Long Service Leave Liability

State Transit's liability for long service leave entitlements at 30 June 2010 amounted to \$52.7 million (\$45.1 million). This liability has increased by 31.0 per cent over the last five years.



The increase in liability from 2009 to 2010 is attributed to growth in employee entitlements, a lower Government bond rate used to discount the liability to its present value and an increase in the actuarial assessment of the 'cash-out' rate.

State Transit advises that operational cash flows generated from the Metropolitan Bus System Contracts are sufficient to fund State Transit's rising long service leave liability obligations.

Although State Transit has strong cash flows, it will need to ensure it has adequately planned to fund these liabilities, which generally increase over time with increases in employee remuneration levels. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

Annual Leave Balances

State Transit has actively managed employees with excessive annual leave balances in recent years. The number of employees with annual leave balances in excess of 40 days has declined from 420 at 30 June 2009 to 362 at 30 June 2010. Employees in this category represented 7.0 per cent (9 per cent) of total employees at 30 June 2010.

Excess leave entitlements can adversely affect an organisation. Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

The Authority advised initiatives are in place to effectively manage excessive annual leave. Quarterly reminder letters are issued to employees with balances in excess of 40 days. The Human Resources Group is continuing to monitor accumulating leave balances.

Use of Contract Staff

I recommend State Transit continue to periodically review the roles and responsibilities of all its contractors to ensure:

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

In 2009-10, State Transit paid \$1.3 million to a total of 32 contractors and at 30 June 2010, 25.0 per cent of whom had been engaged for a period of more than 12 months. Two contractors had been engaged for more than ten years. The retention of contractors for extended periods may result in additional costs to the Authority.

State Transit advised that contractors have predominantly been hired in the Corporate division. A formal review to determine if the use of contractors represents value for money is performed, prior to the extension of each contract.

While the use of contractors has benefits, particularly on projects, extensive reliance on this employment arrangement generally results in higher employment costs to an organisation and less ownership and commitment to organisational goals and objectives.

Deferred Information Technology (IT) Projects

In 2009-10, State Transit deferred works on its 'Enterprise Resource Planning' project. To date the Authority has spent \$1.3 million on this project. The total estimated cost of this project is \$8.0 million. The reason for the delays is primarily due to the formation of Transport NSW and the fact that agencies are waiting for further direction on the structure and functions of corporate services (including information technology) within Transport agencies.

PrePay Services

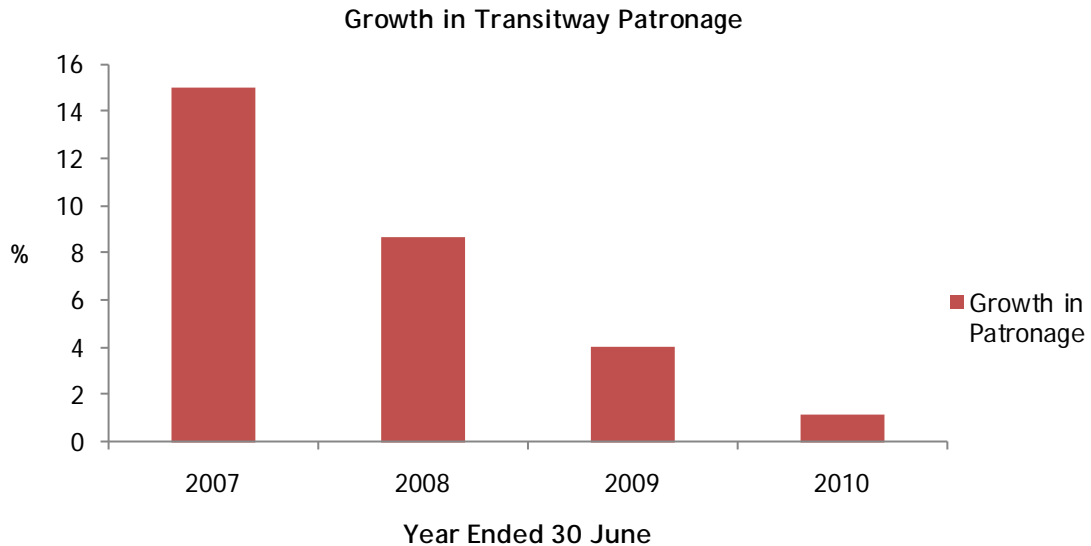
Following last year's successful conversion of Sydney CBD to PrePay only between 7am and 7pm weekdays, State Transit expanded its PrePay network. Major interchanges, including, the Bondi Junction Interchange and Randwick Junction, became cashless between 7am and 7pm on weekdays. This strategy is aimed at reducing boarding times and improving the reliability of bus services in the Eastern Suburbs. Approximately 16.0 per cent (14 routes) of Sydney Bus services have been converted to PrePay only.

PrePay services have contributed to the increase in ticket resellers. At 30 June 2010, there were 1,568 authorised State Transit Ticket Resellers across metropolitan Sydney. This has increased by 60.0 per cent since the previous year. Total revenue from ticket sales to resellers in 2009-10 exceeded \$199 million, an increase of 18.0 per cent on the previous year (\$169 million). State Transit will continue to expand its reseller network in 2010-11 to meet the increase in demand from the planned expansion of PrePay bus services.

The Authority advised the increase in PrePay services has resulted in an annual reduction of 20 million on-board cash transactions, faster boarding times, less delays and discount travel for bus passengers. A follow up initiative is being developed to extend the PrePay program to other interchanges, bus stops and corridors over the next 12 months.

Western Sydney Buses

The Liverpool to Parramatta Transitway is public infrastructure, built and owned by the New South Wales Government. The Authority has operated on the Transitway since February 2003 and 15.3 million passengers have used this service since it opened. Transitway patronage increased by less than one per cent over the previous year to 2.6 million journeys (2.6 million). A new timetable was introduced in 2009 and eight new bus services were added to meet growing demand for this service.



Source: State Transit (unaudited).

Since opening, the Transitway has recorded losses for each financial year, with another loss of \$1.2 million in 2009-10 (\$1.4 million). The Authority's contract to operate this route extends to August 2011. The Transitway contract lies outside the Metropolitan Bus System Contracts.

Metrobus Network

The Metrobus is a high-frequency, cashless service aimed at increasing capacity along busy corridors. In 2009-10, State Transit established two new Metrobus routes, the M20 operating between Gore Hill and Mascot and the M30 operating between Mosman and Sydenham. The Authority advised that patronage on the service has more than tripled since introduction and over 4.5 million passengers have used the Metrobus service to date.

Following the success of the Metrobus network, the New South Wales Government announced in July 2010 an expansion of the Metrobus network to 13 routes across Sydney. State Transit will operate 8 of the routes and the remainder by a number of private bus companies.

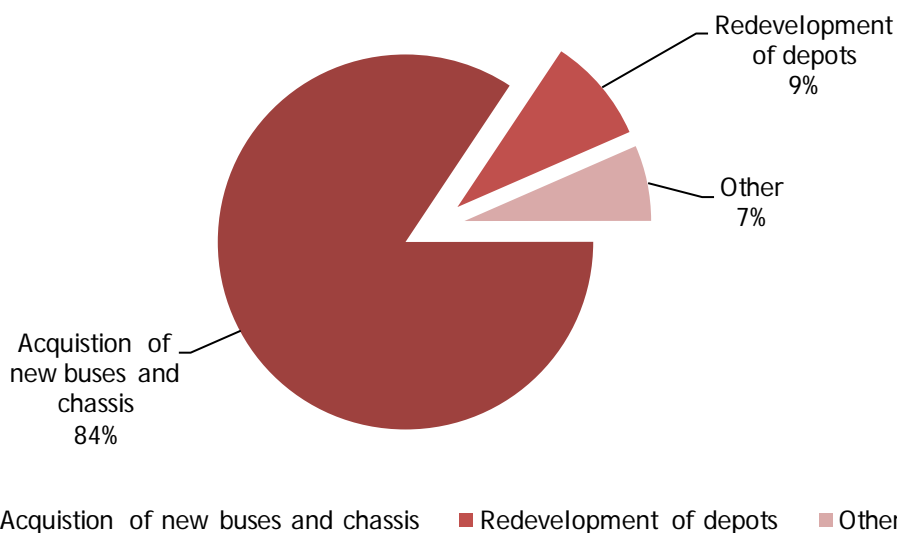
Free CBD Shuttle Bus

Since its launch in December 2008, more than three million passengers travelled on the service. The shuttle service carries between 40,000 and 50,000 passengers each week and operates across 32 bus stops located around the CBD.

Capital Expenditure Program

State Transit Authority's capital expenditure program decreased by 20.0 per cent from \$143 million to \$114 million in 2009-10. The majority of expenditure focussed on acquisition of new buses to support fleet growth, the fleet replacement program and the redevelopment of depots to accommodate the expansion of the fleet in the future.

Capital Expenditure Program 2009-10



Source: Capital expenditure data from 2009/10 State Transit Annual Report (unaudited).

