

AUDITOR-GENERAL'S REPORT FINANCIAL AUDITS

Volume Ten 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 Ten of my 2010 Report.

Peter Achterstraat
Auditor-General

Sydney
December 2010

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Significant Items

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Visitor numbers were 25 per cent lower in 2009-10. There were fewer exhibitions held, mainly due to disruptions from building works and the relocation of the collection to a new storage facility.	5
The new collection storage facility at Lilyfield became operational in March 2010. The facility will address the risk of damage to collection items that were previously overcrowded in the Gallery's on-site storage facility.	8
Australian Museum Trust	
The Museum's collections exceed 18 million objects of which only 1.6 million were recorded in the electronic database. At the current rate, it will take the Museum 341 years to record its collections in the database.	10
Whilst the Museum is improving access to its collections, a lack of information on its collections limits the Museum's ability to achieve its objectives.	10
In 2009-10, the number of visitors to the Museum increased by 52,647 to 374,601, representing a 16.4 per cent increase over the previous year.	11
Communities NSW	
In 2008, it was estimated that \$2.7 billion was spent on obesity related illness in New South Wales. In 2010 Communities NSW, spent \$102 million increasing and promoting participation opportunities for sport and active recreation, which is about 3.8 per cent of the obesity cost.	16
Historic Houses Trust of New South Wales	
The Trust acquired the former Presbyterian Manse in Moruya. The property will be conserved and sold with proceeds being returned to the Endangered Houses Fund.	24
The transfer of ownership of the Justice and Police Museum to the Trust was completed during the year.	24
Ownership of the historic property, Throsby Park, was transferred from the National Parks and Wildlife Service to the Trust. The property will be leased, with proceeds going to the Endangered Houses Fund.	24
The Trust revalued its properties and collections resulting in an increment of \$58.1 million.	27
Library Council of New South Wales	
The Library's collection was revalued resulting in an increment of \$271 million.	30
At 30 June 2010, 11.1 per cent of contract staff had been engaged by the Library for more than 12 months and one staff member had been contracted for more than six years.	33

Sydney Opera House Trust	Page
Last year, I recommended that critical problems with stage machinery at the Sydney Opera House be addressed and consideration be given to other operational shortcomings. The Trust is progressively addressing these issues. The replacement of obsolete equipment will depend on available funding.	35
There was a two percent increase in overall attendance in 2009-10 compared to the previous year and this was the highest level achieved in the last five years.	35
The Opera House was revalued resulting in an increment of \$314 million.	38
Trustees of the Museum of Applied Arts and Sciences (Powerhouse Museum)	
The Sydney Observatory and the Powerhouse Discovery Centre recorded their highest ever visitor numbers. At the Powerhouse Museum visitor numbers were lower because a major international touring exhibition was not presented this year.	40
Building Education Revolution Program (BER)	
Whilst it appears the Department has delivered on the key objectives of the P21 program, which is rapid construction of school facilities, it appears to have come at a higher cost than in a business as usual environment.	49
In many cases facilities built exceeded the size entitlements specified in the Department's School Facilities Standards.	50
The extra funds used to provide 295 schools with halls bigger than their suggested entitlement could have been directed towards other projects or to those schools that will not have a multipurpose hall at the end of the P21 program.	50
It appears key stakeholders were not fully informed of the Department's Standards and the BER Guidelines, and how they apply to their school, resulting in confusion and concerns about the adequacy of facilities, and why schools did not receive a certain type of facility.	50
Approved managing contractors tendered fees of (\$261 million) were \$40 million, or 18.1 per cent, higher than the Department's own estimate of \$221 million.	50
For 1,270 projects at the time of my audit, the Department's quantity surveyors assessed the estimated project costs to be lower than the managing contractors' estimates. Despite this lower assessment, the Department still approved the managing contractors cost estimates. The total difference for the 1,270 projects was \$188 million.	51
Because the Department had approved the higher cost estimates determined by the managing contractors, there was no real incentive for the managing contractors to try and negotiate a lower price.	51
The volume of work and tight timeframes led to limited competition when tenders were put to the marketplace for individual projects.	51
Tender documents and contracts indicate that most of the site supervision was carried out by sub contractors of managing contractors and therefore there is a risk of the Department paying for a service that was not provided by managing contractors.	51

Building Education Revolution Program (BER) (continued)	Page
The term Benchmark Market Value could be misleading to stakeholders. It only benchmarks a project with other projects in the P21 Program. It is not an external benchmark.	51
The independent quantity surveying firm I engaged to estimate the construction cost for nine P21 projects believes that in eight cases, the estimated construction cost would be between 2.3 per cent and 39.7 per cent lower, in a business as usual environment, than the estimated construction sum/actual tendered amounts under the P21 program.	51
The extra funds used to provide the 220 schools with libraries bigger than their suggested entitlement could have been directed towards other projects or to those schools that will not have a libraries at the end of the P21 program.	61
If the Department had more discretion to transfer funding allocations between schools, it may have resulted in greater benefits to the government school network as a whole.	64
 Department of Education and Training	
The results of the National Assessment Program - Literacy and Numeracy indicated New South Wales students continue to perform better than the national average. However, spelling and numeracy results were lower than 2009 for years 3, 5, 7 and 9.	101
Although retention rates in New South Wales improved in 2009 they still remain below the national average.	104
The results of the 2009 national tests for New South Wales Aboriginal students indicated they performed consistently better than the national average for Aboriginal students.	105
Around 92 per cent of students are present at school on an average school day. Attendance was highest in the Northern Sydney region, 94 per cent and lowest in the New England region, 89 per cent.	107
The Department continues to face the loss of large numbers of retiring teachers and the loss of their associated skills, 44.8 per cent of school teachers are aged 50 years and over.	112
The number of international students enrolled increased by 18.8 per cent in 2009. The resultant increase in fees was \$3.7 million or 10.9 per cent.	120
 New South Wales Technical and Further Education	
The Commission estimates that backlog maintenance has fallen from \$37.6 million last year to \$8 million.	124
The Commission is facing the loss of large numbers of retiring teachers, 65.3 per cent of its permanent teachers are aged 50 years and over.	125
 Wentworth Park Sporting Complex Trust	
The Trust continues to record a loan of \$6.5 million payable to Greyhound Racing NSW. The Trust and Greyhound Racing NSW have again failed to agree on terms to settle this amount.	139

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The <i>Sporting Venues Authorities Act 2008</i> dissolved the Wollongong Sportsground Trust on 30 November 2009 and established the Illawarra Venues Authority. The change did not impact operations.	161
The Government announced funding of \$28.9 million for replacement of the Western Grandstand. Work commenced in 2010 and is expected to be completed in 2012.	161
Average attendance at the WIN Entertainment Centre increased by 40 per cent due to major music events including concerts by PINK, Lady GaGa, Keith Urban, Tom Jones and John Mayer.	161

Recommendations

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Art Gallery of New South Wales Trust	
I recommend:	
▪ the Gallery establish individual leave plans with employees to reduce leave balances within an acceptable timeframe.	7
▪ the Gallery implement a centralised system for monitoring accrued flex leave balances.	7
Australian Museum Trust	
I have previously recommended the Museum complete its program of recording its collections on an electronic database as soon as possible.	10
I recommend:	
▪ the Museum develops and implements additional procedures requiring all staff with excessive leave balances to have a leave management plan in place to further reduce leave balances within an acceptable timeframe.	13
▪ the Museum establish a central register of all contractors. The Museum should review its use of contractors to ensure it is not excessive and the Museum is receiving value for money by engaging contractors.	13
Communities NSW	
I recommend:	
▪ Communities report on the participation rates of children in sport and active recreation.	16
▪ Communities develop mechanisms to centrally review flex time records to help ensure excessive flex time is not being accrued and forfeited by staff.	20
▪ management review overtime to minimise potential downsides of staff working excessive hours.	20
▪ Communities monitor the use of contractors centrally, to ensure reliance on contractors is not excessive and continues to represent value for money.	20
Historic Houses Trust of New South Wales	
I recommend the Trust:	
▪ develops and implements procedures requiring all staff with excessive leave balances to have a leave management plan in place to reduce leave balances within an acceptable timeframe.	26
▪ periodically review the roles and responsibilities of all contract employees to ensure:	
□ reliance on contractors is not excessive	
□ use of contract employees instead of permanent employees is appropriate	
□ contractors do not become de facto employees by virtue of being with the Trust for an extended period of time	
□ that the Trust is receiving value for money by utilising these contractors.	26

	Page
Library Council of New South Wales	
I recommend the Library:	
▪ review the effectiveness of its policies in managing its ageing workforce.	31
▪ implement a centralised system for monitoring flex leave arrangements.	32
▪ periodically review the roles and responsibilities of all contract employees to ensure:	
□ reliance on contractors is not excessive	
□ use of contract employees instead of permanent employees is appropriate	
□ contractors do not become de facto employees by virtue of being with the Library for an extended period of time	
□ the use of contract employees continues to represent value for money.	32
Trustees of the Museum of Applied Arts and Sciences	
I recommend the Museum:	
▪ develops and implements procedures requiring all staff with excessive leave balances to have a leave management plan in place to reduce leave balances within an acceptable timeframe.	42
▪ periodically review the roles and responsibilities of all contract employees to ensure:	
□ reliance on contractors is not excessive	
□ use of contract employees instead of permanent employees is appropriate	
□ contractors do not become de facto employees by virtue of being with the Museum for an extended period of time.	43
Building the Education Revolution	
I recommend:	
▪ the Department review whether the library sizes in its School Facilities Standards are appropriate, given that 57 per cent of schools are receiving a library that is bigger than the size guide in the Standards.	61
▪ the Department review whether the multipurpose hall sizes in its School Facilities Standards are appropriate given that 70 per cent of schools are receiving a hall that is bigger than the size guide in the Standards.	62
▪ at the conclusion of each P21 project, the Department offer each school community a briefing on key aspects of the School Facilities Standards and how they apply to their school.	65
▪ the Department complete a comprehensive review of its School Facilities Standards post the BER program. This review should include post occupancy evaluations from all schools that received a new or refurbished facility under the P21 program.	68
▪ the Department should always comply with the recommended tender period of 25 days for projects of this size and complexity.	73
▪ the Department re-estimate its project management fees and advise the Australian Government if its fees exceed the four per cent benchmark.	75

Building the Education Revolution (continued)

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I recommend:

- for future projects, where tenderers do not provide the information requested (such as a split between project management and site supervision fees) the tender evaluation committee request this information before completing the tender process. 76
- the Department examine the managing contractors' records to confirm they have provided the level of site supervision stipulated in their tender. I believe most of the site supervision was carried out by subcontractors of the managing contractors and therefore there is a risk of the Department paying for a service that was not provided by managing contractors. 77
- irrespective of time constraints, the Department not approve ECS's that are substantially higher than their own assessment. The Department should investigate significant variances, negotiate with the managing contractors and set the ECS based on their own assessment, not the managing contractor's assessment. 79
- the Department request statutory declarations from managing contractors which states they have tendered for all works. If managing contractors have entered into direct negotiations they should list these as exceptions in the statutory declaration. Upon receiving the statutory declaration, the Department should audit a sample of direct negotiations to confirm this did not result in an adverse value for money outcome. 84
- for future projects or programs of similar nature and/or size, the Department consider nominating a Departmental officer to sit on the tender evaluation committee to ensure full compliance with the New South Wales Government Code of Practice for Procurement and NSW Government Procurement Guidelines - Tendering Guidelines. Their presence will also assist in maximising value for money by trying to negotiate a lower price with the preferred tenderer.

The Department should also issue an instruction to all managing contractors that states they must attempt to negotiate with the preferred tenderer either when:
 - (a) very few tenders have been submitted for a project, and/or
 - (b) the tendered price is significantly higher than the Department's cost estimate.87
- The Department should obtain the managing contractors written acceptance of the 80/20 split used to calculate the Benchmark Market Value. 88

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Department of Education and Training	
I recommend the Department:	
<ul style="list-style-type: none"> ▪ continue to review the effectiveness of its policies for managing excessive annual leave balances. 111 ▪ create and maintain a central record of all contract employees to determine, monitor and analyse the cost of contract employees, the number of contract employees and the period of service for all contract employees. 115 ▪ periodically review the roles and responsibilities of all contract employees to ensure: <ul style="list-style-type: none"> ▫ reliance on contractors is not excessive ▫ use of contract employees instead of 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 contract employees continues to represent value for money. 115 	
New South Wales Technical and Further Education Commission	
I recommend the Commission:	
<ul style="list-style-type: none"> ▪ better manage the review and transfer of completed projects in capital works in progress. 124 ▪ create and maintain a central record of all contract employees to determine, monitor and analyse the cost of contract employees, the number of contract employees and the period of service for all contract employees. 126 ▪ periodically review the roles and responsibilities of all contract employees to ensure: <ul style="list-style-type: none"> ▫ reliance on contractors is not excessive ▫ use of contract employees instead of permanent employees is appropriate ▫ contractors do not become de facto employees by virtue of being with the Commission for an extended period of time ▫ use of contract employees continues to represent value for money. 126 	
Wentworth Park Sporting Complex Trust	
I have previously recommended that the Trust endeavour to reach agreement with Greyhound Racing NSW regarding the treatment of monies provided in 1985-87 by the former Racecourse Development Fund. 139	
Centennial Parklands Foundation	
I recommend the Foundation determine whether it controls Centennial Parklands Foundation Limited for financial reporting purposes. 151	

Section One



Commentary on Government Agencies

Minister for the Arts

Art Gallery of New South Wales Trust

Australian Museum Trust

Communities NSW

Historic Houses Trust of New South Wales

Library Council of New South Wales

Sydney Opera House Trust

Trustees of the Museum of Applied Arts and Sciences

Refer to Appendix 1 for:

Art Gallery of New South Wales Foundation

The Brett Whiteley Foundation

Art Gallery of New South Wales Trust

AUDIT OPINION

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

PERFORMANCE INFORMATION

The Gallery provided the following information regarding its performance.

Year ended 30 June	2010	2009	2008	2007	2006
Visitor numbers ('000s)	1,283	1,706	1,356	1,302	1,690
Admission fees (\$m)	1.9	4.8	2.6	1.9	3.8
Number of exhibitions	31	41	38	38	52
Collections					
Total items ('000s)	29	29	29	28	28
Total value (\$m)	825	813	795	782	629
Acquisitions during the year:					
- dollar value (\$m)	11.8	18.6	14.1	8.2	9.9
- number of items	425	504	467	442	585

Source: Art Gallery of New south Wales Trust.

The annual exhibition program is the major driver of visitor numbers, which were 25 per cent lower in 2009-10. In 2008-09 there were a number of very successful ticketed exhibitions including 'Monet and the Impressionists' and international touring exhibitions including 'The Lost Buddhas'.

The number of exhibitions held in 2009-10 was lower than usual, primarily caused by major building works disruptions and the relocation of the Gallery's collection to a new purpose-designed storage facility at Lilyfield. This new facility commenced operations in March 2010. A total of 13,670 items were transferred to the new facility to ensure safe and secure preservation.

During the year, the Gallery acquired \$11.8 million of artworks, of which \$1.1 million were gifted.