In 2009-10, State Transit continued works on a number of projects to increase future depot capacity primarily due to patronage growth, the replacement of existing fleet vehicles with longer buses and future growth in the size of the fleet.

Integrated Network Reviews and Improved Networks

The Transport NSW and Infrastructure program of bus reform and the Metropolitan and Outer Metropolitan Bus System Contracts require State Transit to conduct reviews of networks to ensure they reflect the current needs of the public. The reviews involve extensive community consultation and aim to put into operation new and improved networks.

The new networks primarily aim to improve services through better co-ordination and linking of services with major hubs, additional services and simplification of stopping patterns.

In 2009-10, State Transit implemented new and improved bus networks for the Northern Beaches and Lower North Shore, the North Western Suburbs and the Inner West and Southern Suburbs.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	Consolidated		Authority	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Operational revenue*	557,864	546,069	557,864	546,069
Other income	36,842	41,109	36,842	41,109
OPERATING REVENUE	594,706	587,178	594,706	587,178
Employee benefits	365,631	341,942	--	--
Personnel services	--	--	409,636	415,235
Fleet running expenses	88,310	93,793	88,310	93,793
Depreciation and amortisation	31,379	33,121	31,379	33,121
Finance costs	14,178	8,551	14,178	8,551
General operating expenses	102,829	97,566	72,997	69,455
OPREATING EXPENSES	602,327	574,973	616,500	620,155
NET PROFIT/(LOSS) before tax	(7,621)	12,205	(21,794)	(32,977)
Income Tax Benefit	(2,183)	-	(6,435)	-
NET PROFIT/(LOSS) after tax	(5,438)	12,205	(15,359)	(32,977)
OTHER COMPREHENSIVE INCOME				
Revaluation of property, plant and equipment	--	183	--	183
Superannuation actuarial losses	(9,921)	(31,627)	--	--
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	(9,921)	(31,444)	--	183
TOTAL COMPREHENSIVE EXPENSE	(15,359)	(19,239)	(15,359)	(32,794)

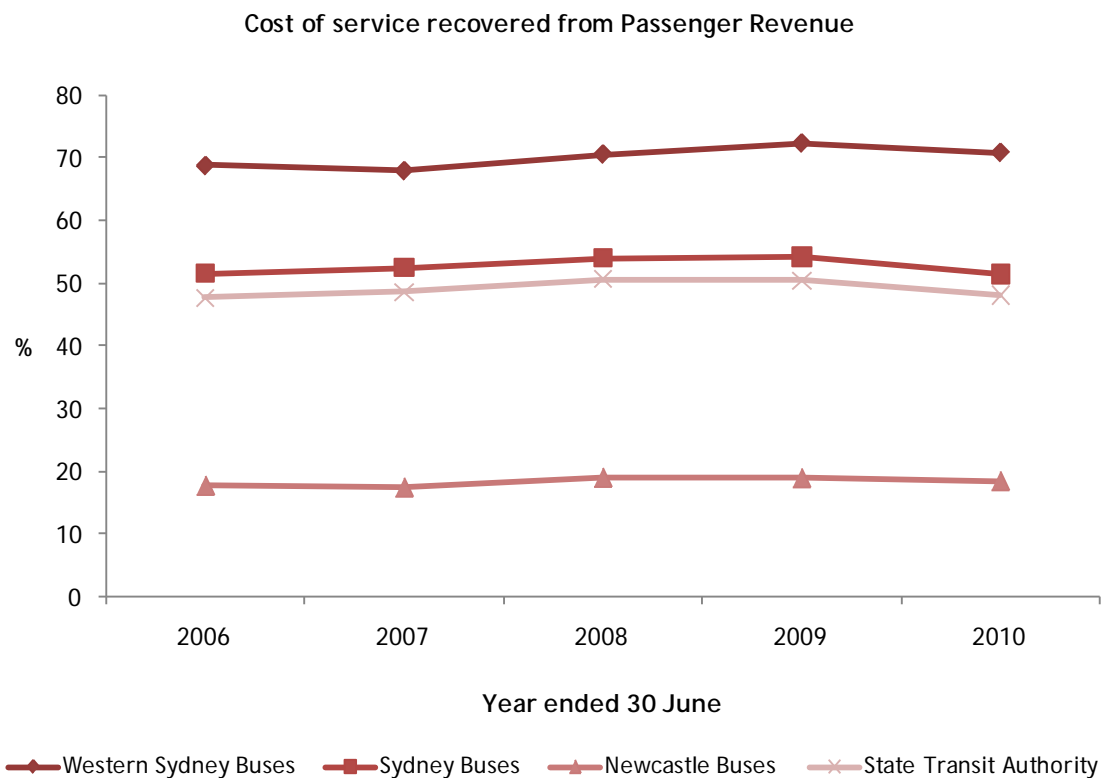
* Operational revenue includes farebox receipts and contract revenue from the Metropolitan and Outer Metropolitan Bus System Contracts.

Operational revenue increased primarily due to the increase in Metropolitan and Outer Metropolitan Bus system contracts income. Other income in the previous year included the recovery of costs from the World Youth Day event.

Total expenses increased mainly due to the increase in employee benefits, finance costs and general operating expenses. Higher labour costs were primarily due to an increase in pay rates for bus operators and the hiring of more bus operators to provide additional services. The increase in finance costs resulted from higher interest rates and increased level of borrowing, required to fund acquisition of new buses and depot redevelopments. Increases in Compulsory Third Party and general insurance premiums were the main reasons for the increase in general operating expenses.

Cost Recovery

In 2009-10, the Authority's passenger farebox revenue covered approximately 48.1 per cent of the cost of services provided. This has decreased by 2.3 per cent from the previous year primarily due to the decrease in patronage.



Source: Information derived from State Transit management accounts as at 30 June 2010 (Unaudited)

Note: Cost of operations includes interest and excludes superannuation losses

The lower recovery rate of 18.5 per cent in 2010 for Newcastle buses is due to lower patronage levels in comparison to Sydney services. Western Sydney Buses have the highest recovery rate of 70.8 per cent, partly due to growth in patronage and lower operating costs due to the less complex nature of providing a bus service that runs on a dedicated transitway.

State Transit and the New South Wales Government have undertaken initiatives to increase patronage and improve cost recovery. These initiatives include the introduction of MyZone fare structure, establishment of Metrobus network using high capacity articulated buses and the expansion of Prepay only services.

Abridged Statement of Financial Position

At 30 June	Consolidated		Authority	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	43,325	45,452	43,325	45,452
Non-current assets	795,723	726,324	795,723	726,324
TOTAL ASSETS	843,929	771,780	843,929	771,780
Current liabilities	193,896	154,011	193,896	154,011
Non-current liabilities	407,080	364,169	407,080	364,169
TOTAL LIABILITIES	602,671	518,184	602,671	518,184
NET ASSETS	238,072	253,596	238,072	253,596

The increase in non-current assets was primarily attributable to the increase in capital works expenditure, including the acquisition of buses and bus related equipment, and the redevelopment of Brookvale, Leichardt, Ryde and Tempe depots.

The increase in non-current liabilities was primarily due to additional borrowings required to fund the acquisition of new buses and depot redevelopment work.

AUTHORITY ACTIVITIES

The Authority, a statutory body incorporated under the *Transport Administration Act 1988*, operates bus services in Sydney and bus and ferry services in Newcastle. For further information on the Authority, refer to www.sta.nsw.gov.au.

CONTROLLED ENTITIES

The following controlled entities have not been reported on separately as they are not considered material by their size or the nature of their operations to the consolidated entity. These divisions were enacted as a requirement of the *Public Sector Employment and Management Act 2002*.

Entity Name	Website
State Transit Authority Division	*
Western Sydney Buses Division	*

* This entity does not have a website.

Sydney Ferries

AUDIT OPINION

The audit of Sydney Ferries' financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

KEY ISSUES

Recent Transport Restructure

On 1 July 2010, the *Transport Administration Amendment Act 2010* established Transport NSW and resulted in the removal of the Sydney Ferries' governance board.

Under this Act, the Chief Executive of Sydney Ferries has the authority to manage and control the affairs of Sydney Ferries subject to any directions of the Director General of Transport NSW. For the year end 30 June 2011, Sydney Ferries became a controlled entity of Transport NSW.

For further information on the Transport restructure, refer to the 'Transport Services Overview' in this volume.

New Service Contract

Sydney Ferries entered into a seven year service contract with Transport NSW in April 2010. After the market review of ferry services in late 2009, the Government decided Sydney Ferries, and not the private sector, should provide ferry services to the Government.

The new service contract provides clear performance benchmarks for Sydney Ferries. Under the contract Sydney Ferries must continue its reform program, which includes cost reductions through restructuring, productivity gains through better work practices and improvements to safety and customer service.

The negotiated net cost to Government over the seven year contract is \$619 million. This includes \$30.0 million to replace ageing vessels.

Ferry Operations and Customer Information System

Sydney Ferries advised its Ferry Operations and Customer Information System (FOCIS) project has been delayed because of design issues. Sydney Ferries has commenced mediation with the contractor to resolve the design issues. The budget and completion date are shown in the table below.

Year ended 30 June 2010	Budget			Completion Date	
	Original \$m	Revised \$m	Variance \$m	Original	Revised
Ferry Operations and Customer Information System	7.2	13.2	(6.0)	Sep 2010	Sep 2011

Source: Sydney Ferries (unaudited).

Sydney Ferries advised the \$6.0 million increase in budget was largely due to scope changes. The original budget from 2008 only included the customer information system component of the FOCIS project.

PERFORMANCE INFORMATION

Sydney Ferries provided the following information (unaudited) regarding its performance.

Year ended 30 June	Target		Actual		
	2010	2010	2009	2008	2007
Operational performance					
Services that run on time (%) (i)	99.5	98.1	98.1	98.3	98.0
Patronage growth (%) (ii)	1.0	0.2	2.5	(1.2)	0.8
Number of customer complaints	824	604	889	1,220	1,808
Number of significant incidents (iii)	--	--	1	--	2
Number of passenger injuries (iv)	15	15	12	15	35
Number of sick days taken per employee	7	10.9	10.4	9.2	8.4
Fleet availability (%) (v)	80	86	81	79	77
Vessel reliability (%) (vi)	95	96.4	95.0	94.4	93.3
Financial performance					
Earnings before interest, taxes, depreciation and amortisation (\$m)	19.8	19.8	12.0	18.3	16.8
Operating deficit (\$m)	10.5	7.1	14.5	0.4	2.9
Return on average assets (%) (vii)	--	(5.8)	(6.1)	1.9	2.1
Return on average equity (%) (viii)	--	(16.4)	(68.9)	(10.6)	(7.7)

- (i) Proportion of operated services departing from the first wharf on the service within five minutes of its scheduled departure time. Delays due to force majeure events are not included.
- (ii) Includes patronage on the Manly JetCat service which ceased on 31 December 2008.
- (iii) Incidents resulting in loss of life, life-threatening injury or injury to multiple persons, and/or damage over \$100,000.
- (iv) Passenger injury that occurs as a result of ferry operations and requires medical attention.
- (v) Percentage of fleet available for scheduled services (days available as a percentage of total working days).
- (vi) Percentage of available vessels that remain in service without withdrawal as a consequence of mechanical failure.
- (vii) Operating result before interest and tax as percentage of annual average assets.
- (viii) Operating result after interest and tax as percentage of annual average total equity.

Just over 98 per cent (98.1 per cent) of Sydney Ferries' services were on time, 1.5 per cent below its target of 99.5 per cent. Manly Ferry Services achieved the highest on time running of 99.4 per cent whilst Darling Harbour reported the lowest performance of 96.4 per cent.

Management advised the results are primarily due to high passenger loadings, scheduling issues and berthing congestion. Where possible, these have been addressed through timetable changes introduced on 10 October 2010, particularly in relation to Darling Harbour and Taronga Zoo services.

Sydney Ferries attribute the drop in customer complaints to significant improvements in customer service as part of the Ferries 2010 self-reform program, launched in April 2008.

Patronage

Ferries passenger journeys have remained relatively stable. Sydney Ferries recorded patronage growth of 0.2 per cent (2.5 per cent) in 2009-10.

Year ended 30 June	Passenger Journeys and Growth				
	2010	2009	2008	2007	2006
Number of Passenger Journeys (million)	14.3	14.3	14.0	14.1	14.0
Patronage growth (%)	0.2	2.5	(1.2)	0.8	(0.2)

Source: Sydney Ferries (unaudited).

Year ended 30 June	Passenger Journeys by Area				
	2010	2009	2008	2007	2006
Inner Harbour (million)	6.8	6.4	6.0	6.3	6.6
Parramatta River (million)	1.5	1.5	1.4	1.5	1.4
Manly Ferry (million)	6.0	6.0	5.7	5.4	5.1

Source: Sydney Ferries (unaudited).

Fleet Failures

Fleet failures decreased from 405 failures in 2008-09 to 316 failures in 2009-10. All vessels except the Supercat recorded a drop in fleet failures. Sydney Ferries advised the reduction is attributable to its asset management planning, including improved repairs management and re-engine program. The table below provides an analysis for each vessel type. A fleet failure is defined as withdrawal of vessel from service as a consequence of mechanical failure.

Year ended 30 June	Ferry Failures Per annum*				
	2010	2009	2008	2007	2006
Freshwater	28	40	33	64	61
First Fleet	74	79	117	161	173
Rivercat	109	152	184	153	246
Habourcat	24	47	42	58	49
Supercat	64	55	57	61	76
Lady Class	17	32	33	40	34
Total	316	405	466	537	639
Total trips during the year	172,627	177,861	184,240	179,869	175,098

Source: Sydney Ferries (unaudited).

*Manly JetCat breakdowns excluded from figures. This vessel class was discontinued after December 2008.

OTHER INFORMATION

Fleet replacement strategy

The average remaining economic life of the 28 vessels owned by Sydney Ferries is 4.8 years. This includes two Lady Class vessels, which have reached the end of their economic lives. The average remaining lives are highlighted in the table below. The replacement cost of Sydney Ferries entire fleet is estimated at \$173 million.

Vessel Class	Number of Vessels in Class	Average Age of Vessels (Years)	Average Remaining Economic Life (Years)
Freshwater	4	25.8	9.0
First Fleet	9	25.0	4.9
Rivercat	7	17.3	4.5
Habourcat	2	12.0	3.7
Supercat	4	9.5	3.7
Lady Class	2	33.0	--
Total	28	20.6	4.8

Sydney Ferries advised it has established a steering committee to conduct a procurement and network review. The committee is made up of officers from Sydney Ferries, Transport NSW and NSW Maritime. The committee's next major milestone is Government approval of the procurement and network strategy in April 2011.

Capital projects

I recommend Sydney Ferries conduct a comprehensive review of its policies and procedures relating to the recording and monitoring of costs in its work in progress project ledger.

In the past two years, Sydney Ferries has written off \$2.6 million of work in progress costs, because either the project has been assessed as not providing future economic benefits, or the costs could not be attributed to a specific asset. The continuing write off of costs suggests the management's controls over the recording and monitoring of project costs needs to be strengthened. The total value of work in progress at 30 June 2010 was \$21.4 million.

Human Resources

This year I reviewed the following areas relating to human resources:

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies
- management of excessive flex leave balances
- extent of overtime
- extent of contract staff.

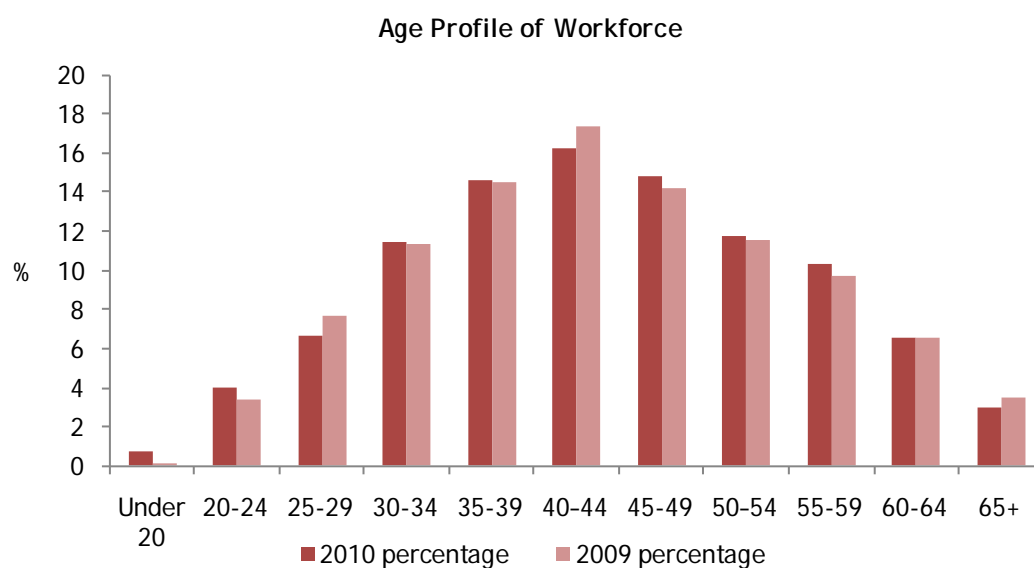
Issues identified from my review will be reported in a management letter to Sydney Ferries. A summary of the results follows.

Workforce Ageing

I recommend Sydney Ferries develop strategies to manage its ageing workforce.

Sydney Ferries face challenges from the potential loss of a large number of retiring staff. At 30 June 2010, 31.6 per cent (31.4 per cent) of its employees were 50 years of age or older and 19.8 per cent (19.8 per cent) were 55 years of age or older. This represents a large number of employees who are likely to retire over the next five to ten years. This potential loss of knowledge and skills is a risk for Sydney Ferries.