OTHER INFORMATION

Human Resources

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

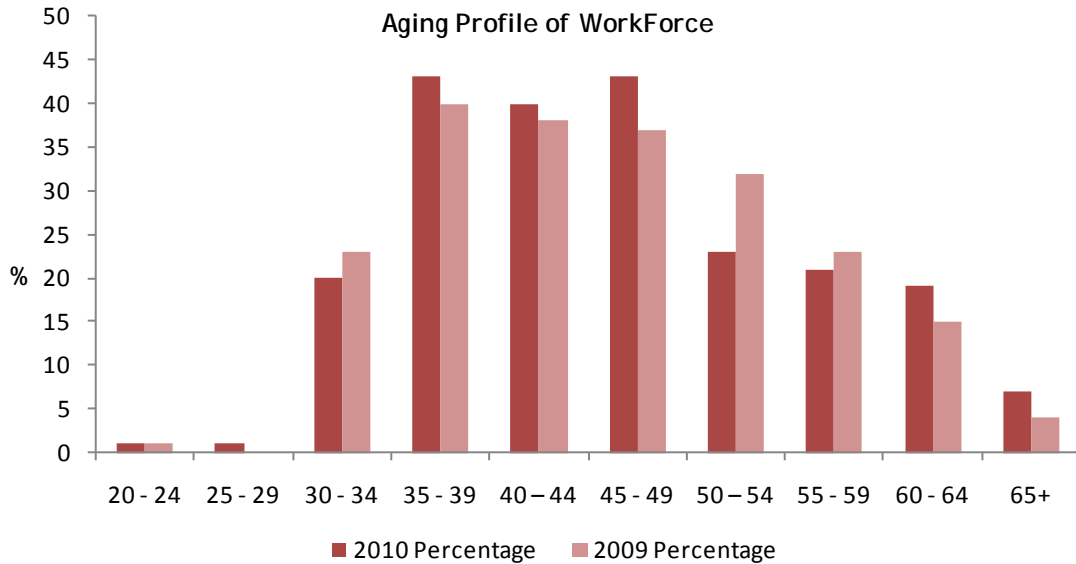
- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- management of excessive flex leave balances

Issues identified from my review are detailed below.

Workforce Ageing

At 30 June 2010, 22 per cent (20 per cent at 30 June 2009) of the Gallery’s employees were over 55 years of age and 33 per cent (35 per cent) were over 50. A large number of these employees are likely to retire over the next five to ten years. However, the Gallery does not consider this potential loss of knowledge and skills to be a risk.

The age profile of the Gallery employees is shown below:



At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
Up to 39	65	30	64	30
40-44	40	18	38	18
45-49	43	20	37	17
50-54	23	10	32	15
55-59	21	10	23	11
60-64	19	9	15	7
65+	7	3	4	2
Total	218	100	213	100

Source: Information provided by the Gallery (unaudited).

In response to this risk, the Gallery advised it has the following policies and strategies in place for senior positions to address the possible loss of corporate knowledge:

- a two month period of notice required prior to resignation or retirement
- a change over period of one week between new and retiring employees to ensure a thorough handover
- flexible work arrangements to targeted staff to enable a gradual retirement and handover of corporate knowledge
- record management policies to maintain relevant written and electronic records.

Annual Leave Balances

I recommend the Gallery establish individual leave plans with employees to reduce leave balances within an acceptable timeframe.

The Gallery holds quarterly reviews of annual leave balances and has discussions with staff who have high balances. The number of employees with annual leave balances in excess of 40 days has declined from 32 employees at 30 June 2009 to 26 employees at 30 June 2010. Employees in this category represented 9 per cent (10 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.

Flex Leave

I recommend the Gallery implement a centralised system for monitoring accrued flex leave balances.

The Gallery advised that most of its departments use standard hours however, for departments that do use flex leave, consideration will be given to centralising the management of accrued flex balances.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Government contributions	37,345	27,622
Sale of goods and services	7,406	11,515
Other	15,445	25,417
TOTAL REVENUE	60,196	64,554
Personnel services expenses	20,109	20,036
Operating expenses	13,890	14,832
Depreciation and amortisation	3,215	2,141
TOTAL EXPENSES	37,214	37,009
SURPLUS	22,982	27,545
OTHER COMPREHENSIVE INCOME		
Transfer from asset revaluation reserve	--	287
TOTAL COMPREHENSIVE INCOME	22,982	27,832

Government contributions in 2009-10 included a capital grant of \$15.5 million (\$5.8 million). The increased capital grant related mainly to building works at the off-site collection storage facility at Lilyfield. The new 5,000 square metre facility addresses the risks of damage to collection items that were previously overcrowded in the Gallery's on-site storage facility. The total cost of the construction was \$17.3 million.

From 2010-11, the Gallery will receive an additional annual recurrent operational grant of \$3.0 million to fund operating expenses.

Revenues from the sale of goods and services were down due to reduced visitor numbers.

Other revenue was higher in 2008-09 due to additional donations received to fund the \$16.2 million acquisition of the Paul Cezanne painting *Bords de la Marne* c1888. Donations in 2009-10 amounted to \$8.3 million (\$17.4 million).

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	27,133	33,280
Non-current assets	1,027,902	999,626
TOTAL ASSETS	1,055,035	1,032,906
Current liabilities	6,299	7,154
Non-current liabilities	21	19
TOTAL LIABILITIES	6,320	7,173
NET ASSETS	1,048,715	1,025,733

The increase in non-current assets is primarily due to purchases of art work and the completion of the Lilyfield storage site.

GALLERY ACTIVITIES

The Gallery is constituted under the *Art Gallery of New South Wales Act 1980*. It is subject to the control and direction of the Minister for the Arts. Its main functions are to:

- develop and maintain a collection of works of art
- propagate and increase knowledge and appreciation of art
- give particular emphasis on the visual art of Australia and Asia.

For further information on the Gallery, refer to www.artgallery.nsw.gov.au.

CONTROLLED ENTITY

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

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

Entity Name	Website
The Australian Institute of Asian Culture and Visual Arts Limited	www.asianart.com.au

Australian Museum Trust

AUDIT OPINION

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

KEY ISSUES

Collections Database (Repeat Issue)

I have previously recommended the Museum complete its program of recording its collections on an electronic database as soon as possible.

In recent years, I reported the absence of an appropriate database impacts the Museum's ability to discharge its stewardship responsibilities over its collections. Museum management has again advised that completion of this task is dependent on the availability of funds. The Museum is part of a funding bid to The Treasury, which is being prepared and coordinated by the Department of Communities, to allow electronic databasing of its collections.

The Museum continues to process new and old items to the electronic database as resources allow. They are unable to determine when this work will be completed largely because of the number of collection items. Total collection items exceed 18 million objects and the number recorded in the collections electronic database was approximately 1.6 million (8.9 per cent) at 30 June 2010.

The Museum added approximately 48,000 items to its collection database in 2009-10. At this rate, it will take the Museum another 341 years to record its current collections in the electronic database.

Performance Audit

In September 2010, I released my performance audit report on *Knowing the Collections: Australian Museum*, which looked at the information the Museum holds on its collections, its inventory controls and how well it can locate the objects in its care.

The report concluded the Museum is doing much to improve access to its collections. However, a lack of information on its collections limits its ability to fully achieve its stated objectives. Despite efforts to digitise its information, much of the collection remains unregistered or poorly catalogued. Much of the information is still held on paper, cards, slides and old photographs.

The full report, including the Museum's response, can be obtained at:

www.audit.nsw.gov.au/publications/reports/performance/2010/museum_collections/collections_contents.htm.

PERFORMANCE INFORMATION

The Museum provided the following information regarding its performance.

Year ended 30 June	2010	2009	2008	2007	2006
Visitor numbers ('000s)	375	322	333	318	297
Admission fees (\$m)	3.3	2.5	1.9	1.8	2.1
Temporary exhibitions	8	5	8	9	8
Website visits (m)	9.4	14.0	21.0	23.3	17.1
Value of Collection (\$m)	767	767	767	530	530

Source: Annual Report 2009-10 unaudited

In 2009-10, visitor numbers increased by 52,647 to 374,601 (322,065 in 2008-09), a 16.4 per cent increase over the previous year. Revenue from admission fees increased by 30.0 per cent compared to the previous year. The price of admission fees increased between three and 60.0 per cent across all categories in 2008-09 and, whilst admission fees did not increase in 2009-10, the effect of the increase in 2008-09 further bolstered revenues in 2009-10.

The increase in visitor numbers was primarily due to continued public interest in the Museum's exhibitions, which included:

Temporary exhibitions with top-up admission fees

Exhibition Name	Exhibition Start Date	Exhibition Finish Date	Visitors
When Mammoths Roamed	10 April 2009	24 July 2009	42,885
Egyptian Treasures: Art of the Pharaohs	13 September 2009	6 December 2009	60,139
Wildlife Photographer of the Year and My Photo Studio	24 December 2009	26 April 2010	39,094
Total Attendance			142,118

Temporary exhibitions with no top-up admission fees

Exhibition Name	Exhibition Start Date	Exhibition Finish Date
Climate Change - Our Future, Our Choice	2 May 2009	16 August 2009
Menagerie: Contemporary Indigenous Sculpture in Australia	5 September 2009	15 November 2009
Amazing Backyard Adventures	5 December 2009	18 April 2010
Yiloga! Tiwi Footy	15 May 2010	14 November 2010
Alive display and events arena	22 May 2010	20 September 2010

The Museum's website continued to provide interaction between the Museum and the public, with 9.4 million (14.0 million) visits to the sites. Of the 2.9 million visits to the 'australianmuseum.net.au' site, 43.0 per cent were international visitors.

The 'Museum in a Box' program delivered teaching resources to nearly 63,000 school students across New South Wales during the year.

OTHER INFORMATION

Human Resources

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

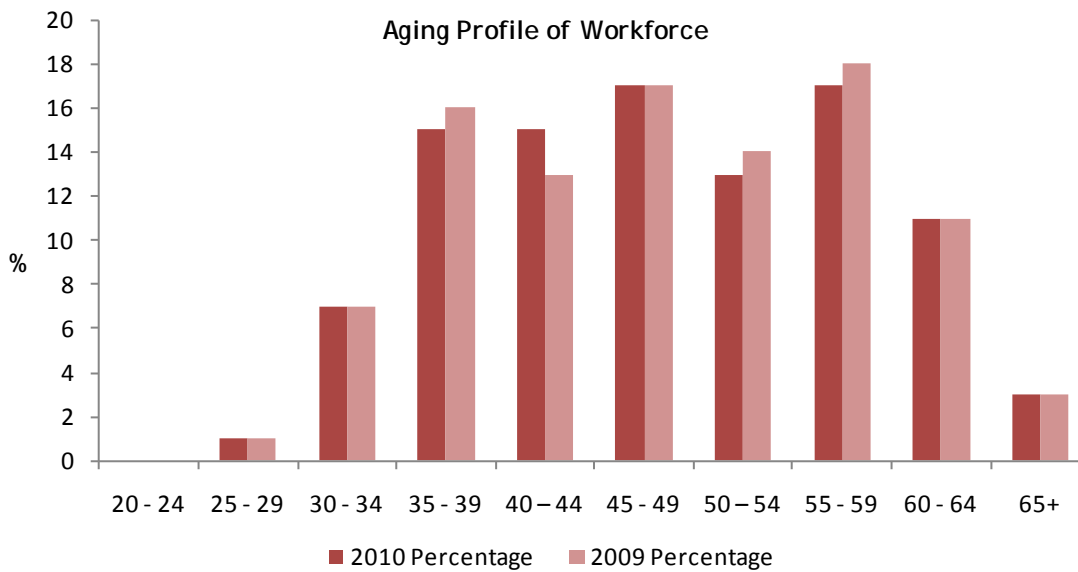
- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- use of contract staff.

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

Workforce Ageing

At 30 June 2010, 31.0 per cent (32.0 per cent) of the Museum’s employees were over 55 years of age and 44.0 per cent (46.0 per cent) were over 50. A large number of these employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for the Museum.

The age profile of Museum employees is shown below:



At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
Up to 39	43	23	44	24
40-44	27	15	24	13
45-49	32	17	30	17
50-54	24	13	26	14
55-59	32	17	32	18
60-64	20	11	20	11
65+	5	3	5	3
Total	183	100	181	100

Source: Information provided by Museum (unaudited)

The Museum does not have a strategic staff succession plan in place to address the ageing workforce risks. It advised it is having difficulties developing one under the existing Government staff freeze. The Museum does, however, provide opportunities for younger staff to act in higher positions, exposing them to relevant experiences and issues, which go some way to addressing the problem.

The Museum's low staff turnover rate, allows more stable employment and provides new staff with the opportunity to build knowledge and experience over time. In that sense, the Museum believes it may be better placed to deal with an ageing workforce than other general Government departments with higher turnover rates and/or younger aged profiles.

The Museum also provides considerable support for retirees to keep them engaged with the salaried workforce. Retirement does not necessarily mean loss of knowledge. The vast majority of Research and Collections (Science) retirees continue productive work at the Museum and, from this perspective, the 'real' turnover rate is considered very low.

The Museum currently has 18 Senior Fellows who were former researchers/curators/collection managers at the Museum. They are provided with a workspace, access to infrastructure and an honorarium of up to \$1,000 per annum for research-related expenses. The more active Fellows apply for research grants, some of which cover the salaries of technical officers and post doctoral positions, they supervise students, publish scientific papers and contribute to the promotion of the Museum's science through, for example, articles in Explore Magazine.

Annual Leave Balances

I recommend the Museum develops and implements additional procedures requiring all staff with excessive leave balances to have a leave management plan in place to further reduce leave balances within an acceptable timeframe.

The Museum has attempted to actively manage employees with excessive annual leave balances in recent years. A monthly report of annual leave balances is generated for executive management's information and action. However, the number of employees with annual leave balances in excess of 40 days has increased from 27 employees at 30 June 2009 to 30 employees at 30 June 2010. Employees in this category represented 8.4 per cent (7.7 per cent) of total.

The Museum's liability for annual leave increased by 23.7 per cent, from \$1.5 million at 30 June 2009 to \$1.8 million 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.

Use of Contract Staff

I recommend the Museum establish a central register of all contractors. The Museum should review its use of contractors to ensure it is not excessive and the Museum is receiving value for money by engaging contractors.

The Museum advised it does not have a central registry for contractors. No reviews are performed to identify if the reliance on contractors is excessive or to ensure the use of contract employees represents value for money.

The Museum does not believe maintaining a contractor's register would be cost effective. Controls are in place to assess each proposal on its merit and the Director-General's approval is needed for any contractors who replace staff. Appointments are generally short term placements. Each vacancy, and the proposal to fill it with contract staff, is carefully assessed against need, cost, duration, skills requirement and any special circumstances such as the need to fill at very short notice.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Government contributions	27,992	29,733
Sale of goods and services	8,053	6,651
Other revenue	2,804	5,749
TOTAL REVENUE	38,849	42,133
Personal services expenses	22,819	22,560
Other operating expenses	11,866	13,089
Other expenses	5,791	5,030
TOTAL EXPENSES	40,476	40,679
(DEFICIT)/SURPLUS	(1,627)	1,454
OTHER COMPREHENSIVE INCOME	--	--
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	(1,627)	1,454

Total revenue from all sources declined by \$3.3 million in 2009-10. Revenues from the sale of goods and services increased by \$1.4 million, mainly due to the increase in visitor numbers, but Government capital contributions fell by \$2.3 million and prior year revenues included an insurance recovery of \$2.8 million.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	10,574	10,720
Non-current assets	1,027,460	1,029,584
TOTAL ASSETS	1,038,034	1,040,304
Current liabilities	4,046	4,713
Non-current liabilities	392	368
TOTAL LIABILITIES	4,438	5,081
NET ASSETS	1,033,596	1,035,223

The Museum spent \$3.5 million in 2009-10 on additions to property, plant and equipment. The major items of expenditure were:

- \$2.8 million to complete capital improvements at the College Street site
- \$700,000 for upgrades to the Lizard Island Research Station.

MUSEUM ACTIVITIES

The Museum is constituted under the *Australian Museum Trust Act 1975*. Trustees are appointed by the Governor on the recommendation of the Minister for the Arts for a term of up to three years.

The objectives of the Museum are to propagate knowledge about the natural environment of Australia and to increase that knowledge, particularly in the natural sciences of biology, anthropology and geology. The Museum is responsible for the control and management of the Museum.

For further information on the Museum, refer to www.austmus.gov.au.

Communities NSW

AUDIT OPINION

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

KEY ISSUES

Transfer of functions to Communities

Communities was created on 1 July 2009 through the amalgamation of the following departments, offices, divisions of statutory bodies and the transfer of other departmental functions:

- Department of the Arts, Sport and Recreation
- Office of Children
- Office of the Community Relations Commission
- Office of the Sydney Olympic Park Authority
- Office of the Sydney 2009 World Masters Games Organising Committee
- Hunter Region Sporting Venues Authority Division
- Parramatta Stadium Trust Division
- State Sport Centre Trust division
- Wollongong Sportsground Trust Division
- Sydney Olympic Park Authority Aquatic and Athletic Centres Division
- Youth programs and Better Futures Program from the Department of Community Services
- Volunteering and the Office of Western Sydney from the Department of Premiers and Cabinet
- Western Sydney Parklands Trust staff from the Department of Planning.

Participation of Children in Sport and Active Recreation

I recommend Communities report on the participation rates of children in sport and active recreation.

The Department of Health reported:

- in 2004, 25 per cent of boys and 23.3 per cent of girls were either overweight or obese
- trends suggest this will increase to 35.6 per cent of boys and 31.7 per cent of girls by 2016
- making physical activity a priority and encouraging good habits in children from an early age is important and can help children develop the skills they need to be active throughout their lives.

Source: NSW Government Plan for Preventing overweight and obesity in children, young people and their families 2009-2011

In 2008, Access Economics estimated \$2.7 billion was spent on obesity related illness in New South Wales. In 2009-10 Communities, spent \$102 million increasing and promoting participation opportunities for sport and active recreation, which is about 3.8 per cent of the obesity cost. Communities reports on the level of adult participation in sport and active recreation. It does not do this for children. I believe Communities should report the participation rates of children in sport and active recreation so it can monitor its progress against the State Plan target to 'increase participation in sporting and physical activities' by children and young people.

Source: Access Economics - The Growing cost of Obesity in 2008

Prevalence of Problem Gambling

In 2003, the Independent Pricing and Regulatory Tribunal (IPART) recommended 'ongoing prevalence studies should be conducted into problem gambling to assess, and monitor over time, the extent of problem gambling, its geographic spread and the profile of problem gamblers'.

Since the IPART recommendation, two separate studies have been undertaken. The first, in 2006, involved 32,676 people being asked to participate. This resulted in 5,026 people completing questionnaires, 2,010 of whom went on to complete the entire survey, including participating in core interviews and providing demographic data.

The second study, in 2009, conducted by Health NSW, used a slightly different methodology involving 9,161 participants. The results, reported by the Responsible Gambling Fund, identified a decrease in problem gambling in New South Wales. The number of problem gamblers fell from 0.8 per cent of the population in 2006 to 0.4 per cent in 2009. The Department advised that in December 2010, tenders will be called for a new problem gambling prevalence survey.

Results of the gambling prevalence by category of gamblers in 2009 and 2006.

Category of gamblers	2009*	2006*	Change
	%	%	%
Problem gamblers	0.4	0.8	(0.4)
Moderate risk gamblers	1.3	1.6	(0.4)
Low risk gamblers	2.5	2.1	0.4

*Source: Communities (unaudited).

OTHER INFORMATION

Human Resources

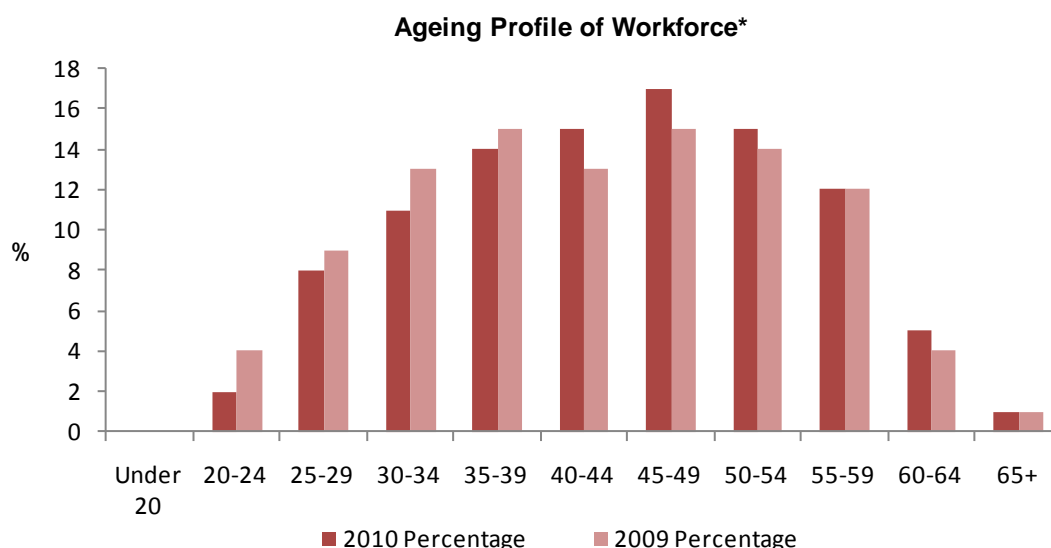
This year we reviewed the following areas relating to human resources:

- 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
- extent of overtime
- extent of contract staff
- management of excessive flex leave balances.

Workforce Ageing

At 30 June 2010, 18.0 per cent of Communities' employees were over 55 years of age and 33 per cent were over 50. A large number of employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for Communities.

The age profile of Communities employees is shown below:



Source: Communities Human Resources Department (unaudited)

* Information relates only to the former Department of Arts, Sport and Recreation

At 30 June Age Group	2010*		2009*	
	No. of Employees	%	No. of Employees	%
Under 39	267	35	303	41
40-44	113	15	99	13
45-49	130	17	114	15
50-54	113	15	105	14
55-59	90	12	88	12
60-64	39	5	27	4
65+	5	1	5	1
Total	757	100	741	100

Source: Communities Human Resources Department (unaudited).

* Information relates only to the former Department of Arts, Sport and Recreation.

In response, Communities advised that in line with the New South Wales Government's Shared Corporate Services Reform Strategy, a strategic new human resource structure is to be established and will focus on identifying and planning for a range of priority areas across Communities. This will include workforce and succession planning.

Annual Leave Balances

There were 104 employees with annual leave balances in excess of 40 days at 30 June 2010 (108 in 2008-09), representing 14.4 per cent (15.2 per cent) of total employees. The excess leave liability for these employees was \$404,000 at 30 June 2010 (\$551,230). This represented 1.9 per cent of total annual leave provision of \$21.8 million (2.9 per cent of \$18.5 million).

Entitlement (days) at 30 June	2010* No. of Employees	2009* No. of Employees
120 +	--	2
91-120	1	2
61-90	17	17
41-60	86	87
Total	104	108

Source: Communities Human Resources Department (unaudited)

* Information relates only to the former Department of the Arts, Sport and Recreation

Liabilities for excess 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.

Communities has implemented a review program where division heads are notified of all staff with excess annual leave balances and the requirement for those staff to reduce their balances in accordance with the Crown Employees (PS COE) Award. Division heads are required to develop leave management plans, which will be reviewed every September and March.

Flex Leave

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

Communities staff are employed under flexible work practices. However, Communities does not manage flex leave at the corporate level. The extent to which flex time is accrued and used and the balance accumulated by staff at 30 June 2010 is unknown. Records are decentralised and Communities unit managers and division heads are responsible for ensuring the principles of the flexible working hours agreement are adhered to. If not effectively managed, employees may be accruing and/or forfeiting excessive flex time.

Communities staff are employed under various awards and are advised that the Sport and Recreation division is the only division that allows the accumulation of 42 hours credit from one flex settlement period to the next. Other divisions allow less than 42 hours accumulated credit between flex settlement periods.

Overtime

I recommend management review overtime to minimise potential downsides of staff working excessive hours.

In 2009-10, there were 13 employees who worked more than 100 hours overtime. The highest overtime worked by an employee was 248 hours. High levels of overtime may have adverse occupational health and safety implications.

For the year ended 30 June	2010*	2009*
Total overtime paid (\$'000)	366	433
Total number of employees who worked overtime during the year	132	128
Total number of employees	721	712
Proportion of total employees receiving overtime (%)	18	18

Source: Communities Human Resources Department (unaudited)

* Information relates only to the former Department of the Arts, Sport and Recreation

Use of Contract Staff

I recommend Communities monitor the use of contractors centrally, to ensure reliance on contractors is not excessive and continues to represent value for money.

The amount paid to contract staff in 2009-10 was \$1.9 million (\$2.4 million in 2008-09). Communities does not have details of the number of contract staff engaged during the year and duration of their employment, as it does not keep a centralised register of this data.

Management advised that the need for contract staff is determined and managed by each Division, and is performed on a case-to-case basis at the time of contract renewal. All hiring is subject to approval by the Director-General.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000
Employee related	294,392
Other expenses	164,057
OPERATING EXPENSES	458,449
OPERATING REVENUE	258,628
NET COST OF SERVICES	199,821
Government contributions	203,813
SURPLUS	3,992
OTHER COMPREHENSIVE INCOME	
Superannuation actuarial losses	(1,876)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	2,116

This is Communities' first financial reporting year and there are no comparative financial results to report.

Employee related costs represent 64.2 per cent of the operating expenditure. Of this, \$218 million (47.6 per cent of operating expenditure) relates to personnel services provided to other Government agencies.

Abridged Statement of Financial Position

At 30 June	2010 \$'000
Current assets	73,784
Non-current assets	501,894
TOTAL ASSETS	575,678
Current liabilities	53,504
Non-current liabilities	1,679
TOTAL LIABILITIES	55,183
NET ASSETS	520,495

Assets predominantly comprise land and buildings, valued at \$475 million at 30 June 2010, most of which were transferred from the former Department of the Arts, Sport and Recreation.

Communities' 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 Budget* \$'000	2010 Actual \$'000	2010 Actual \$'000
Arts Industry Development	291,839	55,420	6,179
Arts Accommodation Development	2,739	2,554	139,524
Regulatory Framework for the Liquor, Gaming, Racing and Charity Industries	17,098	21,412	13,781
Liquor, Gaming and Racing Funding and Information Services	19,105	16,898	1,544
Sport and Recreation Sector Development	37,495	38,105	232,703
Sports Facility Development	44,421	38,532	126,602
Commission for Children and Young People	11,236	13,792	(178)
Office for Children Guardian	3,742	3,303	(147)
Personnel Services	8,022	9,805	(1,627)
Sub Total all service groups	435,697	199,821	518,381
Less Transfer Payments	263,601	--	--
Total all service groups*	172,096	199,821	518,381

* The difference between the Budget Estimates above and the financial reports is due to S24 PF&AA transfers as a result of the Public Sector Employment and Management Act (Departmental Amalgamations) Order 2009.

The net cost of services was higher than budget mainly due to higher grants and subsidies expenses of \$23.6 million, resulting from payments of prior years commitments from the Sport and Recreation Fund and supplementary payments through the Arts Funding program.

Administered Revenue and Expenses

Communities levies the following fees and administers expenses on behalf of the Crown Entity.

Activity Description	2010 \$'000
Administered Revenue	
Speedway racing licences	26
Trade competition fees	2,128
Local court fees	54
Fines - local court	432
TOTAL ADMINISTERED REVENUE	2,640
Administered Expenses	
Liquor subsidies	3,926
TOTAL ADMINISTERED EXPENSES	3,926
ADMINISTERED REVENUE LESS EXPENSES	(1,286)

COMMUNITIES NSW ACTIVITIES

Communities supports the development of vibrant, sustainable and inclusive communities, and fosters opportunities for people to enjoy more active, rewarding and fulfilling lives.

The purpose of Communities NSW is to improve the quality of life of people in New South Wales. This is done by:

- increasing opportunities for people to become involved in their communities
- providing high quality accessible programs, exhibitions, events and activities for New South Wales residents and visitors
- increasing opportunities for participation in the arts, culture, entertainment, recreation and sport
- investing in facilities and community, cultural and sporting infrastructure
- supporting enterprise and employment, particularly in the creative, sporting, recreation and hospitality industries
- promoting the interests of specific population groups including children and young people, people from culturally and linguistically diverse backgrounds and residents of Western Sydney
- working with schools, tertiary and other partners to provide education programs and activities and to contribute to lifelong learning
- enhancing community safety by regulating and promoting responsible liquor, gaming, racing and charitable industry practice and the responsible management of events, and
- sustainable management of cultural, and historically significant, parklands, assets and precincts.

For further information on the Communities NSW refer to www.communities.nsw.gov.au.

Historic Houses Trust of New South Wales

AUDIT OPINION

The audits of the Trust 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.

PERFORMANCE INFORMATION

The Trust provided the following information regarding its performance.

Year ended 30 June	2010	2009	2008	2007	2006
Visitor numbers ('000s)	829	913	1,012	1,024	993
Admission and function fees (\$m)	2.7	2.8	2.8	2.6	2.3
Temporary exhibitions	9	11	10	9	8
Properties					
Number	19	18	16	16	14
Value (\$m)	271	201	203	202	201
Collections					
Total items ('000s)	48	46	46	45	44
Total value (\$m)	37	36	35	33	27
Acquired this year:					
Total value (\$'000)	213	112	749	5,448	302
Number of items	176	353	738	703	248

Source: Annual Report 2010 (unaudited).

Although paid visits to the Trust's properties increased during the year, there was a decline in visitors using the Trust's free sites and gardens. The tighter economic climate resulted in a slight decline in revenue from booked functions and events.

The Trust acquired the former Presbyterian Manse in Moruya in April 2010 through the Endangered Houses Fund. The property will be conserved and eventually sold with proceeds being returned to the Fund.

The transfer of ownership of the Justice and Police Museum to the Trust was completed during the year.

In March 2010, Parliament approved the transfer of ownership of the historic property, Throsby Park, from the National Parks and Wildlife Service to the Trust. The property will be conserved and then leased, with proceeds going to the Endangered Houses Fund. The transfer of ownership will occur in 2010-11.

Human Resources

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

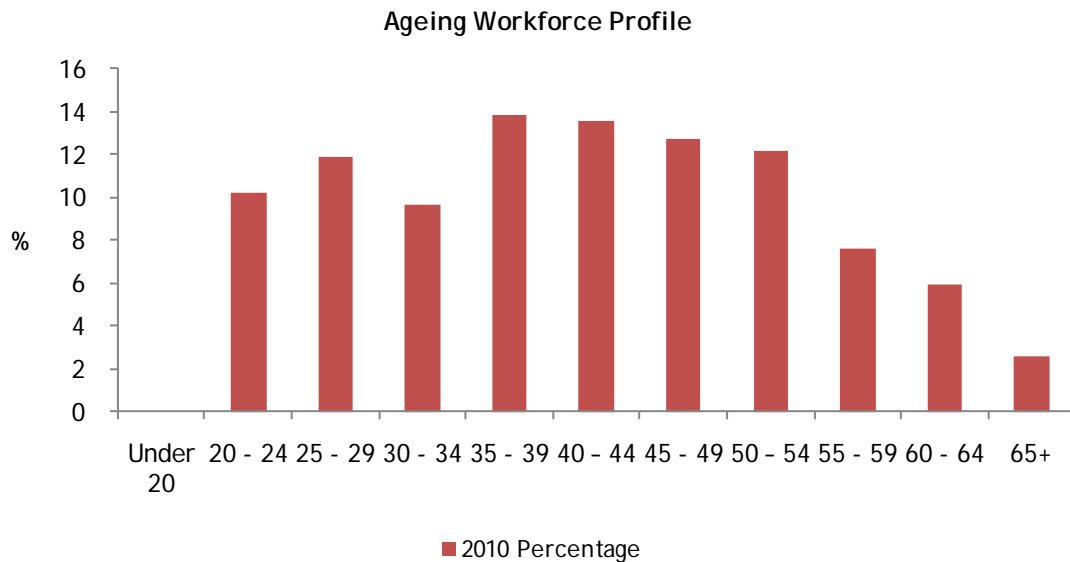
- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- the extent of use of contract staff.

A summary of the results of my review follows.

Workforce Ageing

At 30 June 2010, 16 per cent of the Trust’s employees were over 55 years of age, 28 per cent were over 50 and nine employees were over 65. A significant number of these employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for the Trust.