The age profile of Ferries' employees is shown below:



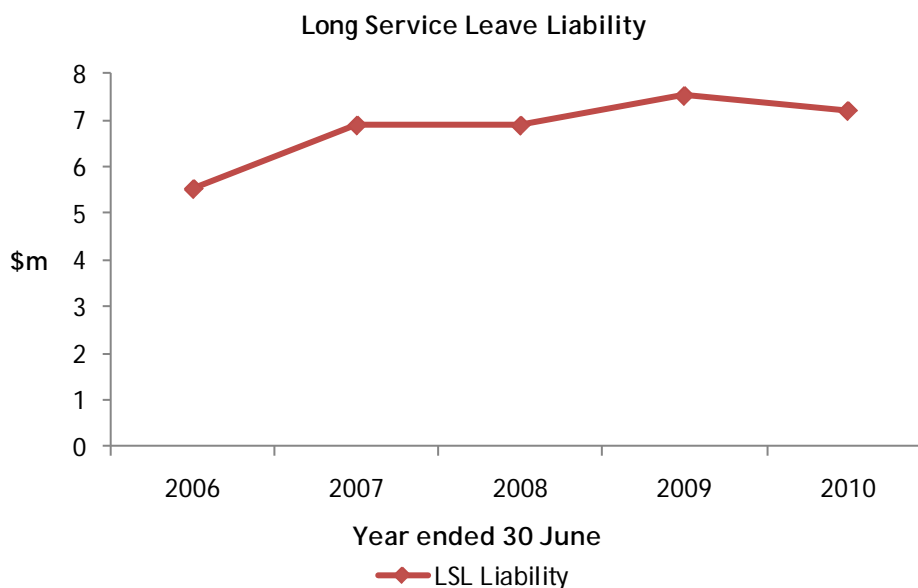
At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
Up to 35	136	22.8	150	22.5
35-39	87	14.6	97	14.5
40-44	97	16.2	116	17.4
45-49	88	14.8	95	14.2
50-54	70	11.8	77	11.6
55-59	62	10.3	65	9.7
60-64	39	6.5	44	6.6
65+	18	3.0	23	3.5
Total	597	100	667	100

Source: Sydney Ferries (unaudited)

Sydney Ferries advised it has no formal strategies to manage its ageing workforce. To ensure it has the appropriate number of skilled staff in the future, it should actively monitor its workforce age profile and ensure strategies are in place to develop, attract and retain staff whose skills are aligned with the strategic direction of Sydney Ferries.

Long Service Leave Liability

Sydney Ferries' liability for long service leave entitlements at 30 June 2010 amounted to \$7.2 million (\$7.5 million). This liability has increased by 30 per cent over the last five years.



Although Sydney Ferries has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities, which generally increase over time with rises in employee remuneration levels. This will be compounded as other liabilities emerge with the retirement of a significant portion of Sydney Ferries' workforce.

Use of Contract Staff

In 2009-10, Sydney Ferries paid \$4.8 million (\$7.6 million) to 31 contractors (44 contractors). Seven contractors at 30 June 2010 have been engaged by Sydney Ferries for more than two years. The highest contractor payment during the year was \$274,560.

Sydney Ferries advised it maintains a contractor spreadsheet to monitor the use of contractors. Extending a contractor's term requires the preparation of a business case and approval by the Chief Executive Officer.

Overtime

Overtime payments in 2009-10 amounted to \$2.3 million (\$3.5 million), 4.5 per cent (6.4 per cent) of Sydney Ferries' base salary expense for the year. On average, Sydney Ferries' employees, who were paid overtime, received \$5,082 (\$7,058) in overtime payments. The highest amount paid to an employee in 2009-10 was \$36,770 (\$44,013).

Sydney Ferries attribute the decrease in overtime to improved labour utilisation following the introduction of new rosters plus labour reforms supported by improved human resources and attendance management systems. This is demonstrated by the following table which provides details of overtime paid to operational staff over the past three years.

Year end 30 June	Staff Numbers		
	2010	2009	2008
Overtime			
\$30,001 to \$50,000	7	6	12
\$20,001 to \$30,000	11	33	29
\$10,001 to \$20,000	53	86	95
\$5,001 to \$10,000	77	99	101
\$0 to \$5,000	303	258	289
Total	451	482	526
Total \$'000	2,292	3,469	3,745

Leave Entitlements

I recommend Sydney Ferries continues its efforts in reducing excessive annual leave and accrued public holiday balances.

Sydney Ferries has actively managed employees with excessive annual leave balances in recent years. The number of employees with annual leave balances in excess of 40 days has declined from 108 employees at 30 June 2007 to 78 employees at 30 June 2010. Although Sydney Ferries' strategies have reduced the number of employees with excess annual leave balances, employees in this category represents 13.1 per cent (16.0 per cent) of total employees at 30 June 2010.

Entitlement (days)	2010			2009		
	No of Personnel	Total Days	Average Days	No of Personnel	Total Days	Average Days
Annual Leave						
> 100	3	349	116	11	1,386	126
81 - 100	2	179	90	--	--	--
41 - 80	73	3,784	52	96	5,011	52
Total	78	4,312	55	107	6,397	60
Public Holidays						
> 60	7	618	88	7	609	87
41 - 60	3	158	53	7	342	49
21 - 40	12	351	29	14	407	29
10 - 20	14	231	16	18	269	15
Total	36	1,358	38	46	1,627	35
TOTAL EMPLOYEES	597			667		

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Farebox revenue	45,752	48,647
Government contributions	82,775	80,454
Other	2,314	1,399
OPERATING REVENUE	130,841	130,500
Employee related expenses	67,108	68,194
Operations and maintenance expenses	38,605	47,611
Depreciation, amortisation and impairment	20,585	19,849
Borrowing costs	6,320	6,694
Decrease in revaluation of fleet vessels	3,386	--
Other losses	1,901	2,692
OPERATING EXPENSES	137,905	145,040
DEFICIT	7,064	14,540
OTHER COMPREHENSIVE EXPENSE		
Decrease in revaluation of property, plant and equipment	--	4,562
Superannuation actuarial losses	10,972	7,101
TOTAL OTHER COMPREHENSIVE EXPENSE	10,972	11,663
TOTAL COMPREHENSIVE EXPENSE	(18,036)	(26,203)

The decrease in farebox revenue is largely due to the cessation of Manly JetCat services in December 2009. The decrease in expenditure is largely attributable to the following significant events:

- the sale of three JetCats during 2008-09, resulting in overall reductions in fuel, maintenance and insurance costs
- an organisational restructure in 2009-10, resulting in temporary staff costs decreasing
- a Single Maritime Agreement, covering afloat employees effective from 7 May 2009, reducing the number of full-time equivalent staff.

The decrease in expenditure was partly offset by the \$3.4 million decrement in the value of fleet vessels.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	16,253	12,939
Non-current assets	103,394	111,702
TOTAL ASSETS	119,647	124,641
Current liabilities	36,913	38,253
Non-current liabilities	1,242	81,742
TOTAL LIABILITIES	38,155	119,995
NET ASSETS	81,492	4,646

The significant decrease in liabilities was attributable to Sydney Ferries' debt of \$94.9 million being transferred to the Crown Finance Entity for nil consideration on 31 March 2010.

SYDNEY FERRIES' ACTIVITIES

Sydney Ferries became a statutory authority on 1 January 2009 by amendments made to the *Transport Administration Act 1988*. Previously, Sydney Ferries was constituted as a State owned corporation under the *State Owned Corporations Act 1989* and the *Transport Administration Act 1988*.

Sydney Ferries operates ferry passenger services on Sydney Harbour and the Parramatta River. Its principal objective is the delivery of safe and reliable ferry services in an efficient, effective and financially responsible manner.

For further information on Sydney Ferries, refer to www.sydneyferries.nsw.gov.au.

Sydney Metro

AUDIT OPINIONS

The audits of the Sydney Metro and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

KEY ISSUES

For general transport industry information, refer to the 'Transport Services Overview' section earlier in this Report.

New South Wales Government's Decision to Stop Sydney Metro Projects

On 21 February 2010, the New South Wales Government released its Metropolitan Transport Plan and announced its intention to not proceed with a metro network for Sydney.

The New South Wales Government decided to:

- reimburse reasonable costs incurred by the tenderers for the major construction contracts affected by the decision to stop the Metro Network Stage 1 project
- reimburse reasonable costs of property owners and tenants who had incurred legal, valuation and other costs relating to property acquisition.

Following the New South Wales Government's decision, Sydney Metro established a Demobilisation Steering Group to identify the tasks necessary to complete or close down all its activities, obligations and responsibilities with a focus on:

- close-out of tasks and demobilisation of resources associated with the cancelled projects
- the establishment of a process for reimbursement of costs incurred by major contract tenderers and property owners and tenants.

Sydney Metro substantially completed demobilisation by the end of March 2010. However, some tasks such as the settlement of the tender and property claims process and financial reporting obligations have taken to the end of the financial year to resolve or will extend into 2010-11.

Up until 30 June 2010, \$412 million has been spent on metro projects with more costs expected in 2010-11. Outgoings included \$176 million in project expenditure written off as a result of the Government's decision to stop work on metro projects, \$94.9 million in cost reimbursement claims, and \$103 million in property acquisitions.