The age profile of the Trust’s employees is shown below:



At 30 June	2010	
	No. of Employees	%
Age Group		
Up to 34	112	31.6
35-39	49	13.9
40-44	48	13.6
45-49	45	12.7
50-54	43	12.2
55-59	27	7.6
60-64	21	5.9
65+	9	2.5
Total	354	100

The Trust advises it is currently undertaking a major restructuring exercise designed to address succession planning. The process is expected to identify areas most at risk and many teams will be redesigned with consideration to succession planning.

Annual Leave Balances

I recommend the Trust develops and implements procedures requiring all staff with excessive leave balances to have a leave management plan in place to reduce leave balances within an acceptable timeframe.

The Trust has attempted to actively manage employees with excessive annual leave balances in recent years. However, at 30 June 2010, there were 26 (26 at 30 June 2009) employees with annual leave balances in excess of 40 days, and of these, four (five) employees had annual leave balances in excess of 60 days. Employees with balances greater than 40 days represented seven per cent (nine per cent) of total employees at 30 June 2010.

The Trust's liability for annual leave increased by 29.1 per cent from \$990,000 at 30 June 2009 to \$1.3 million 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.

The Trust advises that managers are regularly informed of excess leave balances of their staff. However, due to the current internal restructuring process and the ongoing external corporate services reform process, many units are experiencing long term ongoing staff shortages. For this reason, many staff are unable to take leave without crucial service delivery being impacted. It is anticipated that, once the restructuring is finalised, this situation will ease.

Use of Contractors

I recommend the Trust periodically review the roles and responsibilities of all contract employees to ensure:

- reliance on contractors is not excessive
- use of contract employees instead of permanent employees is appropriate
- contractors do not become de facto employees by virtue of being with the Trust for an extended period of time
- that the Trust is receiving value for money by utilising these contractors.

In 2009-10, the Trust engaged five contractors for a total cost of \$512,000. At 30 June 2010, three contractors had been with the Trust for more than three years, including one contractor for more than six years. The highest payment to a contractor over the life of the contract was \$130,000. Over the past few years, the Trust has paid over \$300,000 to employment agencies for temporary finance staff.

The Trust does not have a central registry for contractors and has advised it does not have the resources to conduct a review to ensure its reliance on contractors is appropriate and represents value for money.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Government contributions	21,456	22,685	21,456	22,685
Other Revenue	7,163	8,285	6,981	7,956
TOTAL REVENUE	28,619	30,970	28,437	30,641
Personnel services	16,901	16,175	16,901	16,175
Other expenses	10,323	11,149	10,144	11,014
TOTAL EXPENSES	27,224	27,324	27,045	27,189
SURPLUS	1,395	3,646	1,392	3,452
OTHER COMPREHENSIVE INCOME				
Revaluation of land, buildings, and collections	58,107	940	58,107	940
TOTAL OTHER COMPREHENSIVE INCOME	58,107	940	58,107	940
TOTAL COMPREHENSIVE INCOME	59,502	4,586	59,499	4,246

The Trust does not have the authority to employ staff. Personnel services are provided by Communities NSW. The increase in personnel services expenses reflects pay rises and event and function staffing requirements.

At 30 June 2010, the Trust revalued its various properties and collections resulting in an increment of \$58.1 million. Collections were also revalued at that date, resulting in an increment of \$758,000.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	11,364	12,664	8,478	10,894
Non-current assets	313,441	241,352	312,533	240,442
TOTAL ASSETS	324,805	254,016	321,011	251,336
Current liabilities	3,123	2,372	3,102	3,460
Non-current liabilities	12	11	12	11
TOTAL LIABILITIES	3,135	2,383	3,114	3,471
NET ASSETS	321,670	251,633	317,897	247,865

The increase in non-current assets reflects the revaluation of assets, as noted above, combined with additional capital expenditure. In 2009-10, the Trust completed the restoration and refurbishment of the historic 1887 schoolhouse at Rouse Hill House and Farm, along with construction of a new education centre and covered outdoor learning area.

ENTITY ACTIVITIES

The principle functions of the Trust are to:

- manage and conserve historic buildings or places which have been acquired by or vested in it
- collect, manage, maintain and conserve objects and materials associated with those buildings and places
- research and interpret the significance of those buildings, places, objects and materials
- provide educational, cultural and professional services (including research, publications, information, public programs and activities) in respect of those buildings, places, objects and materials.

Under the *Historic Houses Act 1980*, the Trust is subject to the direction and control of the Minister for the Arts.

For further information on the Trust, refer to www.hht.nsw.net.au.

CONTROLLED ENTITIES

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

Where available, we have listed the websites for further information on these entities.

Entity Name	Website
Foundation for the Historic Houses Trust of New South Wales	www.hht.net.au/support_us/foundation
Foundation for the Historic Houses Trust of New South Wales Limited	*
Hamilton Rouse Hill Trust	*
Rouse Hill Hamilton Collection Pty Limited	*

* This entity does not have a website.

Library Council of New South Wales

AUDIT OPINION

The audits of the Library and its controlled entity's financial 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.

PERFORMANCE INFORMATION

The Library provided the following information regarding its performance:

Year ended 30 June	2010	2009	2008	2007	2006
Onsite visitor numbers ('000s)	804	*	646	639	629
Electronic records available ('000s)	2,227	1,921	1,692	1,621	1,567
Online visits ('000s)	2,134	2,074	**	**	**
Collections					
Total items ('000s)	5,413	5,361	5,280	5,221	5,158
Total value (\$m)	2,142	1,873	1,874	1,877	1,880
Acquired this year:					
dollar value (\$m)	7.0	7.7	6.9	7.1	6.9
number of items ('000s)	52.0	83.0	59.0	63.6	53.6

* Not available for 2008-09.

** New measure in 2008-09 to replace web page requests statistics.

In October 2008, the Library commenced the eRecords project, which is a long-term project to convert catalogue records on manual cards into electronic records. In 2009-10, 305,298 new electronic records were created for books, maps and heritage collections. This achievement was 20 per cent above target. The New South Wales Government has committed funding of \$10.0 million over three years to support this project.

The Library's collection was revalued in 2009-10 resulting in a 12.7 per cent or \$271 million increase in the collection's value.

OTHER INFORMATION

Human Resources

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

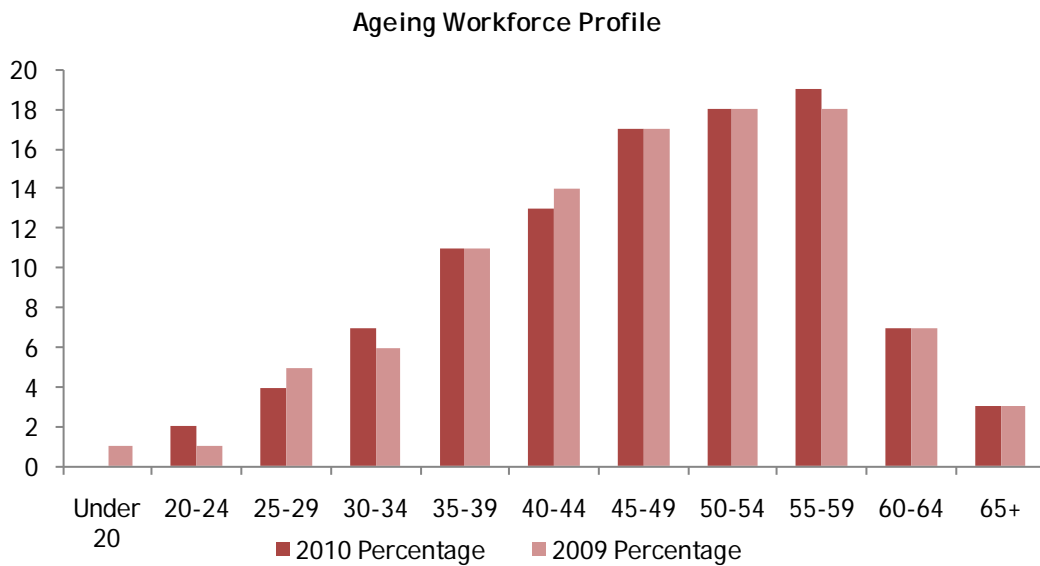
- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- management of excessive flex leave balances
- extent of contract staff.

Workforce Ageing

I recommend the Library review the effectiveness of its policies in managing its ageing workforce.

Twenty nine per cent of the Library’s employees are over 55 years of age and 47 per cent are over 50. A large number of these employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for the Library.

The age profile of Library employees is shown below:



Source: Information provided by Library (unaudited).

At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
Under 39	91	23	89	23
40-44	51	13	55	14
45-49	66	17	65	17
50-54	72	18	72	18
55-59	73	19	70	18
60-64	28	7	27	7
65+	11	3	13	3
Total	392	100	391	100

Source: Information provided by the Library (unaudited)

Annual Leave Balances

At 30 June 2010 there were 28 employees (29 at 30 June 2009) with annual leave balances in excess of 40 days. Two of these employees had more than 60 days accrued.

The Library advised it requires its divisional heads and managers to develop leave plans for employees with excess leave to reduce the balances. The number of employees with annual leave balances in excess of 40 days has remained at less than 8 per cent of all employees over the last two years.

Flex Leave

I recommend the Library implement a centralised system for monitoring flex leave arrangements.

The Library has advised that, as the information would have to be extracted manually, and given current resource limitations, it is unable to provide details of accumulated flex balances and the extent of flex time forfeited by its employees.

Use of Contract Staff

I recommend the Library periodically review the roles and responsibilities of all contract employees to ensure:

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

The Library's use of contract staff fell from 11.5 per cent of the workforce in 2008-09 to 6.9 per cent in 2009-10. In 2009-10, the Library paid \$905,000 (\$1.2 million) to a total of 27 (45) contractors. At 30 June 2010, 11.1 per cent (13.3 per cent) of contract staff had been engaged for more than 12 months. One staff member had been contracted for more than six years.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Government contributions	77,878	70,887	77,878	70,887
Other revenue	9,549	9,649	7,984	8,420
TOTAL REVENUE	87,427	80,536	85,862	79,307
Personnel services expenses	28,804	28,401	28,329	28,099
Other expenses	57,101	56,315	56,904	55,523
TOTAL EXPENSES	85,905	84,716	85,233	83,622
SURPLUS/(DEFICIT)	1,552	4,180	629	4,315
OTHER COMPREHENSIVE INCOME				
Collection Revaluation	271,082	--	271,082	--
Land & Building Revaluation	--	(1,853)	--	(1,853)
TOTAL OTHER COMPREHENSIVE INCOME	271,082	(1,853)	271,082	(1,853)
TOTAL COMPREHENSIVE INCOME	272,604	(6,033)	271,711	(6,168)

The \$6.9 million increase in total revenue in 2009-10 was mainly due to additional capital contributions from the New South Wales Government. These will be used to fund capital works including: new air conditioning within the Mitchell Library building; an upgrade to the Mitchell Galleries; and new information communication technology infrastructure.

The Library does not have the authority to employ staff. It recognises personnel services expenses for employees provided by Communities NSW.

Abridged StatementS of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	27,937	25,754	16,029	14,745
Non-current assets	2,375,067	2,102,871	2,374,750	2,102,550
TOTAL ASSETS	2,403,004	2,128,625	2,390,779	2,117,295
Current liabilities	8,674	6,899	8,617	6,844
TOTAL LIABILITIES	8,674	6,899	8,617	6,844
NET ASSETS	2,394,330	2,121,726	2,382,162	2,110,451

The 12.9 per cent increase in non-current assets as at 30 June 2010 was mainly due to the revaluation of collection assets by \$271 million.

LIBRARY ACTIVITIES

The Library is constituted under the *Library Act 1939*. It is subject to the control and direction of the Minister for the Arts in the performance of its duties and functions relating to local library services.

Its main function is to provide library and information services to the people of New South Wales through the State Library and the statewide network of public libraries and information agencies.

For further information on the Library, refer to www.sl.nsw.gov.au.

CONTROLLED ENTITY

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
State Library of New South Wales Foundation	*

* This entity does not have a website.

Sydney Opera House 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

Maintenance Required

Last year I recommended critical problems with stage machinery at the Sydney Opera House be addressed and consideration be given to other operational shortcomings.

The Trust engaged a second expert to undertake a peer review of the initial report on the condition of stage machinery, and completed its own risk assessment of stage machinery. The Trust created an action plan to implement recommendations identified in these reviews and is progressively addressing those actions. This action plan only provides short term responses to the issues identified. The necessary replacement of obsolete equipment over the next two to three years will depend on available funding.

Vehicle Access and Pedestrian Safety Project

On 6 June 2010, the New South Wales Government announced a grant of \$152 million to the Trust to fund the Vehicle Access and Pedestrian Safety Project. This project will see the biggest building works on site since the Opera House's opening in 1973. The project will improve safety and security; preserve essential site heritage and conservation values; and also improve efficient management of the site. The project will begin in early 2011 with completion planned for mid 2013.

PERFORMANCE INFORMATION

The Trust provided the following information regarding its performance:

Year ended 30 June	2010	2009	2008	2007	2006
Performances	1,679	1,677	1,661	1,595	1,558
Audience ('000s)	1,272	1,242	1,270	1,212	1,130
Guided tour attendees ('000s)	310	319	330	328	270

Source: Annual report 2009-10 (unaudited).

Overall attendance increased by two percent in 2009-10, the highest level achieved in the last five years.

During the year, the trust engaged the Boston Consulting Group to undertake an efficiency and strategy review to assess options for future operating models that include operational and commercial improvements. The results identified opportunities in retail; food and beverage operations; marketing and new performance revenue; further transformation of the tourism experience; reinforcement of the programming identity; and addressing organisational complexities. Plans of action are currently being developed to address these issues.

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.

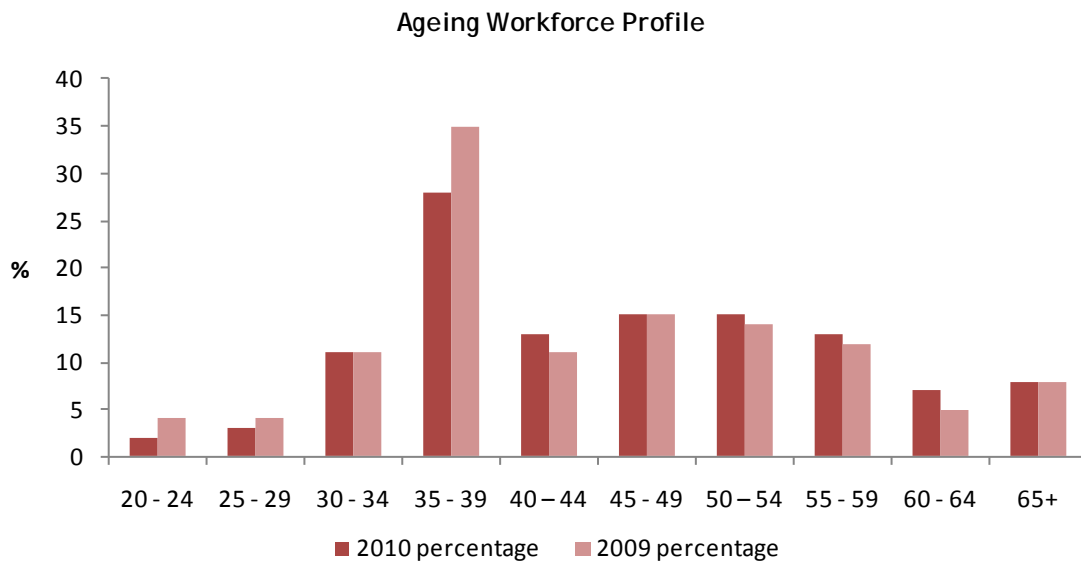
While no significant issues were identified from my review, a summary of the findings follows.

Workforce Ageing

At 30 June 2010, 28.0 per cent (26.0 per cent at 30 June 2009) of the Trust’s employees were over 55 years of age, 43.0 per cent (40.0 per cent) were over 50 and eight per cent were over 65.

A large number of these employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for the Trust.

The age profile of the Trusts’ employees is shown below:



At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
Up to 39	135	44	172	54
40-44	40	13	35	10
45-49	46	15	47	15
50-54	47	15	45	14
55-59	40	13	40	12
60-64	20	7	17	6
65+	25	8	25	8
Total	304	100	321	100

Source: Information provided by the Trust (unaudited).

The Trust advised it is developing a strategy to manage risks associated with an aging workforce. As part of the Trust's business plan for 2009-10, projects are being implemented to address: succession planning; the rotation of teams; and the provision of development opportunities. The Trust expects these activities will enable the transfer of sufficient knowledge and skills to ensure the consistency and continuity for the business.

Annual Leave Balances

I recommend the Trust further focus on ensuring all staff with excessive leave balances have leave management plans in place to further reduce leave balances within an acceptable timeframe.

There were 21 employees (22) with annual leave balances in excess of 40 days at 30 June 2010. One of these employees had 104 days accrued.

The Trust has actively managed employees with excessive annual leave balances in recent years. A monthly report of annual leave balances is generated for executive management's information and leave plans are put in place for those with excess leave. At 30 June 2010, the number of employees with annual leave balances in excess of 40 days represented 2.9 per cent (3.1 per cent) of the Trust's workforce.

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
Sales of goods and services	51,300	50,030
Government contributions	43,456	44,834
Other	9,288	11,752
TOTAL REVENUE	104,044	106,616
Personnel services expenses	39,183	38,016
Other operating and maintenance expenses	62,241	59,416
Depreciation and amortisation	17,008	17,884
TOTAL EXPENSES	118,432	115,316
DEFICIT	14,388	8,700
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Revaluation of land, property and internal fit outs	350,063	(63,291)
Unrealised losses on forward exchange contracts	(189)	(136)
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	349,874	(63,427)
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	335,486	(72,127)

New South Wales Government contributions of \$43.5 million (\$44.8 million) were for operating expenses, \$14.4 million (\$14.4 million) for operating expenses and \$29.0 million (\$30.4 million) for strategic asset maintenance.

The revaluation of the Trust's land, at 30 June 2010, resulted in a \$36.0 million increase in the value. The building fabric, structure, internal fit out and building services were also revalued at 30 June 2010 resulting in a revaluation increment of \$314 million.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	59,967	69,532
Non-current assets	2,105,238	1,761,806
TOTAL ASSETS	2,165,205	1,831,338
Current liabilities	29,895	31,695
Non-current liabilities	1,389	1,208
TOTAL LIABILITIES	31,284	32,903
NET ASSETS	2,133,921	1,798,435

The increase in non-current assets in 2009-10 primarily reflects the increase in the valuation of the Opera House land and building as noted above.

TRUST ACTIVITIES

The Trust is constituted under the *Sydney Opera House Trust Act 1961*. It is subject to the control and direction of the Minister for the Arts. Its main functions are to manage and maintain the Sydney Opera House and site as a heritage building, performing arts and conference centre, tourism destination, and to promote and encourage the performing arts.

For further information on the Trust, refer to www.sydneyoperahouse.com.

Trustees of the Museum of Applied Arts and Sciences

AUDIT OPINION

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

PERFORMANCE INFORMATION

The Museum provided the following information regarding its performance:

Year ended 30 June	2010	2009	2008	2007	2006
Visitor numbers ('000s)	671	719	676	622	535
Admission fees (\$m)	2.8	4.3	4.3	3.1	2.3
Temporary exhibitions	19	23	24	31	28
Collections					
Total items ('000s)	390	389	389	388	387
Total value (\$m)	397	407	405	403	401
Acquired this year:					
- dollar value (\$m)	1.7	1.9	2.5	1.9	2.1
- number of items	871	414	889	725	707

Source: Annual Report 2010 (unaudited).

The Museum comprises the Powerhouse Museum, the Sydney Observatory, the Powerhouse Discovery Centre Collection Stores at Castle Hill and the New South Wales Migration Heritage Centre.

The overall number of visitors to the Museum's sites dropped by seven per cent compared to the previous year. The Sydney Observatory and the Powerhouse Discovery Centre recorded record numbers of visitors. However, visitor numbers at the Powerhouse Museum were lower because the prior year included the very successful exhibition: Star Wars - Where Science Meets Imagination. In 2009-10, the Museum did not present a major international touring exhibition.

Whilst visitor numbers were down, the Powerhouse Museum had the highest visitation since 1994-95 for a non-blockbuster year. It is part of the Museum's strategy to improve visitation through a variety of exhibitions and programs using its own collections.

Collection assets were revalued during the year resulting in an \$11.9 million decrease in value. Of the 871 collection items acquired during 2009-10, 843 were donations.

OTHER INFORMATION

Human Resources

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

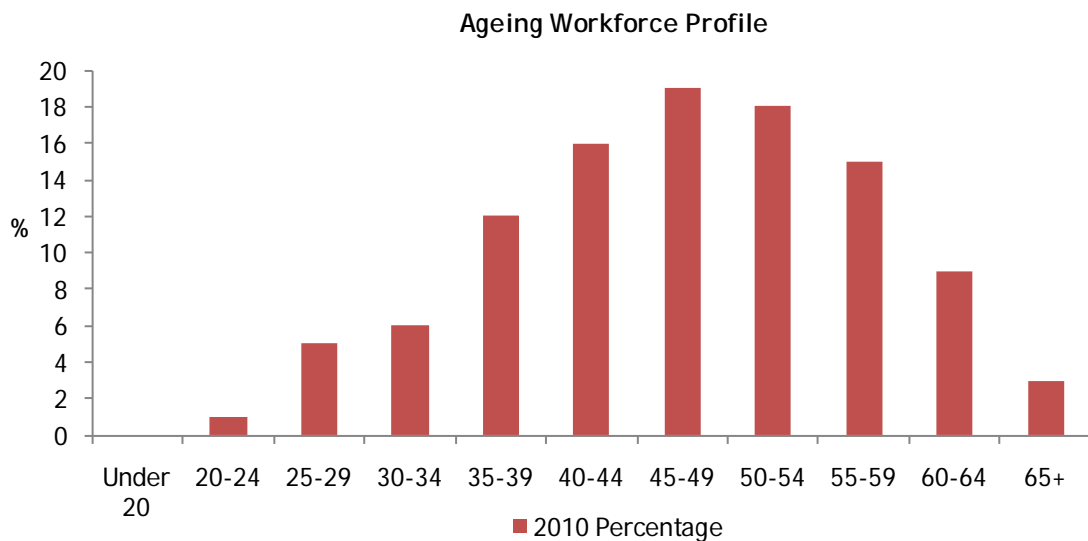
- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- management of flex leave balances
- the extent of use of contract staff.

A summary of the results of my review follows.

Workforce Ageing

At 30 June 2010, 27 per cent of the Museum's employees were over 55 years of age and 45 per cent were over 50. A large number are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for the Museum. The Museum has adopted strategies to ensure staff approaching retirement not only mentor younger staff, but also document their knowledge for future use.

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



The graph indicates the progression of long serving staff through to senior positions in what management considers a mature cultural organisation.

At 30 June	2010	
	No. of Employees	%
Age Group		
Up to 34	32	11.7
35-39	32	11.7
40-44	36	13.0
45-49	52	19.0
50-54	49	17.9
55-59	41	14.7
60-64	24	8.9
65+	9	3.1
Total	275	100.0

The age profile of the Museum's staff reflects the available expertise in the fields of museum administration, collection management, research and conservation. Workers tend to remain for long periods in the cultural sector as they undertake research in their chosen fields whilst working.

Annual Leave Balances

I recommend the Museum develops and implements procedures requiring all staff with excessive leave balances to have a leave management plan in place to reduce leave balances within an acceptable timeframe.

The Museum has attempted to actively manage employees with excessive annual leave balances in recent years. A monthly report of annual leave balances is generated for senior management information and action. However, at 30 June 2010, 35 (37 at 30 June 2009) employees had annual leave balances in excess of 40 days. Employees in this category represented 12 per cent (13 per cent) of total employees at 30 June 2010.

In 2009-10, the Museum's staff workload increased through the delivery of a large number of temporary exhibitions, the planning of future temporary exhibitions, public programs, servicing regional areas and loans to other institutions. Management advised the effects of a recent reduction in staff numbers is causing significant issues with annual leave management, but they will continue to strive to reduce excess annual leave balances.

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.

Flex Leave

The Museum's flex leave policy is that no employee can carry more than 21 hours accrued flex leave. Therefore, it considers that any liability for flex leave would not be significant. Whilst the Museum does not have a central register to record the flex leave balances for all staff, management does have access to each employee's individual monthly balance.

Use of Contractors

I recommend the Museum periodically review the roles and responsibilities of all contract employees to ensure:

- reliance on contractors is not excessive
- use of contract employees instead of permanent employees is appropriate
- contractors do not become de facto employees by virtue of being with the Museum for an extended period of time.

In 2009-10, the Museum engaged 32 contractors for a total cost of \$2.1 million. This represents 13.1 per cent of its workforce. Twenty contractors have been with the Museum for more than three years, including one contractor for more than six years. At least one third of the contractors are employed on temporary contracts of employment working on specific projects.

The Museum advises that contractors fill positions within the Museum's establishment, are paid via the payroll system at public sector award rates and accrue entitlements no greater or less than other permanent/part-time employees.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Government contributions	34,021	32,699
Sales of goods and services	4,763	7,586
Other	4,050	4,975
TOTAL REVENUE	42,834	45,260
Personnel services expenses	25,470	26,124
Other operating expenses	12,350	14,252
Depreciation and amortisation	5,872	5,839
Other gains/(losses)	173	(15)
TOTAL EXPENSES	43,865	46,200
DEFICIT	1,031	940
OTHER COMPREHENSIVE INCOME		
Gain on revaluation of property, plant and equipment, and collections	20,825	--
TOTAL OTHER COMPREHENSIVE INCOME	20,825	--
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	19,794	(940)

Government contributions increased by \$1.3 million, primarily due increases in capital funding for major building repairs. The repairs were to the sandstone elements of the Powerhouse building's facade.

Revenue from admission fees and membership fees fell by \$1.5 million and \$1.0 million respectively. Admissions and new member numbers were higher in the previous year because of the Star Wars exhibition.

The introduction of zero base budgeting in 2008-09 helped the Museum's management keep tight control of operating expenses in 2009-10. The previous year's operating expenses included significant expenditure on the Star Wars exhibition.

At 30 June 2010, the Museum revalued land and buildings, plant and equipment, and collection assets resulting in a net increment in value of \$20.8 million.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	9,102	8,103
Non-current assets	554,819	536,145
TOTAL ASSETS	563,921	544,248
Current liabilities	6,031	6,156
Non-current liabilities	32	28
TOTAL LIABILITIES	6,063	6,184
NET ASSETS	557,858	538,064

The increase in non-current assets reflects the revaluation of assets as noted above.

MUSEUM ACTIVITIES

The Museum is constituted under the *Museum of Applied Arts and Sciences Act 1945*. Under the Act, the Trustees are subject to the control and direction of the Minister for the Arts.

The Museum's main function is to preserve the State's cultural heritage in science, technology, history, decorative arts and design and to provide access to New South Wales' residents.

For further information on the Museum, refer to www.powerhousemuseum.com.

Minister for Citizenship

Refer to Appendix 1 for:

Community Relations Commission for a Multicultural New South Wales

Minister for Education and Training

Building the Education Revolution

Department of Education and Training

New South Wales Technical and Further Education Commission

Office of the Board of Studies

Refer to Appendix 1 for:

*Arts Education Foundation Trust

Coffs Harbour Technology Park Limited

NSW Board of Vocational Education And Training

NSW Institute of Teachers

*NSW Vocational Education and Training Accreditation Board (2009)

*NSW Vocational Education and Training Accreditation Board (2010)

The Board of Studies

Uniprojects Pty Limited

Universities Admissions Centre (NSW & ACT) Pty Limited

*The audit was incomplete at the time of compiling this Volume

The comment will be included in a later Volume

Building the Education Revolution

The Department of Education and Training (the Department) was required to spend \$3.0 billion on almost 2,400 projects within a short period of time or risk losing the money. Schools benefited from receiving facilities that were not expected. The short time frame resulted in the Department paying higher construction costs than would have been the case in a business as usual environment. If it had more time the Department may have been able to obtain better value for money if it negotiated lower construction costs.

As reported by the Building Education Revolution Implementation Taskforce (the BER Taskforce) in their Interim Report, many Government school stakeholders acknowledged the Primary Schools for the 21st Century P21 program (P21 program):

- was unique in its size and scale
- was about stimulus, preserving and creating jobs
- required haste to get construction started and therefore the business as usual processes and timetables for major capital works projects did not apply.

This report does not compare costs to build a Department facility against non-government authorities as I only have access to Departmental information. For example, I am aware cost per square metre rates were provided by the New South Wales Catholic Block Grant Authority as part of the Australian Government Inquiry into the P21 program; however I could not use it as a comparator because the basis for these rates is unclear.

The Department has advised me the BER Taskforce is currently performing a cost comparison of delivering the Building Education Revolution program across education authorities. The BER Taskforce will gather information from more than 2,000 projects, representative of building types and education authorities, and cost per square metre rates will be audited to ensure consistency.

The results of the comparison are due to be published in the BER Taskforce's next report, which should be published shortly. In view of this, and the fact my report contains cost analysis of only nine schools, the BER Taskforce is better placed to comment on the differences in costs and building specifications across the different education authorities.

KEY FINDINGS

Whilst it appears the Department has delivered on the key objectives of the P21 program, which is rapid construction of school facilities, it appears to have come at a higher cost than in a business as usual environment and with some reduced flexibility to meet the preferences of the local community. My review of the P21 program in New South Wales also found:

Program Delivery

- the timeframes to complete projects were much shorter than business as usual
- the shorter timeframe resulted in a reduced consultation period
- in many cases the Department built facilities which exceeded the size entitlements specified in the Department's School Facilities Standards (the Standards) for those particular schools
- if the Department had more discretion to transfer funding allocations between schools, it may have resulted in greater benefits to the government school network as a whole
- the extra funds used to provide the 295 schools with halls bigger than their suggested entitlement could have been directed towards other projects or to those schools that will not have a multipurpose hall at the end of the P21 program
- the extra funds used to provide the 220 schools with libraries bigger than their suggested entitlement could have been directed towards other projects or to those schools that will not have a libraries at the end of the P21 program
- less than one per cent of the total P21 funding allocation provided to New South Wales was reallocated between schools.

Project Selection and Approval

- the Department established appropriate checks to ensure each project was consistent with the Australian Government's 'Building the Education Revolution Guidelines' (the BER Guidelines) and represented a top priority for the school
- the Department established appropriate checks to ensure newly built schools had a clear need for additional or refurbished facilities
- the Department established appropriate checks to ensure schools earmarked for possible closure did not utilise any available funding
- it appears key stakeholders were not fully informed of the Department's Standards and how they apply to their school, resulting in confusion and concerns about the adequacy of facilities, and why schools did not receive a certain type of facility
- the Department has closely followed the BER Guidelines and standard design templates, whilst we understand some non government authorities have sought and obtained exemptions from prioritising libraries, halls and classrooms and using standard design templates.

Managing Contractor Appointment and Fees

- the timeframe for appointing managing contractors was extremely short
- the level of competition in appointing managing contractors was limited
- the fees paid to managing contractors appear excessive relative to their responsibilities
- whilst the Department did negotiate a \$10.0 million reduction in managing contractor fees with the successful tenderers, the approved tendered fees (\$261 million) were still \$40.0 million, or 18.1 per cent, higher than its own estimate of \$221 million.