Cost Reimbursement Claims by Tenderers for Major Construction Contracts

The New South Wales Government recognised that resources and effort had been put into the process by all five tenderers for the major construction contracts and undertook to deal with their claims for reimbursement fairly and properly.

A process for managing and determining the claims was established, which included a governance structure of a cross-agency assessment team, independent reviewers and a Chief Executive level Steering Committee.

A large accounting firm was engaged to independently assess these claims and determine the final amounts. The New South Wales Government accepted those determinations and Sydney Metro paid \$93.5 million to settle these claims before 30 June 2010.

Cost Reimbursement for Property Acquisition Related Claims

At the time of the projects' cancellation, Sydney Metro was in the process of acquiring properties for construction of the Metro Network Stage 1 project. The New South Wales Government's decision to cancel the projects included an acknowledgement of the likely impact on owners and tenants whose properties were being acquired for the construction of the project.

A governance structure was established involving independent reviewers and a Chief Executive level Steering Committee. Another large accounting firm was appointed to independently assess cost reimbursement claims from the affected property and leasehold owners. This process was to apply assessment principles consistent with the *Land Acquisition (Just Terms) Compensation Act*.

At 30 June 2010, 17 claims totalling \$355,000 had been finalised. Sydney Metro raised a provision of \$1.0 million to cover a further 11 claims that have certainty about the settlement amount. In addition to these items, Sydney Metro has received a further 47 claims and these claims are expected to be resolved during 2010-11.

Whilst a significant number of affected parties have already lodged claims, property and leasehold owners have up to 3 years to lodge a claim under current legislation.

The New South Wales Government has also established an additional review mechanism for small business owners if they are dissatisfied with the independent assessment of their claim. A former judge of the Land and Environment Court has been appointed to conduct a review of determinations if requested.

Acquisition of Properties for Metro Network Stage 1 Project

As part of the activities for the Metro Network Stage 1 project, 33 privately owned properties were identified for acquisition. Sydney Metro had also identified 108 tenancies to be acquired in order to vacate the buildings for demolition. These properties were to be used during the project's construction phase or were to be used as part of the entrances to metro stations. At the time of the New South Wales Government's February decision, Sydney Metro had spent \$103 million to acquire seven properties. Also, Sydney Metro had spent \$32.5 million to acquire 22 tenancies and make relocation payments to owners.

These seven properties will be retained as being suitable for both construction sites and to protect future corridors for transport infrastructure projects. As a result of the changed use of these properties Sydney Metro arranged for professionally qualified valuers to provide an updated market valuation. To reflect the lower current occupancy of the buildings and the future use of the site for construction purposes, these properties were revalued at \$55.0 million at 30 June 2010, resulting in a reduction of property values of \$47.6 million. These properties will be transferred to Transport NSW in 2010-11.

Capitalised Work In Progress

Prior to the New South Wales Government's February decision to stop work on Sydney Metro's projects, most of Sydney Metro's expenditure totalling \$112 million was capitalised as work in progress. Only costs such as overheads and long range planning work not directly attributable to the Sydney Metro projects as well as the costs incurred after 21 February 2010 were expensed in Sydney Metro's Statement of Comprehensive Income.

Subsequently, Sydney Metro assessed the above project related expenditure and confirmed that (except for the costs relating to acquisition of project properties) it would not result in the creation of an asset that could be utilised in the near future. Work in progress totalling \$176 million (including the current year capitalised costs of \$112 million and the previous year capitalised costs of \$64.5 million) was written off as an expense. Of the \$176 million written off capitalised work in progress, \$133 million related to Metro Network Stage 1 (CBD) project and \$43.2 million related to Metro Network Stage 2 (West) project.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Sydney Metro	
	2010 \$'000	2009* \$'000	2010 \$'000	2009* \$'000
Operating costs (including Personnel Services)	35,907	3,791	36,692	3,791
Decrement in value of properties	47,669	--	47,669	--
Write off of capitalised work in progress	176,128	--	176,128	--
Cost reimbursement claims	94,872	--	94,872	--
Depreciation and amortisation	324	104	324	104
OPERATING EXPENSES	354,900	3,895	355,685	3,895
Government grants	384,214	171,812	384,214	171,812
Other revenue (including Interest income)	15,329	541	15,329	541
OPERATING REVENUE	399,543	172,353	399,543	172,353
SURPLUS	44,643	168,458	43,858	168,458
OTHER COMPREHENSIVE INCOME				
Superannuation actuarial losses	(785)	--	--	--
TOTAL COMPREHENSIVE INCOME	43,858	168,458	43,858	168,458

* Comparative figures for 2009 cover the period from 27 January 2009 to 30 June 2009.

Abridged Statements of Financial Position

At 30 June	Consolidated		Sydney Metro	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	215,591	176,409	215,591	176,409
Non-current assets	55,840	65,053	55,840	65,053
TOTAL ASSETS	271,431	241,462	271,431	241,462
Current liabilities	7,506	21,255	7,506	21,255
Non-current liabilities	--	140	--	140
TOTAL LIABILITIES	7,506	21,395	7,506	21,395
NET ASSETS	263,925	220,067	263,925	220,067

Sydney Metro's cash balance at 30 June 2010 was \$213 million. This included the \$82.6 million unspent funding from the Australian Government. The Treasury has separately returned \$80.1 million of this balance to the Australian Government. Cash held by Sydney Metro after settling the remaining property cost reimbursement claims will be returned to The Treasury when Sydney Metro is dissolved or when advised by the Treasurer.

Included in non-current assets are seven properties valued at \$55.0 million.

AGENCY ACTIVITIES

Sydney Metro was established as a statutory body under the *Transport Administration Act 1988* on 27 January 2009. Its principal activities were to develop safe and reliable metro railway systems as well as hold, manage and maintain metro rail infrastructure facilities.

Amendments to the *Transport Administration Act 1988* commenced on 1 July 2010 which established Transport NSW and abolished the Sydney Metro Board. The affairs of Sydney Metro and Sydney Metro Division, from the 1 July 2010, are to be managed and controlled by the Director-General of Transport NSW.

From 1 July 2010, and until it is dissolved, Sydney Metro will be a controlled entity of Transport NSW. All Sydney Metro Division staff are working on other activities for Transport NSW. Sydney Metro Division expects to finalise formal transfer of its staff to Transport NSW during the 2010-11 financial year.

For further information on Sydney Metro, refer to www.transport.nsw.gov.au.

CONTROLLED ENTITY

The following controlled entity has not been reported on separately as it is not considered material by its size or the nature of its operation to the consolidated entity. This division was enacted as a requirement of the *Public Sector Employment and Management Act 2002*. For further information on Sydney Metro Division, refer to Sydney Metro's agency activities.

Entity Name	Website
Sydney Metro Division	*

* This entity does not have a website.

Transport Infrastructure Development Corporation

AUDIT OPINION

The audit of the Corporation's financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

KEY ISSUES

For general transport industry information, refer to the 'Transport Services Overview' section earlier in this Report.

Transport Restructure

On 1 July 2010, the *Transport Administration Amendment Act 2010* established Transport NSW and resulted in the Corporation becoming a controlled entity of Transport NSW. The Act also changed the entity from a State owned corporation to a Statutory Authority, abolished its governance board, and changed its name. I have referred to the former Corporation by its new name, the Transport Construction Authority (the Authority), throughout the remainder of this report.

Under this Act, the Chief Executive has the authority to manage and control the affairs of the Authority in accordance with any directions of the Director-General of Transport NSW for the purposes of exercising the functions of the Director-General.

For further information on the transport restructure refer to the 'Transport Services Overview' in this volume.

Delayed Commissioning of Constructed Assets

The Lidcombe Turnback was forecast to be commissioned in Nov 2010, whilst the Homebush Turnback is forecast to be commissioned in March 2011. These turnbacks were constructed in April 2008 with an original planned commissioning date in June 2008. The delays are due to a shortage of signal engineers in the rail industry who are qualified to test and commission new infrastructure assets. The estimated final construction cost of this clearways project is \$102 million.

While the commissioning of these turnbacks has been delayed, the Authority did commission the Cronulla Rail Line upgrading and Duplication (Rail clearways program) and car parks at Helensburgh, Seddon Park, Werrington, and Woonona (Commuter car parks program).

For more information on how the Authority and RailCorp are managing the shortage of signal engineers, refer to the comments on RailCorp in this Volume.

Rail Clearways Program

The Rail Clearways program was announced in the 2004 Mini Budget speech as a 15 project program to be completed over six years (ending in 2010) at an estimated cost of \$1.0 billion. The original approved budget for the Program was \$1.3 billion, excluding the cost of interest and escalation.

As part of the 2008 Mini Budget, the Government reviewed the priorities of the rail capital program to ensure it met the needs of growing demand on the CityRail network. It also reviewed the program in light of signalling skill shortages in the rail industry. As a result, two projects within the Rail Clearways Program were cancelled (Carlingford Loop and the Sydenham to Erskineville project), with the delivery of two further projects to be staged (Richmond Line Duplication and Macarthur Station and Interchange). The Authority advises that the revised Rail Clearways program is expected to be completed by 2015, some five years after the original completion date at a cost of \$2.03 billion including interest and escalation as well as \$63.0 million in additional work funded by other sources.

The key projects of the Rail Clearways Program, their original and revised Budgets and planned construction completion dates (unaudited and as advised by the Authority) are as follows:

Key Projects	Original Budget (\$m)	Revised Budget (\$m) ⁸	Original Completion Date	Revised Completion Date (at July 2010)
Eastern Suburbs & Illawarra				
Bondi Junction Turnback	68	65	2006	2006
Cronulla branch line duplication	212	346	2008	2010
Bankstown				
Lidcombe Turnback and platform	87	102	2008	2008 ¹
	See below ⁶	See below ⁶		
Liverpool Turnback and platform	84	160	2010	2014 ²
Sydenham to Erskineville extra tracks	Nil ⁷	Nil ⁷	Nil ⁷	Cancelled
Campbelltown express				
Kingsgrove to Revesby quadruplication	410	790	2010	2012 ²
Macarthur fourth platform	29	55	2010	Stage 1-2010 ³ Stage 2-2015 ³
Airport & South				
Macdonaldtown Turnback	17	13	2005	2005
Homebush Turnback	See below ⁶	See below ⁶	2008	2008 ¹
Revesby Turnback	92	78	2008	2008
Macdonaldtown stabling	40	46	2007	2007
North West				
Berowra Platform	9	11	2006	2006
Hornsby Platform	98	119	2008	2008
Quakers Hill to Vineyard Duplication	108	246 ⁹	2012 (was 2010) ⁴	Stage 1-2011 ⁵
Carlingford line passing loop	36	Nil	2010	Cancelled
Total Program Cost	1,290	2,031		

- 1 Project yet to be commissioned due to outstanding signalling works to be undertaken by RailCorp (Lidcombe forecast November 2010, Homebush March 2011).
- 2 After reprioritisation and scope review in November 2008
- 3 After reprioritisation in November 2008. Stage 1 relates to the bus interchange and easy access works. Stage 2 relates to platform and rail works.
- 4 Date changed following the extension of the Quakers Hill to Schofield's project to Vineyard.
- 5 Stage 1 Quakers Hill to Schofields to be completed by 2011. No date set for Stage 2 Schofields to Vineyard.
- 6 The Homebush/Lidcombe Turnbacks are costed together. The original budget is \$87.0 million and the revised budget is \$102 million.
- 7 The Sydenham to Erskineville project was not scheduled or funded prior to being cancelled.
- 8 Excludes RailCorp Management costs and borrowing costs and includes \$63.0 million works funded from other parties.
9. Original budget and revised budget are for stage 1 only. .

Expenditure on the program to 30 June 2010 totalled \$1.25 billion (\$883 million at 30 June 2009).

The objective of the Rail Clearways Program is to improve capacity and reliability on CityRail's Sydney suburban network. It comprises 13 key projects being delivered by the Authority on behalf of RailCorp. The program involves separating the network's 14 metropolitan rail routes into five independent rail clearways.

OTHER INFORMATION

Commuter Car Park and Interchange Program (CCPIP)

In December 2008, the New South Wales Government directed the Authority to deliver 22 of the 29 car parks under the Stage One of CCPIP. RailCorp and various local councils are managing the construction of the remaining seven car parks. Stage 1 of the CCPIP will deliver around 7,000 new car spaces for rail commuters at 29 facilities at railway stations across Sydney, the Central Coast, the Illawarra and the Blue Mountains.

In February 2010, the Minister for Transport announced Stage 2 of the CCPIP as part of the Metropolitan Transport Plan. Stage 2 includes 21 projects comprising 18 car parks and interchanges to be delivered by the Authority and three station upgrades by RailCorp. As a result, the Authority is delivering a total of 31 car parks and nine interchanges. The delivery program for Stage 2 projects is currently being developed with a budget of \$127 million.

The next table shows the original and latest forecast completion dates, together with the original and revised budgets for Stage 1 projects. The overall revised budget for the Stage 1 has increased by \$22.4 million above the original budget due to revised program contingency costs and scope and contract variations. At 30 June 2010, the Authority had incurred \$103 million on the Stage 1 project.

At the end of October 2010, the Authority had completed 9 car parks. The Authority believes it can complete the other Stage 1 car parks before the end of October 2011.

Location		Original completion date	Current forecast or actual completion date	Original Budget (\$m)	Revised Budget (\$m)
1	Berowra	Sep-10	Dec-10	2.1	5.7
2	Blacktown	Feb-11	Jul-11	35.9	45.5
3	Emu Plains	Sep-10	Oct-10/Nov-10	5.7	6.2
4	Glenfield M/Deck	Sep-10	Sep-10	15.5	16.5
5	Helensburgh	Sep-09	Sep-09	1.7	2.3
6	Katoomba	Apr-10	Jul-10	1.3	2.8
7	Macarthur (1)	Dec-10	Dec-10	8.0	1.0
8	Macarthur (2)	Oct-10	Dec-10/Feb-11	9.3	16.3
9	Padstow	Consolidated ³	Consolidated ³	11.8	0.0
10	Quakers Hill	Oct-10	Sep-10	5.9	6.6
11	Ourimbah	Jul-10	Jul-10	1.2	2.3
12	Revesby	Dec-10	Apr-11	30.4	40.5
13	Schofields	Sep-11	Oct-11	2.4	2.7
14	Seddon Park	Oct-09	Oct-09	0.8	0.8
15	Seven Hills	Nov-10	Nov-10/Feb-11	22.7	24.8
16	St Marys	Nov-10	Dec-10	24.8	21.4
17	Warwick Farm	Mar-11	Mar-11	30.9	25.6
18	Waterfall	Sep-10	Aug-10/Nov-10	2.4	6.3
19	Werrington	Mar-10	Jun-10	2.1	1.9
20	Wollongong	Dec-10	Oct-10	14.6	15.7
21	Woonona	Jun-10	Jun-10	1.5	2.2
22	Woy Woy	Dec-10	Apr-11	26.9	33.8
23	Wyong	Oct-10	Dec-10	7.3	6.7
Total Program including other funding ¹				265.2	287.6
Total Program (CCPIP) ²					266.6

¹ Including additional funding from other programs (\$288 m)

² Total CCPIP-1 budget (\$267 m)

³ Car spaces consolidated into Revesby Project

Epping to Chatswood Rail Line (ECRL) Project

The final forecast cost for the ECRL is \$2.3 billion (excluding interest costs on borrowings). This is some \$300 million more than the original approved budget. As previously reported, the estimated project cost of \$1.6 billion (in 2000 prices and per 2003-04 budget papers) did not include post 2000 escalation costs for the project of \$447 million or the interest costs on borrowings.

At 30 June 2010, the Authority had incurred \$2.3 billion or 98.0 per cent of the final forecast cost. The Authority expects to spend a further \$45.7 million over the next two years, finalising property costs, minor works and costs associated with administering the defect liability period (until 2013).

Defect rectification works, which included noise mitigation works, were completed in November 2009. The costs were paid by the tunnel contractors at no cost to the New South Wales government.

Chatswood Transport Interchange

As reported in Volume Four of my 2008 Report to Parliament, CRI Chatswood Australia Pty Limited (CRI), the developer of the Chatswood Transport Interchange, went into receivership in October 2008. The Authority advised this did not affect taxpayers and the general public as the transport elements supporting the start of services on the new ECRL were already complete.

There were several contractual disputes between the developer and the Authority at the time it went into receivership. These were settled via a settlement deed in June 2009. The Authority also obtained a bank guarantee as part of the settlement deed to cover obligations that may arise during the defects liability period. It also received an undertaking from CRI's financiers to cover the Authority's outgoing expenses on the retail centre for a period of up to three years. The retail shops were constructed, but have remained boarded up and empty for over two years. The Authority has maintained security and cleaning responsibilities for these areas until they are tenanted.

A contractual dispute arose between the private sector developer and private sector retail purchaser, which has delayed the opening of the retail component of the overall development. All contractual disputes relating to the retail component of the CTI between private sector parties were settled in principle in August 2010.

North Sydney Station Project

The Authority completed (excluding defect rectification works) the North Sydney Station Project during 2008 and it became fully operational from December 2008. At 30 June 2010, the Authority had incurred \$85.2 million on the project. It expects the final forecast cost to be \$88.3 million, some \$18.4 million or 26.3 per cent more than the original budget of \$69.9 million. The increase was due to increased construction scope and remediation works, while defects rectification works are continuing.

South West Rail Link (SWRL)

In November 2009, the New South Wales Government committed to deliver the SWRL project at a total cost of \$2.1 billion. At 30 June 2010, the Authority had incurred \$158 million on the project. The project has two stages:

- Stage 1 - upgrading Glenfield station, providing additional commuter car parking, upgrading of power supplies and constructing new stabling facilities at Auburn. The Authority advises Stage 1 will be completed in 2013 at a cost of \$862 million with commissioning of Glenfield Junction in 2014 and staged commissioning of Auburn Stabling in the period 2014-2016
- Stage 2 - 11.4km of new twin track from Glenfield to Leppington, new stations and commuter car parking at Leppington and Edmondson Park and a new train stabling facility. The Authority advised work has begun on Stage 2 and is scheduled for completion in 2016.