Building Costs

- the Department was not as rigorous as it would normally be when reviewing estimated constructions costs. For 1,270 projects at the time of my audit, the Department's quantity surveyors assessed the estimated project costs to be lower than the managing contractors estimate. Despite this lower assessment, the Department still approved the managing contractors cost estimates. The total difference for the 1,270 projects was \$188 million, or 13.3 per cent of the total Estimated Construction Sum (ECS)
- as managing contractors went to the marketplace with pre-tender estimates set at \$188 million higher than the Department's internal pre-tender estimate, the Department missed out on the opportunity to negotiate a better deal with successful tenderers
- it appears approvals of ECS by Departmental staff were largely focused on whether the ECS was within the Australian Government's indicative funding cap for a school, and the Department largely relied on the tender and the Benchmark Market Value (BMV) processes to achieve value for money
- because the Department had approved the higher cost estimates determined by the managing contractors, there was no real incentive for the managing contractors to try and negotiate a lower price
- the volume of work and tight timeframes led to limited competition when tenders were put to the marketplace for individual projects
- tender documents and contracts indicate that most of the site supervision was carried out by sub contractors of managing contractors and therefore there is a risk of the Department paying for a service that was not provided by managing contractors
- the BMV process does not have a significant impact on the final actual cost as it is an internally calculated benchmark
- the term BMV could be misleading to key stakeholders. It only benchmarks a project with other projects within the P21 Program. It is not an external benchmark
- the independent quantity surveying firm I engaged to estimate the construction cost for nine P21 projects believes that in eight cases, the estimated construction cost would be between 2.3 per cent and 39.7 per cent lower, in a business as usual environment, than the estimated construction sum/actual tendered amounts under the P21 program
- of 68 schools I surveyed, only 41 per cent thought the project they received represented value for money.

RECOMMENDATIONS

Program Delivery

- the Department should review whether the library sizes in its Standards are appropriate, given that:
 - 57 per cent of schools are receiving a library that is bigger than the size guide in the Standards
 - 70 per cent of schools are receiving a multipurpose hall that is bigger than the size guide in the Standards
- at the conclusion of each P21 project, the Department should offer each school community a briefing on the key aspects of the Standards and the BER Guidelines, and how they apply to their school
- the Department should complete a comprehensive review of the Standards post the BER program. This review should include post occupancy evaluations from all schools who received a new or refurbished facility under the P21 program.

Managing Contractor Appointment and Fees

- whilst the 'NSW Government Procurement Guidelines - Tendering Guidelines' (the New South Wales Tendering Guidelines) allow agencies to have a tender period of 10 days, for projects of this size and complexity the Department should always comply with the recommended tender period of 25 calendar days
- the Department should re-estimate its project management fees and advise the Australian Government if its fees will exceed the four per cent benchmark
- for future projects, where tenderers do not provide the information requested (such as a split between project management and site supervision fees) the tender evaluation committee should request this information before completing the tender process
- the Department should examine managing contractors' records to confirm they have provided the level of site supervision stipulated in their tender. I believe most of the site supervision was carried out by sub contractors of managing contractors and therefore there is a risk of the Department paying for a service that was not provided by the managing contractor
- the Department should request a statutory declaration from managing contractors that attests they have tendered for all works. The Department should audit a sample of any direct negotiations to confirm they did not result in an adverse value for money outcome.

Building Costs

- irrespective of time constraints, the Department should not approve EECs that are substantially higher than the Department's assessments. The Department should investigate significant variances, negotiate with the managing contractors and set the ECS based on their own assessment, not the managing contractor's assessment
- for future projects or programs of a similar nature and/or size, the Department should consider nominating a Departmental officer to sit on the tender evaluation committee to ensure full compliance with the New South Wales Government Code of Practice for Procurement (the NSW Procurement Code) and NSW Tendering Guidelines. Their presence will also assist in maximising value for money by ensuring negotiations for lower prices are held, where appropriate, with preferred tenderers

The Department should also issue an instruction to all managing contractors that states they must attempt to negotiate with the preferred tenderer either when:

- very few tenders have been submitted for a project, and/or
 - the tendered price is significantly higher than the Department's cost estimate
- the Department should obtain managing contractors written acceptance of the 80/20 split used to calculate the Benchmark Market Value.

INTRODUCTION

In February 2009, the Australian Government announced the Nation Building Economic Stimulus Plan. The plan was in response to the global financial crisis which resulted in reduced construction activity in Australia. The Building Education Revolution (BER) was a component of this plan and the Australian Government allocated \$3.5 billion to New South Wales Government schools.

The BER was initiated by the Australian Government at a special Council of Australian Governments meeting on 5 February 2009. The communiqué from that meeting said:

Leaders agreed that the additional stimulus *needed to flow quickly into aggregate demand through the rapid implementation of the [National Building and Jobs] Plan.*

The BER funding would ‘help to stimulate economies in local communities *through the scale and pace of the work undertaken*’.

The key objectives of the BER were to:

- provide economic stimulus through rapid construction and refurbishment of school infrastructure, and
- to build learning environments to help children, families and communities participate in activities that support achievement, develop learning potential and bring communities together.

The BER was made up of three programs, the biggest being the Primary Schools for the 21st Century program (the P21 program). The P21 program accounts for \$14.1 billion of funding nationally. The other national programs account for \$2.1 billion in funding and include the Science and Language Centres for the 21st Century and the National School Pride program. New South Wales Government schools were allocated national funding of \$2.98 billion for the P21 program, \$151 million for Science and Language for the 21st Century and \$287 million for the National School Pride program.

This report focuses solely on the P21 program. In delivering the P21 program the New South Wales Government’s aim was to:

- deliver it in accordance with the BER Guidelines
- build high quality learning environment in New South Wales Government schools
- maximise value for money.

Value for money is generally made up of three components, namely quality, time and cost. To deliver overall value for money requires an element of each component. However, the weighting to each one is not always the same and can result in a trade off. Under the P21, program the Department used the following definition of value for money:

- Quality: building excellent, long lasting facilities that meet the Department’s Standards.
- Time: meeting the timeframes set by the Australian Government to maximise the amount of economic stimulus delivered quickly.
- Cost: obtaining the best price the market will offer for works in schools across New South Wales.

The key performance indicators and performance measures under the National Partnership Agreement on the Nation Building and Jobs Plan were: the number of new or refurbished facilities; completing projects on time; the amount of money spent; the number of jobs created through the BER project; and the number of construction milestones met. The Department advised that a dollar spent within the Australian Government imposed timeframe in order to meet the stimulus objective was much better value for money than a dollar spent after the imposed timeframes.

ACHIEVEMENTS

The Department has achieved the following under the P21 program:

- rapid construction and refurbishment of school infrastructure in New South Wales
- built learning environments in New South Wales Government schools that will help children, families and communities participate in activities that support achievement and develop learning potential
- substantial adherence to the Australian Government timeframes
- used its School Facilities Standards and its standard design templates to meet the Australian Government timeframes and ensure schools received a facility as opposed to receiving nothing
- average daily employment on projects in excess of 7,800 persons
- approximately 3,900 apprentices worked on the program
- more than 1,000 Indigenous people participated in the program
- a Lost Time Injury Frequency Ratio of 3.1 injuries per one million hours worked, which is approximately five times better than the Australian construction industry average
- in the year to June 2010 the value of public school construction in New South Wales rose 324 per cent compared to the other states of Victoria (150 per cent), Queensland (132 per cent) and Western Australia (124 per cent).

The trade-off in achieving the above was:

- the Department paid a cost premium
- the Department was unable to provide all schools with their first project preference
- the Department, in some instances, was inflexible in the type of facilities (i.e. hall, library, classroom) provided to schools due to their strict adherence to:
 - conditions imposed by the Australian Government funding and the priorities set by the BER Guidelines
 - its Standards and standard design templates.

GOVERNANCE

The Department is responsible for delivering the P21 program in New South Wales Government schools. The Department established the Integrated Program Office (IPO) to deliver all components of the BER program. The Australian Government initially allocated \$44.8 million (1.5 per cent of the approved project allocation) to the Department to meet the costs of the IPO. This was subsequently revised to \$40.8 million. The IPO was resourced with a mix of public and private sector personnel.

The governance arrangements were reviewed by several independent parties who all concluded they were appropriate.

PROJECT STATUS

The P21 program at 1 November 2010 was made up of 2,364 individual projects across 1,781 state schools. The 2,364 projects were made up of the following project types:

Project Type [^]	Number of Projects	Percentage of Total Projects %
Hall	520	22.0
Library	473	20.0
Classroom	943	39.9
Covered Outdoor Learning Area (COLA)	249	10.5
Other*	179	7.6
TOTAL	2,364	100.0

Source: Department of Education and Training (unaudited).

[^]Includes projects that consist of an existing facility upgrade, associated support spaces or other work relevant to the facility type.

* Includes: administration, canteen and student amenities facilities, covered walkways and storage facilities.

The latest project budget, at 1 November 2010, is shown in the table below. The program is tracking within the original budget.

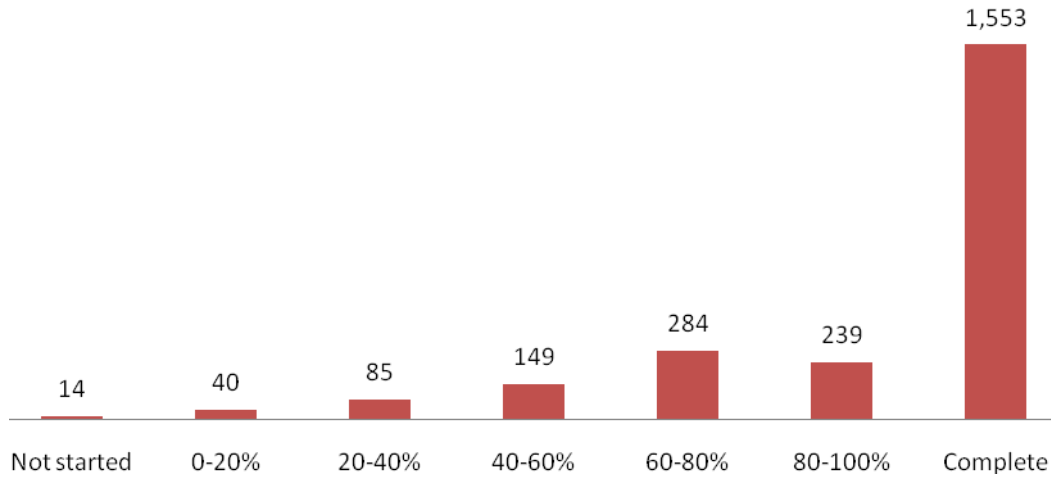
Region	Number of Projects	Approved Funding	Expenditure	Budget Spent
		\$m	\$m	%
Hunter/Central Coast	303	436.6	321.9	73.7
Illawarra and South East	239	301.2	223.4	74.2
New England/North Coast	408	383.4	293.8	76.6
Northern Sydney	170	307.3	242.2	78.8
Riverina	207	173.1	142.4	82.3
South Western Sydney	308	454.3	382.1	84.1
Sydney	242	357.0	276.3	77.4
Western NSW	206	177.0	137.5	77.7
Western Sydney	281	395.3	362.8	91.8
TOTAL	2,364	2,985.2	2,382.4	79.8

Source: Department of Education and Training (unaudited).

Construction status

At 19 November 2010, 1,553 projects (65.7 per cent of all projects) were complete, with another 239 projects more than 80 per cent complete. Only 14 projects had not started. In their interim report released in August 2010, the BER Taskforce found the Department, relative to other large government education authorities, had delivered impressively against the required timeframes. At the time of preparing their report the BER Taskforce found the Department had commenced or completed 95 per cent of all projects. This compared favourably against the Victorian Government (64 per cent) and the Queensland Government (60 per cent). The following graph depicts the construction status.

Construction Status (Number of Projects)



Source: Department of Education and Training (unaudited).

The BER Taskforce found the Department had the most challenging P21 implementation task of all education authorities. Its program of works accounts for 22 per cent of the entire P21 program. The Department’s program is three times bigger than the New South Wales Catholic Education Authority’s program.

P21 Funding entitlement

Under the BER Guidelines, funding for P21 projects was based on school enrolments. Funding was not allocated to schools on a needs basis. The indicative funding caps were as follows:

School students (full time equivalent)	Indicative funding cap \$
1 to 50 students	250,000
51 to 150 students	850,000
151 to 300 students	2,000,000
301 to 400 students	2,500,000
401+ students	3,000,000

Source: Building the Education Revolution Guidelines (Version 3) dated 21 September 2009.

The Department was able to provide schools with lower or higher amounts of funding, subject to:

- the Department remaining within its total agreed funding allocation
- school principals agreeing to reallocate funds.

Project priorities

Under the CBER Guidelines the Department had to use the funding for the following items, in order of priority:

1. construction of a new library
2. construction of a new multipurpose hall, or in the case of smaller schools, COLA
3. construction of classrooms, replacement of demountables or other buildings approved by the Australian Government
4. refurbishment of existing facilities.

If a school applied for funding that was not the first funding priority, being a library, it had to explain to the Department why this was the case. Equally if a school applied for funding for new classrooms it had to explain why it did not require a library or multipurpose hall. Consistent with the BER Guidelines, the Department advised schools that its priorities (by order) were:

- building halls or libraries in schools where these facilities did not exist or were considered inadequate under the Department's Standards
- replacing demountables or other buildings that support long term enrolments with permanent buildings
- refurbishing existing facilities
- projects which would provide educationally beneficial outcomes.

Project timing

P21 funding was provided to schools in three funding rounds and each round had specific commencement and completion dates. Under the BER Guidelines the Department had up to 18 months to complete a project. The timetable set by the Australian Government is shown in the table below.

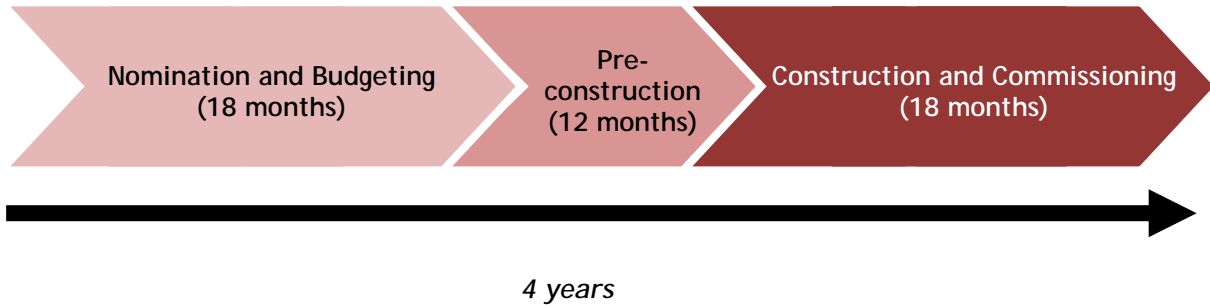
	Projects to commence by	Number of Projects	Schools with less than 150 students	Schools with 150 students or more
			Projects to be completed by	Projects to be completed by
Round 1	30 June 2009	309	31 January 2010	20 December 2010
Round 2	31 July 2009	1,278	28 February 2010	31 January 2011
Round 3	31 October 2009	777	31 May 2010	31 March 2011
		<u>2,364</u>		

Source: Department of Education and Training (unaudited).

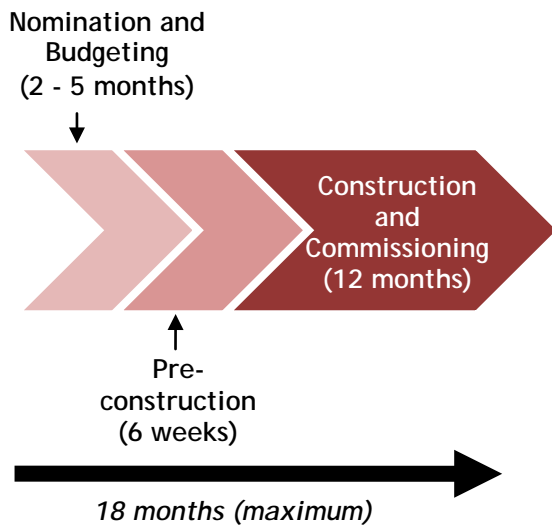
Under business as usual, the Department would spend up to 18 months nominating a project, developing a business case and obtaining approval to proceed with the project. Under the P21 program, it only had eight weeks to five months depending on whether the project was in round one, two or three.

Under business as usual, the Department would then spend another 12 months completing pre construction activities, such as design and consultation. Under the P21 program, the Department had six weeks to complete the same pre construction activities. The diagram below illustrates the timeline for delivering P21 projects compared to delivering major capital works project under business as usual.

Department of Education Major Capital Works
'Business as usual'



Building the Education Revolution



NOMINATING AND APPROVING PROJECTS

On 17 February 2009, the Department requested school principals to nominate preferred P21 projects by 16 March 2009. School principals were required to consult with the school's Parent and Citizens (P&C) Association before responding.

Anecdotal evidence suggests that for some schools the time provided for consultation was insufficient. As part of the financial audit of the Department, I asked 68 school principals whether they were satisfied with the consultation time provided to assess their school's needs, nominate and approve specific projects. Twelve of the 68 principals (18 per cent) said they felt rushed and would have preferred more time.

Upon receiving school nominations, the Department's Asset Planners undertook checks including:

- ensuring the nominated projects were consistent with the projects allowed under the BER Guidelines
- reviewing the projects against the Department's Standards
- comparing the existing school facilities against the Standards to identify any gaps
- reviewing the constraints on the project such as contamination and heritage issues
- current and projected student numbers.

These checks were important in minimising the risk of schools requesting facilities they did not need. It also assisted the Department in advising schools of their correct entitlements and needs according to the Standards.

From this review the Department put forward to each school principal up to two proposed projects. The Department advised the Department of Education, Employment and Workplace Relations told them that schools could not have more than two projects. Depending on the funding available, the Department offered schools only those projects that were considered affordable within their funding allocation. If the school principal was unhappy with the proposals they could discuss alternatives with the Department, though any alternative project had to comply with the BER Guidelines. The school principal had to sign off on a project before detailed planning could commence.

The NSW Nation Building and Jobs Plan Taskforce commissioned an independent review of the nomination and approval process in June 2009, to ensure a sample of round three project submissions by the Department complied with the BER Guidelines. The review was a high level analysis to assist the Taskforce identify areas where the Department should improve its documentation. This review, performed by a large accounting firm identified the following:

- the Department had continually improved its quality assurance checks over time, resulting in improved submissions to the Australian Government
- while all school principals had agreed to their nominated projects with an official Department representative, in some cases this was not in writing. However, this was followed up by the Department before forwarding nominations to the Australian Government, and
- the Department could improve its documentation in some areas.

Compliance with the BER Guidelines

As reported in the BER Taskforce's Interim Report, the Department has closely followed the BER Guidelines, whilst the non government authorities have sought and obtained exemptions from prioritising libraries, halls and classrooms. They have also sought exemptions from using standard design templates.

The BER Taskforce found a major theme from complaints in New South Wales related to frustration over inflexibility. It found those education authorities that put in the additional effort and sought the Australian Government's approval to vary a requirement in the BER Guidelines received a higher of level stakeholder satisfaction.

The Department chose to strictly conform with the BER Guidelines, particularly around standard design templates and priorities, in order to meet the tight timeframes. The BER Taskforce found the Department used the standard design templates in 97 per cent of all projects. In contrast, in the Catholic and independent education system, school principals were given some flexibility in designing custom buildings.

The Department advised it did apply for variations to the BER Guidelines where it was justified under the Standards or in instances where, due to site constraints or specific issues, a modified template design was required. Due to the large number of projects, tight timeframes and the risk of having funding withdrawn, the Department decided to use the standard templates in the majority of cases. This ensured an efficient delivery timeframe for the large number of projects and compliance with the Department's Standards.

CONSTRUCTING UNNECESSARY FACILITIES

Because funding to schools was based on student enrolments, the risk of constructing unnecessary facilities arose. As mentioned earlier, the Department implemented checks to ensure each school received maximum benefits from the P21 program. Checks included reviewing a school's current facilities, backlog maintenance requirements and expected student enrolment growth.

Under the BER Guidelines, the Department could not reallocate any portion of a school's indicative funding cap unless the school principal agreed. For example, if a newly constructed school was entitled to \$3.0 million and the Department felt another school had a greater need for new facilities than the newly constructed school, the Department could not reallocate the funding unless the school principal agreed to it.

I undertook a high level review on whether schools were receiving facilities they did not need. I found:

- no instances of schools replacing existing libraries, which complied with the Department's Standards, with new libraries. However, 269 schools that already had a library received a new or upgraded library under the program
- no instances of schools replacing existing multipurpose halls, which complied with the Department's Standards, with new halls. However, 316 schools that already had a multipurpose hall received a new or upgraded hall under the program.

The high level review I undertook was based on data in the Department's Asset Management System. I did not check its accuracy or completeness.

New libraries

Under the P21 program, the Department will build 388 new libraries. Based on my review of the information in the Department's asset management system, and comments received from the Department, I found no evidence of existing libraries, which complied with the Standards, being demolished for new libraries. My review found:

- 115 schools did not have a library
- 211 schools had a library, but its size did not meet the minimum entitlements in the Department's Standards
- 58 schools had a library that met or exceeded the size entitlements in the Department's Standards, but did not comply in terms of quality and/or was not ideal for students. For example, some libraries were a combination of rooms and did not have an adequate, single main reading space. In other cases, the libraries were quite old or located in demountables. Also, only five schools had an existing library that was built in 1980 or later
- 220 schools are receiving a library whose size exceeds the minimum entitlement in the Standards. For example, Anna Bay Public School and Kensington Public School, which are entitled to a Core 14 library, are receiving a Core 21 library as the schools had sufficient funding to cover the extra cost
- all 388 schools are receiving a library whose size is in line with or greater than their entitlement under the Standards.

Libraries are categorised as follows:

Type	Student Enrolment	Size based on reading area square metres	Students accommodated	P21 Program Average cost/sqm \$
Core 3 library	26-149	70	149	na
Core 7 library	150-300	90	300	4,746
Core 14 library	301-500	163	500	5,156
Core 21 library	>500	230	>500	4,886

na - not available.

Average cost per square metre provided by the Department of Education and Training (unaudited).

I recommend the Department review whether the library sizes in its School Facilities Standards are appropriate, given that 57 per cent of schools are receiving a library that is bigger than the size guide in the Standards.

It appears the library entitlements in the Standards may not reflect the schools' actual needs, given that 220 of 388 schools will receive a library much bigger than their entitlement. While the Department advised there are valid reasons for each individual case, such as site specific issues, the school's student population not far off the next entitlement, and projected population growth in the area, the high percentage of deviation from the size guide in the Standards suggests a review is appropriate.

The extra funds used to provide the 220 schools with facilities bigger than their entitlement could have been directed towards those schools that will not have a library at the end of the P21 program. Libraries were the first priority project under the BER Guidelines.

As mentioned earlier, five of the 388 schools are replacing or upgrading an existing library facility built between 1995 and 2006. Explanations provided by the Department for replacing or upgrading the existing facilities were:

School name	Reason for replacing or upgrading existing library
Bexhill Public School (existing library built in 2002).	Existing library does not have a main reading area that complies with the Standards. Library comprised of several separate rooms.
Holmwood Public School (existing library built in 2006)	The school was provided with some reading areas in the new building constructed in 2006. However, the school does not have a main reading area that complies with the Standards.
Marayong Heights Public School (existing library built in 2001)	School is using the existing library as a special programs room. The existing facility will remain and the school will receive a Core 14 library.
Southern Cross School (existing library built in 1995)	School is using the existing library as a computer laboratory.
Tomaree Public School (existing facility built in 1998)	School enrolments have exceeded original capacity. The school is upgrading its existing library.

New multipurpose halls

Under the P21 program, the Department will build 420 new multipurpose halls. Based on my review of the information in the Department’s Asset Management System, and comments received from the Department, I found no evidence of existing multipurpose halls, which complied with the Standards, being demolished for new multipurpose halls. My review found:

- 222 schools already had a multipurpose hall, but their size did not meet the minimum size entitlements in the Department’s Standards. This includes schools that may have been using a COLA as a hall, such as Mount St Thomas Public School
- 295 schools are receiving a multipurpose hall whose size exceeds the minimum entitlement in the Standards. For example, Wollongong Public School, which had enrolments of 354 students and is entitled to a Core 14 hall, is receiving a Core 21 hall that accommodates more than 500 students
- 77 schools are receiving a hall even though they are not entitled to a multipurpose hall per the Department’s Standards. These schools had enrolment numbers below 151 students. This includes schools such as Berrigan Public School (student enrolment of 78), Beverley Public School (student enrolment of 57) and Boggabri Public School (student enrolment of 102)
- 94 schools already had a multipurpose hall that met or exceeded the size entitlements in the Standards, but did not comply in terms of quality and/or were not ideal. For example, some school halls were a combination of two or more areas that did not adjoin one another. In other cases the halls were quite old or were located in demountable structures. Of these 94 schools, only four had an existing multipurpose hall that was built in 1980 or later
- 419 schools are receiving a multipurpose hall that is in line with or greater than their entitlement under the Standards. The only school which will receive a multipurpose hall below its entitlement is Coogee Public School. The school, which had 559 full time equivalent students at the time funding was allocated, was entitled to a Core 21 hall. However the Department advised it could not provide the school with a Core 21 hall because of site restrictions and heritage issues. The school will receive a Core 14 hall instead.

Halls are categorised as follows:

Type	Student Enrolment	Size based on floor space square metres	Students accommodated	P21 Program Average cost Hall and Cola/sqm \$
Core 7 multipurpose hall	151-300	120	300	3,963
Core 14 multipurpose hall	301-500	190	500	3,496
Core 21 multipurpose hall	>500	250	>500	3,592

Average cost per square metre provided by the Department of Education and Training (unaudited).

I recommend the Department review whether the multipurpose hall sizes in its School Facilities Standards are appropriate given that 70 per cent of schools are receiving a hall that is bigger than the size guide in the Standards.

It appears that multipurpose hall entitlements in the Department’s Standards may not reflect schools’ actuals needs, given that 295 of 420 schools will receive a multipurpose hall much bigger than their entitlement. For example, Aberdeen Public School had 182 full time equivalent students. This entitles them to a Core 7 hall which comprises 120 square metres of floor space. A Core 7 hall can accommodate up to 300 students per the Department’s Standards. Instead the school will receive a Core 14 hall which has 190 square metres of floor space and can accommodate up to 500 students.

The Department advised the Minister approved some flexibility in multipurpose hall sizes when available funding allowed this, and the school community specifically requested a bigger hall. The reason for greater flexibility was the Australian Government's requirement for schools to make halls readily available to the general community. The Department also advised it plans facilities for the long term, incorporating anticipated cyclical trends in enrolments. Thus it believes comparisons of entitlement to core size at a point in time are a guide only.

The extra funds used to provide the 295 schools with facilities bigger than their entitlement could have been directed towards other projects or to those schools that will not have a multipurpose hall at the end of the P21 program. Some of the 90 schools that will not have a multipurpose hall after the P21 program include:

- Morpeth Public School (receiving new classroom facilities)
- Urunga Public School (receiving new classrooms and toilet facilities)
- Granville South Public School (receiving new classroom facilities)
- Green Valley Public School (receiving new classrooms)
- Fairvale Public School (receiving new classrooms).

As mentioned earlier, four of the 420 schools were going to replace an existing multipurpose hall built between 1980 and 2005 with a new one. The explanations provided by the Department for replacing the existing facilities are listed in the table below.

School name	Reason for replacing existing multipurpose hall
Briar Road Public School (existing hall built in 2005)	Existing hall is largely a COLA.
Double Bay Public School (existing hall built in 1991)	Existing hall is a demountable structure with low ceiling. It does not comply with the Department's Standards.
Hillvue Public School (existing hall built in 1980)	Existing hall does not comply with the Department's Standards.
Nemingha Public School (existing hall built in 1994)	Existing hall does not comply with the Department's Standards and has extensive termite damage.

Schools earmarked for possible closure

The Department does not maintain a list of schools earmarked for closure. However, it does maintain a 'Teachers Withdrawn Schools' list. The schools on this list are mostly small, one teacher schools located in remote parts of the State. The Department closely monitors future enrolment numbers because these schools have no enrolments and the teacher has been withdrawn for a period of twelve months, pending a decision on whether the school should be formally closed. According to the Department's records, none of the 21 public schools on this list received any P21 funding.

Funding allocation

As previously mentioned, under the BER Guidelines the Department could not reallocate a school’s funding entitlement unless the school principal agreed to it. This condition precluded the Department from freely transferring funding allocation between schools. The total funding reallocated under the P21 program is shown in the table below.

School type	Funding cap \$000	Reallocated funds \$000
Newly constructed schools (15 schools)	26,650	14,079
All other schools (18 schools)	40,750	14,178
TOTAL	67,400	28,257

Whilst \$28.3 million was made available, this represents less than one per cent of the P21 program budget. Furthermore, only 33 of the 1,781 State schools offered to not spend their full funding cap. If the Department had more discretion to reallocate funds between schools, it may have resulted in greater benefits to the Government school network as a whole. For example, if the Department had more discretion it may have chosen to reallocate funding to smaller rural schools that were only entitled to \$850,000 and missed out on constructing a hall or library because the budgeted cost was marginally more than the funding cap of \$850,000.

Newly constructed schools

Recognising the risk of schools requesting facilities they might not need, the Department analysed all nominations, particularly those newly established schools or those that had recent major capital works.

Between 2000 and 2008, the Department built 15 new schools using the public-private partnership model. As shown in the table above, these schools were entitled to \$26.7 million of P21 funding. Three of the 15 schools agreed to reallocate their full entitlement as they had no other need for new or refurbished facilities. The remaining 12 schools used most of their entitlement on projects such as hall extensions, construction of COLAs and more classrooms to accommodate increasing student numbers.

Complaints and media

Over the last twelve months there has been substantial media regarding schools receiving a new facility they did not want or need. As part of my audit I made inquiries with the Department to assess some of those claims. The responses from the Department are listed in the table below.

School name	Concerns	Comments
Waverley Public School	School does not need a hall.	School did nominate a school hall as one of their priorities. Current hall is a double classroom and inadequate for increasing student enrolments. The Department assessed the current hall as not complying with its Standards. The school already had a library which complied with the Department's Standards and so under the BER Guidelines it received the second priority, a hall.
Annangrove Public School	School wanted a hall, not a library.	School did nominate both a hall and library. However, based on the Department's Standards, the school was not entitled to a hall. Its enrolment numbers were below 151 students. The school currently uses a demountable as its library. The Department assessed the current library as not complying with its Standards. For this reason, and that libraries were the first priority in the BER Guidelines, the school received a library.
Manly Village Public School	School does not want a hall.	School did nominate a school hall as one of their priorities. Its current hall is only 195 square metres, well below the recommended 250 square metres in the Department's Standards and therefore non compliant.
Cattai Public School	School wanted a hall, not a library.	The school is not entitled to a hall as it has less than 151 students. The school had a demountable library which the Department assessed as not complying with its Standards. For this reason, and that libraries were the first priority in the BER Guidelines, the school received a library.

I recommend at the conclusion of each P21 project, the Department offer each school community a briefing on key aspects of the School Facilities Standards and the BER Guidelines, and how they apply to their school.

Much of the concerns raised in the media may have arisen from stakeholders not being fully informed, on a timely basis, of the Department's Standards and how they apply to their school. For example, some stakeholders were unaware they were not entitled to a multipurpose hall if the school had less than 151 students. I believe the local school community would find it beneficial if the Department briefed them on key aspects of the Standards and how they apply to their school.

The Department advised it extensively communicated the key requirements of the Standards to the key stakeholders throughout the program. For example it:

- sent out regular bulletins
- provided updates through newsletters
- assigned school facilities planners and principal liaison officers to each school
- made available fact sheets and other pertinent information on its BER website.

SCHOOL FACILITIES STANDARDS

School facilities are designed and built in accordance with the Standards. The Standards specify minimum performance requirements for facilities and results in facilities of a same standard irrespective of the school size or location. The Standards are designed to deliver high quality facilities that meet the curriculum requirements set by the NSW Board of Studies.