Northern Sydney Rail Freight Corridor (NSRF)

The NSRF program is an initiative of the Australian Government to remove operational impediments to rail freight traffic between North Strathfield and Broadmeadow at Newcastle. The Authority received \$15.0 million from the Australian Government in 2008-09 to commence feasibility studies. At 30 June 2010, the Authority had incurred \$12.3 million on the project.

Human Resources

This year I reviewed the following areas relating to human resources:

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies
- extent of contract staff.

A summary of the results of my review follows.

Workforce Ageing

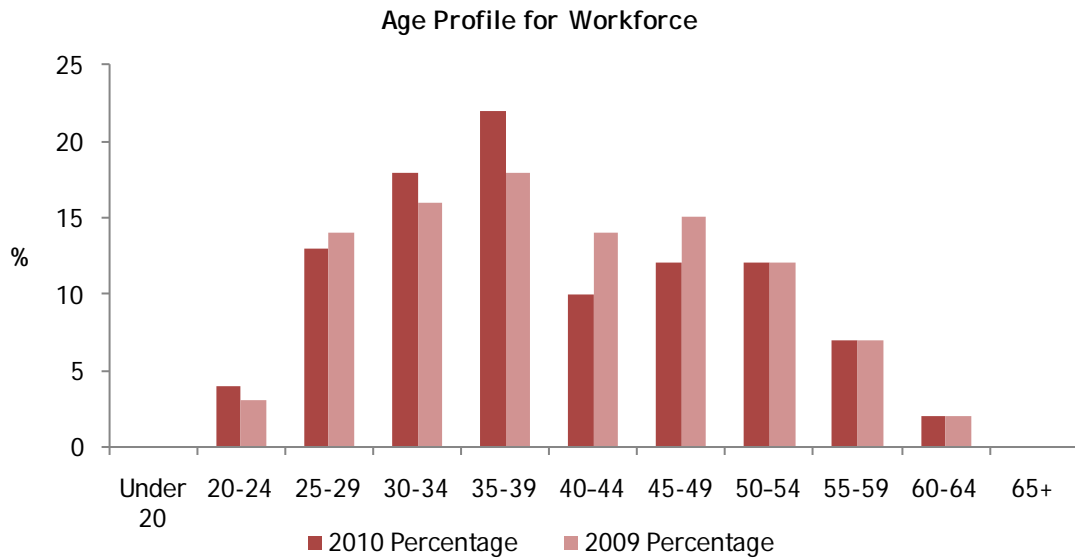
Nine per cent of the Authority's employees are over 55 years of age and 21 per cent are over 50. This distribution of employees across the workforce profile indicates that the Authority is not facing the challenges of an ageing workforce that other transport agencies are currently experiencing.

The age profile of the Authority's employees is shown below:

At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
Up to 35	77	35	61	33
35 - 39	50	22	32	18
40 - 44	23	10	25	14
45 - 49	27	12	27	15
50 - 54	26	12	22	12
55 - 59	16	7	13	7
60 - 64	5	2	3	2
65+	--	--	--	--
Total	224	100	182	100

Source: Transport Construction Authority (Unaudited).

The graph below further demonstrates the age structure of the Authority's employees.



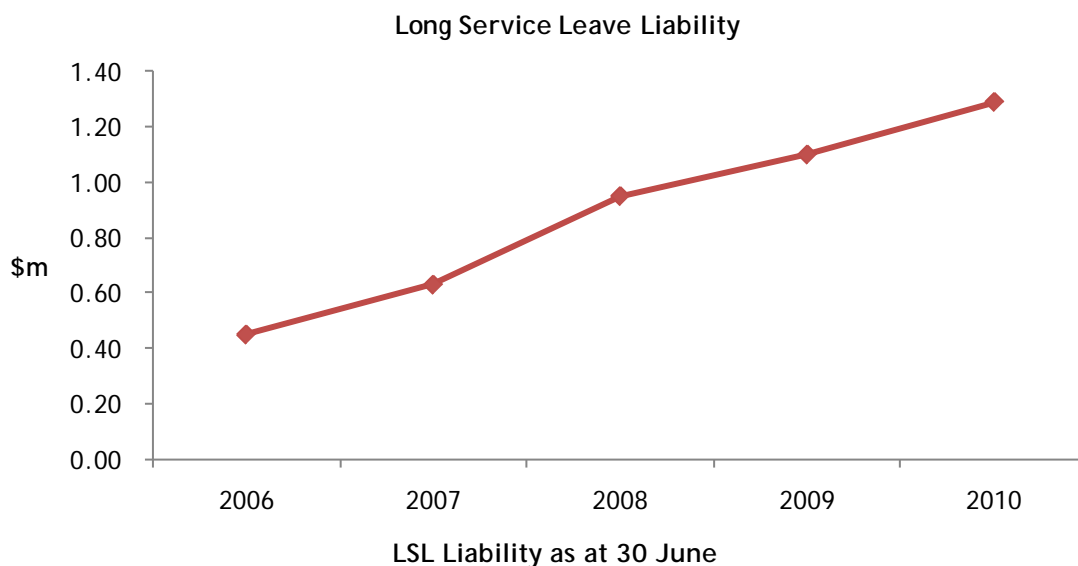
Source: Transport Construction Authority (Unaudited)

While there is still the potential for loss of knowledge and specific skills within the organisation, the Authority places emphasis on graduate programs to attract junior employees and encourages the sharing of knowledge within the Authority.

Long Service Leave Liability

The Authority's liability for long service leave entitlements at 30 June 2010 amounted to \$1.3 million (\$1.1 million in 2009). This liability has increased by over 186 per cent over the last five years. However, the value of the liability is insignificant and has minimal risk to the Authority given the size and nature of its business.

The growth in the long service leave entitlement is illustrated in the graph below.



Source: Transport Infrastructure Development Corporation's audited financial statements.

Annual Leave Balances

The Authority continues to manage annual leave effectively. At 30 June 2010, the Authority reported seven (six) employees with annual leave balances greater than 40 days. The employees in this category represented three per cent (three per cent) of total employees. There have been no significant changes in the percentage of employees with excessive annual leave in the past two years.

Use of Contract Staff

At 30 June 2010, the Authority had eight contractor employees who it had engaged for more than 12 months, and who were paid \$1.0 million in the twelve months to 30 June 2010.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Government grants	656,887	189,710
Other	385,512	348,297
TOTAL REVENUE	1,042,399	538,007
TOTAL EXPENSES*	411,254	359,403
SURPLUS	631,145	178,604
OTHER COMPREHENSIVE INCOME:		
Decrease in property plant and equipment revaluation reserve	(8,550)	(32,616)
Increase on revaluation of South West Rail Line	--	9,036
TOTAL OTHER COMPREHENSIVE EXPENSE	(8,550)	(23,580)
TOTAL COMPREHENSIVE INCOME	622,595	155,024

* Total expenses exclude direct and indirect costs incurred on the ECRL, South West Rail and Commuter Car Park projects. These costs are capitalised as work in progress.

Government grants were higher in 2009-10 because the Authority was provided with funding to construct the South West Railway Link and the Commuter Car Park Program.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	736,084	225,472
Non-current assets	361,691	175,865
TOTAL ASSETS	1,097,775	401,337
Current liabilities	150,932	83,830
Non-current liabilities	953	820
TOTAL LIABILITIES	151,885	84,650
NET ASSETS	945,890	316,687

The significant increase in assets, liabilities and net assets was largely due to increased funding and construction for: the South West Railway Link; the Rail Clearways program; and the Commuter Car Park and Interchange Program.

AUTHORITY ACTIVITIES

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

Minister for Tourism

Luna Park Reserve Trust

Luna Park Reserve Trust

AUDIT OPINION

The audit of the Trust's financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

KEY ISSUES

Going Concern of the Park Operator

I recommend the Trust closely monitor the uncertainty surrounding the Park Operator's ability to continue as a going concern to ensure it meets its financial and social obligations.

The Independent Auditor's Report for the Luna Park site Operator for 2008-09 included an emphasis of matter drawing attention to uncertainty as to whether the Operator will continue as a going concern.

The Trust advised that the Operator is in negotiation with current financiers to identify refinancing alternatives to continue its operations and there is no significant financial exposure to the Trust.

The Trust continues to follow up the developments relating to this matter.

FINANCIAL INFORMATION

Year ended 30 June	2010 \$'000	2009 \$'000
Revenue	1,425	1,567
Expenses	1,787	2,206
Deficit	362	639
Net assets (at 30 June)	31,744	25,563

Revenue is mainly comprised of property rental earned during the year.

The increase in net assets reflects the asset revaluation performed during the year.

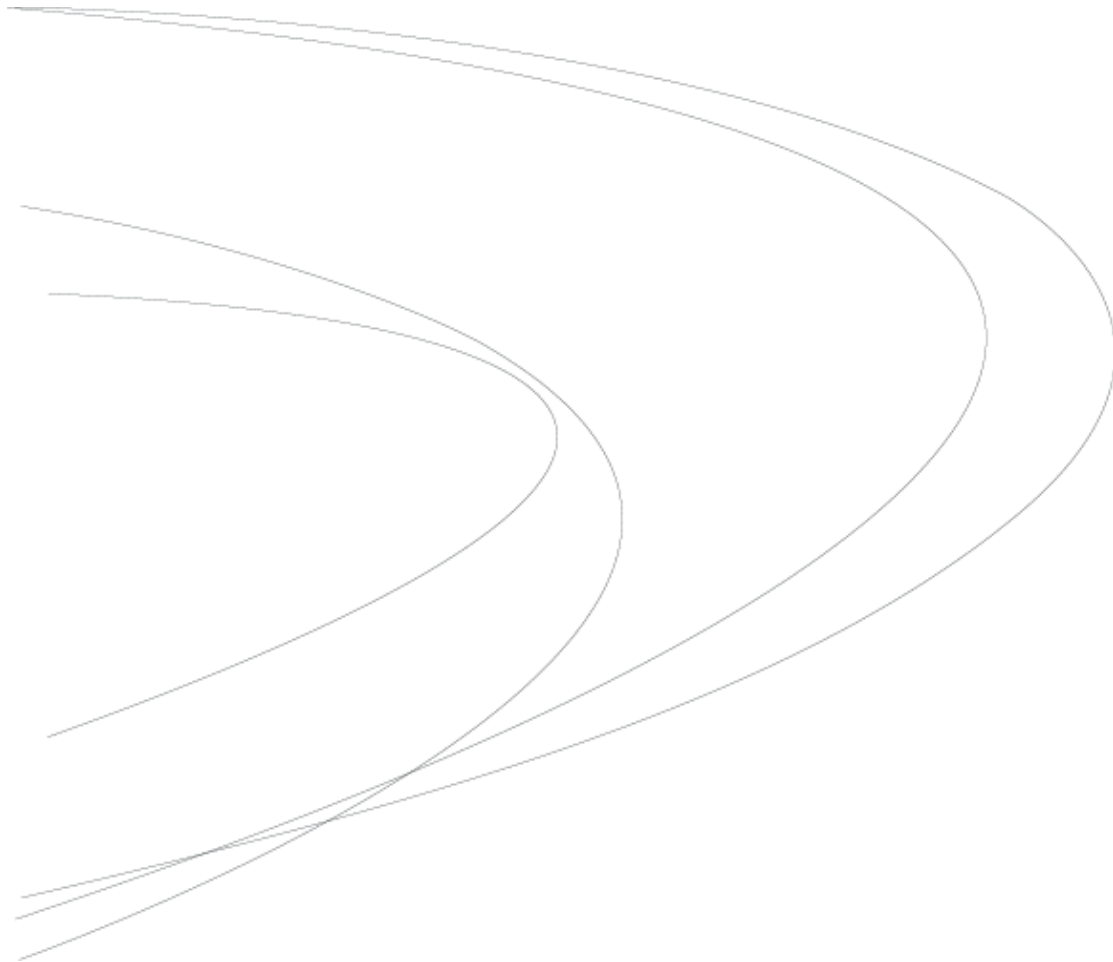
TRUST ACTIVITIES

The Luna Park Reserve Trust was created in October 1990 under the *Luna Park Site Act 1990*. The Trust controls the Luna Park site, an area dedicated for public amusement, recreation and entertainment. It is managed by Sydney Harbour Foreshore Authority but is not a controlled entity.

The Minister for Planning has administrative responsibility for the *Luna Park Site Act 1990* and administrative responsibility for the *Crown Lands Act 1989* so far as it relates to the Luna Park Reserve.

Appendix

Appendix 1 Agencies not reported elsewhere in this Volume



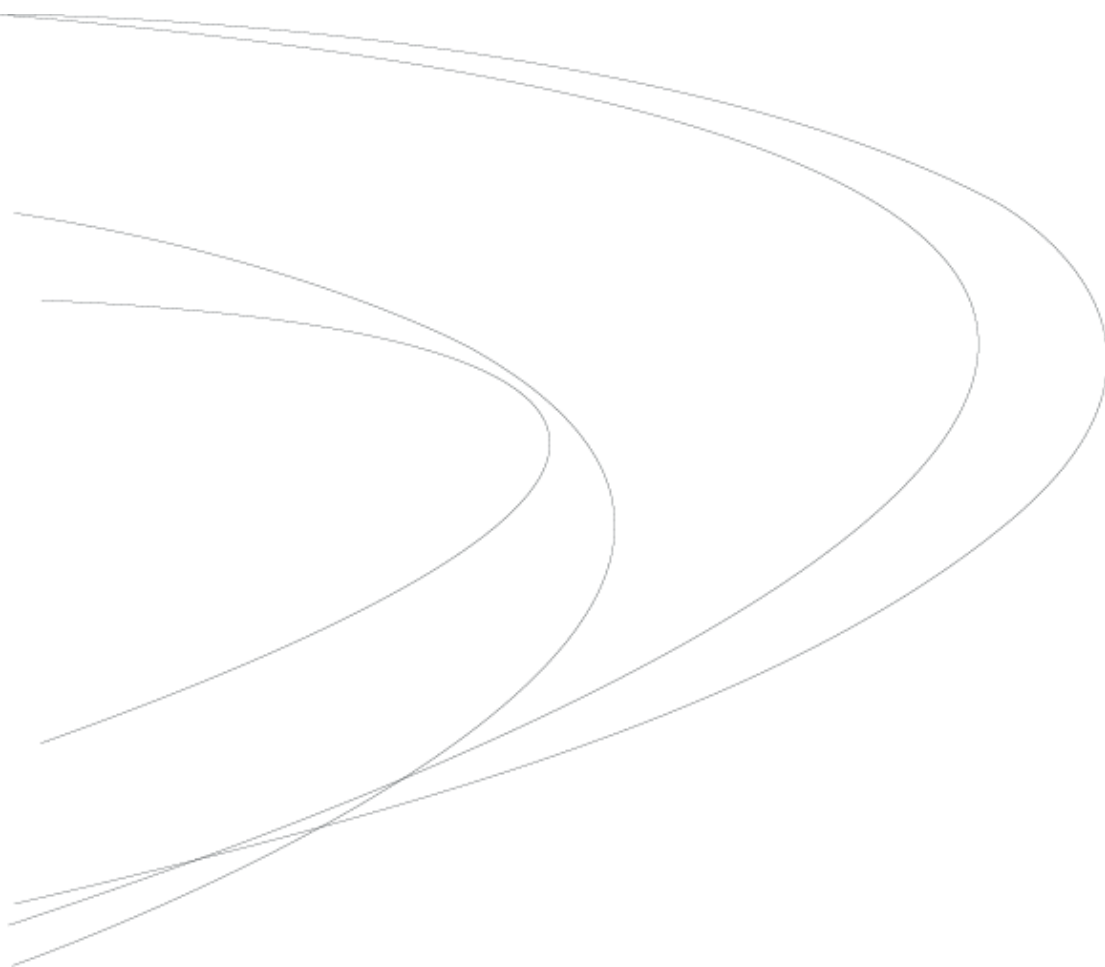
Appendix 1 - Agencies not reported elsewhere in this Volume

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

Entity Name	Website	Period/Year Ended
Agricultural Scientific Collections Trust	*	30 June 2010
Banana Industry Committee	*	30 June 2010
Belgenny Farm Agricultural Heritage Centre Trust	www.belgennyfarm.com.au	30 June 2010
Board of Surveying and Spatial Information	www.bossi.nsw.gov.au	30 June 2010
C.B. Alexander Foundation	www.tocal.com	30 June 2010
Chief Investigator of the Office of Transport Safety Investigations	www.otsi.nsw.gov.au	30 June 2010
Chipping Norton Lake Authority	*	30 June 2010
Festival Development Corporation	*	30 June 2010
Game Council of New South Wales	www.gamecouncil.nsw.gov.au	30 June 2010
- Game Council Division	*	30 June 2010
Hunter Development Corporation	*	30 June 2010
Independent Transport Safety and Reliability Regulator	www.transportregulator.nsw.gov.au	30 June 2010
- Independent Transport Safety and Reliability Regulator Division	*	30 June 2010
Lake Illawarra Authority	www.lia.nsw.gov.au	30 June 2010
Ministerial Corporation for Industry	*	30 June 2010
New South Wales Film and Television Office	*	30 June 2010
NSW Ovine Johne's Disease Transaction Based Contribution Scheme	*	30 June 2010
Rice Marketing Board for the State of New South Wales	www.rmbnsw.org.au	30 June 2010
Riverina Citrus	www.riverinacitrus.com.au	30 April 2010
Small Business Development Corporation of New South Wales	*	30 June 2010
Veterinary Practitioners Board	www.vpb.nsw.gov.au	30 June 2010

* This entity does not have a website.

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