The Department advised the Standards sometimes exceed those set by the Australian Building Code and Regulations, and this can make school projects more expensive than commercial projects. However, the Department advised this results in good value for money over the life of the building as less maintenance is required. The Department also advised the Schools Public Private Partnership Consortium, which has facilities management responsibilities for over 20 recently constructed public schools, supports this view.

In response to observations made in the BER Taskforce Interim Report, the Department engaged both an architectural firm and an independent quantity surveyor to analyse the additional capital cost imposed by the Standard's during the construction phase. Design analysis performed by the architect compared the Department's double classroom to the Building Code of Australia compliant double classroom.

The quantity surveyor cost analysis showed the added capital cost to comply with the Standards during the construction phase was 37 per cent higher than the Building Code of Australian double home base. Managing contractor's fees, design fees and contingencies were excluded from the cost analysis. The result of the analysis on the double home base is presented in the following table.

	Building Code of Australia (BCA) Double Home Base	BER School Facilities Standard Double Home Base
Construction Cost	\$668,000	\$917,000
Roof	Minimum gauge metal and wall linings	Heavy gauge metal roof and wall linings
Photovoltaic cells*	No	Yes
Translucent double skin skylight panels (reduces heat gain while improving light distribution)	No	Yes
Pinboard wall panel lining (durable and minimise recurrent maintenance)	No Only 10mm plasterboard wall lining	Yes 13mm plasterboard wall lining Pinboard wall panel lining
Balustrade**	Only required where drop is equal to or more than 1000mm	Extra required where drop is equal to or more than 300mm
Downpipes	Standard 90mm colorbond	Heavy duty galvanised steel
Doors	35mm, with no vision panel	40mm, solid core doors with vision panels
Windows	Standard aluminium framed window suite. No sun screens.	Specific, Department designed heavy duty window suite (e.g. robust frame and thicker glass for durability and weather protection) Sun screens over windows
Eaves	Overhang 450mm	1200mm
Ceiling	Flat under timber truss	Raked to allow skylight detail
Turbo automated turbo ventilators to provide ventilation (to help ensure controlled regular fresh air)	No	Yes
Frame Construction	Timber with timber roof trusses	Structural steel building frame
Interactive whiteboard	No	Yes
Insulation	Standard to comply with BCA	40% greater insulation value than minimum BCA requirements
Carpet	Carpet tiles	Heavy duty pure wool carpet and underlay
Furniture	Not part of building contract	Full furniture fit-out for all Department schools
Operable wall between classrooms	No	Yes

*Solar panels

**Small posts that support the upper rail of a railing

I recommend the Department complete a comprehensive review of its School Facilities Standards post the BER program. This review should include post occupancy evaluations from all schools that received a new or refurbished facility under the P21 program.

The Department regularly reviews the Standards to ensure they remain up to date and represent the best balance between safety and educational outcomes. However, given the misunderstanding in the school community of school entitlements and concerns around hall sizes, it is timely for the Department to conduct a comprehensive review of the Standards. The review should incorporate schools' feedback and views on the appropriateness of the new facilities.

SURVEY OF SCHOOL PRINCIPALS

Audit Office school audit program

During my audit of 68 schools I asked school principals some questions on the P21 program. The summary of their responses on consultation, value for money, project priority and overall satisfaction is shown in the table below.

	YES	NO	Partly /Unsure	Total responses
Was the school happy with the consultation period?	56	12	--	68
Did the school receive its top priority project?	57	9	2	68
Does the project meet the medium term future needs of the school?	61	7	--	68
Does the project represent value for money?	28	25	15	68

Source: Audit Office of NSW school audit questionnaire.

The majority of school principals were happy with the consultation period, though 12 schools did say it was too short. Many of these related to round two projects, whose consultation period included the Easter school holiday period, thus reducing the available time.

In terms of receiving top priority, some schools believe they did not receive their first preference. I conducted a review of some of these schools and generally found there was some confusion around what projects were allowable under the BER Guidelines. At the time school principals nominated potential projects (between February and March 2009), it was still somewhat unclear what projects could be completed under the P21 program. Another reason why schools were not happy with the outcome was because they nominated two or more projects, but only received one project. Other examples include:

- one school identified an extension to its existing hall and extra classrooms as its top priorities. The Department assessed the school's hall as meeting current and future needs of the school and therefore suggested a new library as the school's top priority. The school community agreed on a new library as the existing library was built in 1971 and was not ideally located on the school site
- one school nominated a library upgrade, extension of their hall and replacement of demountables as their top priorities. However, its only successful nomination was the replacement of demountables. The Department assessed its existing library and hall facilities as compliant with its Standards.

As part of the questionnaire we also asked the school principals whether they felt the new facilities would meet their future needs. Generally, most schools believed their projects would accommodate current and future needs. Of the seven schools that did not believe the project would meet their needs, five related to classroom upgrades, whereby schools had existing demountables replaced with permanent structures and therefore the schools capacity was not increased. The other two schools felt the multipurpose halls they were receiving could not accommodate all students. Both of these schools received a hall in accordance with their entitlement under the Department's Standards.

Australian Primary Principals Association

The Australian Primary Principals Association (APPA) represents all schools across Australia. It surveyed its members in March 2010 to better understand its members' views on how well the P21 program was being implemented. The key results from the survey are shown in the table below. The results were drawn from 2,438 responses.

Survey question	Percentage Agreed			
	NSW - all schools (%)	Government - Australia wide (%)	Catholic - Australia wide (%)	Independent - Australia wide (%)
Are your students going to benefit from the BER Primary Schools for the 21st Century (P21) project?	97.4	96.5	99.3	98.3
Within the BER guidelines for the BER program, is your school receiving projects that you and your school community want?	86.9	87.6	98.3	97.4
Have you been able to access the specific costings for your projects?*	45.3	42.9	86.6	93.0

Source: Australian Primary Principals Association 'Building the Education Revolution Survey Report 30 April 2010'.

*The Department advised that at the time the survey was conducted cost breakdowns for 1,861 projects at 1,414 schools (82 per cent) were displayed on their BER website.

The survey found that Government schools particularly in New South Wales, Victoria and Western Australia were less happy than their counterparts in other States and certainly less satisfied than Catholic and Independent schools. It also found that the schools that reported as having provided the least access to specific costings were in the larger States of Victoria, New South Wales and Western Australia. Considerable frustration was expressed with regard to the centralised decision making and variations to projects without consultation and access to costings.

However the BER Taskforce in its Interim Report awarded the Department a ranking of high in terms of cost transparency to stakeholders. The Department was one of only two government education authorities to receive a high rating. Of the remaining government education authorities, two received a rating of moderate and three received a rating of low. The Department also advised the Implementation of the Nation Building and Jobs Plan in New South Wales and Potential Applications for Other Projects review (Shepherd Report - November 2010) concluded the Department was more transparent, complete and timely in presenting costs than most jurisdictions.

The APPA survey also included written open questions. From the written responses provided, APPA found that:

- only 53.9 per cent of New South Wales principals reported positive experiences/outcomes
- for New South Wales principals, the main concern was that the project was not the best fit with the schools' needs (13 per cent) or was too costly for what was achieved (10.2 per cent)
- government school principals reported the project was not optimal (9.5 per cent), or the process was difficult or unsatisfactory (8.4 per cent) or did not represent value for money (7.2 per cent) at considerably higher rates than did Catholic or Independent school principals.

APPOINTMENT OF MANAGING CONTRACTORS

In order to meet the Australian Government's timeframes and the Department's quality and safety requirements, the New South Wales Infrastructure Coordinator General advised the Department to use the most capable and largest construction companies to deliver the P21 program under a managing contractor model. This model also allowed the Department to transfer a number of risks to the private sector. This included transferring risks such as delivering the works to a high quality, on time and at a reasonable cost that represented value for money. The Department had assessed that it could not deliver the works in the timeframe available, and to the quality expected, without the resources and experience available through the managing contractors.

Under the model used by the Department, the managing contractor is involved in all phases of construction, from concept design through to project completion and handover. Some of their key responsibilities include:

- preparing project documentation including developing detailed briefs by interpreting the Standards
- preparing and lodging applications
- preparing preliminary cost estimates and estimated construction costs
- liaising with each school and facilitating acceptance of the finals designs, time programs and site logistics
- tendering for works, assessment of tenders and awarding of contracts
- site supervision and site management
- managing the safety of staff and children on the site
- contract administration, quality assurance
- project reporting and handing over completed sites (including pre-handover inspections, handover documentation and identification and rectification of defects before handover).

New South Wales public schools were grouped into nine regions and a managing contractor was appointed to each region. Managing contractors were appointed through a selective tendering process.

Managing contractor model

The managing contractor model was chosen by the NSW Nation Building and Jobs Plan Taskforce. Whilst this model is more complex than adopting a single site approach adopted by other large interstate government education authorities, the Department believes it has resulted in achieving the most rapid roll out of the P21 program.

Other education authorities have used different models. In Victoria and Queensland, the government authorities adopted a more flexible approach by using managing contractors in different capacities in each funding round. The Catholic and independent school education authorities generally adopted a single site approach.

The managing contractor model used by the Department, in some ways, is similar to the one used in business as usual, whereby units within the Department responsible for major capital works and asset management engage the Department of Services, Technology and Administration (DSTA) to oversee their major capital works program. In effect, the model replaces these units operating within the Department with the managing contractors and removes the engagement of DSTA. However, the Department advised the biggest difference between the two models is the transfer of risk. In a business as usual environment, the transfer of time, quality and safety risk from the Department to DSTA is very modest, whereas under the BER this risk was transferred to the managing contractors.

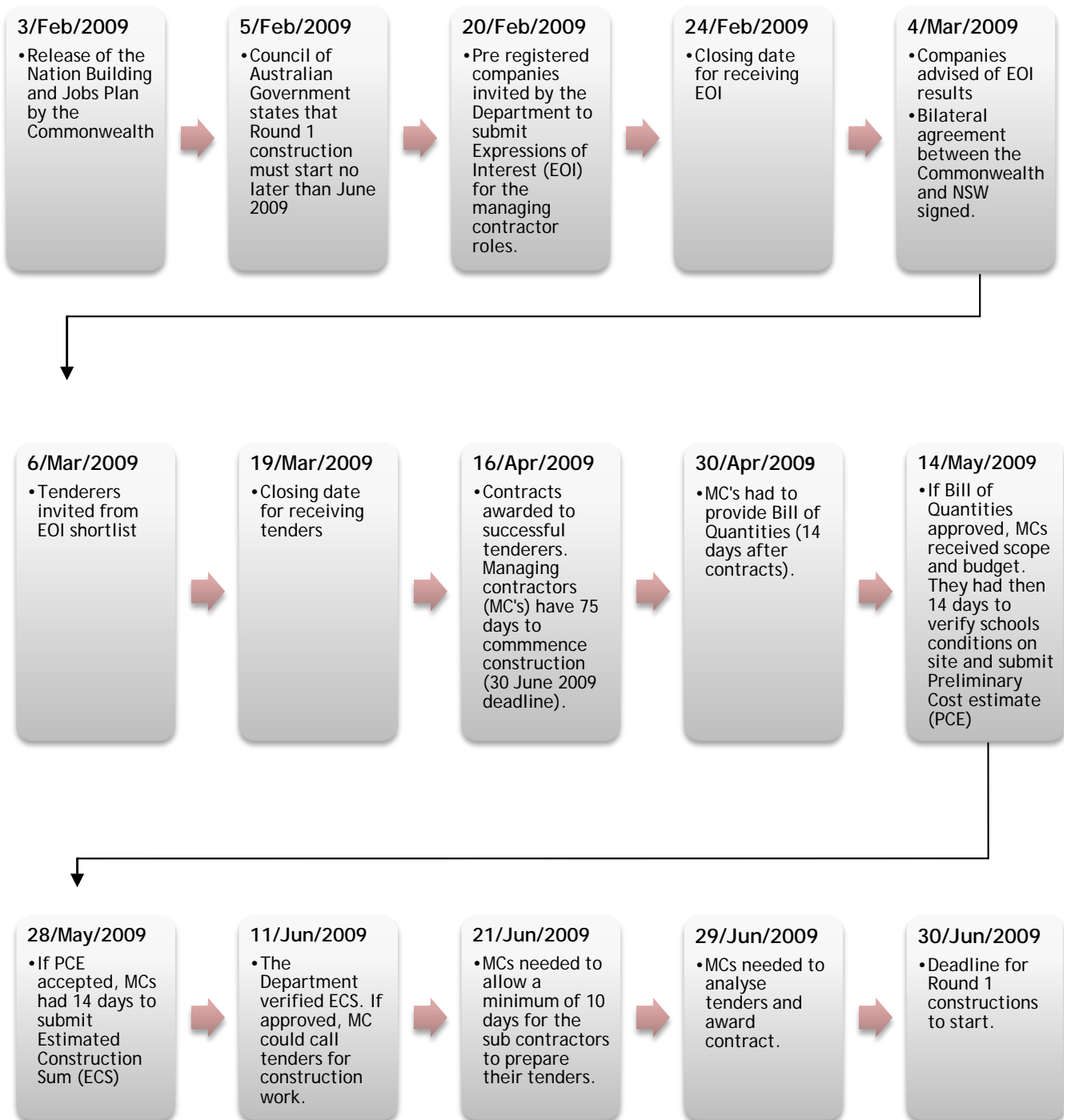
The Department did offer schools the opportunity to self manage a project, however, only four chose to self manage their P21 project. Subsequently one of the four schools withdrew their request to self manage.

In its Interim Report the BER Taskforce stated that had the majority of public schools in New South Wales self managed their P21 project, it would have increased the risk of not delivering the P21 program as a whole on time. It would have also led to less certainty regarding the final project cost.

Tender process

The Department used a selective tendering process to appoint the managing contractors. It used the New South Wales Government's panel of pre qualified contractors for construction works. The panel provides easy access to contractors that meet the Government requirements for capability, management systems, financials and performance to tender for government construction contracts.

The Department sought expressions of interest from the 14 pre qualified companies on the New South Wales Government's existing supply panel for construction works exceeding \$20.0 million. All 14 companies on the panel submitted an expression of interest but only 13 were shortlisted for the request for tender phase. The timeline of events leading to the appointment of the managing contractors is outlined on the following page, as well the events that had to occur before construction could commence on round one projects by 30 June 2009.



The timeframe for selecting the managing contractors was short. The tenderers only had ten working days to submit their tender. The Department advised the short time frame was due to the BER Guidelines stipulating construction on round one projects had to commence by 30 June 2009.

The awarding of contracts on 16 April 2009 gave the Department and managing contractors just 75 days to conduct design and investigation works, consultations and seek statutory planning approval on more than 300 projects. This was clearly not enough time, resulting in only six projects receiving approval to proceed to tender. While no construction work had commenced by 30 June 2009, all projects in round one had commenced at that time. The Department advised that issuing the brief to the managing contractor constituted commencement under the BER guidelines.

I recommend the Department should always comply with the recommended tender period of 25 days for projects of this size and complexity.

Whilst the NSW Government Procurement Guidelines - Tendering Guidelines (NSW Tendering Guidelines) allows agencies to reduce the tender period from no less than 25 days (when using electronic tendering) to no less than 10 days, this shorter time period may have not given the short listed companies enough time to properly assess the managing contractor's role and associated risks. Given the payment calculation process (the BMV process) had not been defined, the short time frame and other uncertainties at the time of tendering, this may have resulted in bids including a premium for risk uncertainties.

All tenders were first assessed on non price criteria. The non price assessment was based on the tenderers understanding of the scope of works, assessment of risk, procurement strategy, proposed team, stakeholder management, and commitment to training and Indigenous participation. Only ten of the 13 tenderers passed the non price criteria. The region that had the strongest field of non-price tenderers was the Hunter/Central Coast region. It received four high quality non-price tenders. In contrast the Western New South Wales region only had one high quality tender and one tender of marginal quality.

The next phases included price assessment and analysis of the tenders' capacity and strategy of delivery. Contracts were awarded to seven of the 13 tenderers. Some received more than one region to manage, as outlined in the table below.

Region	Managing Contractor
Hunter Central Coast	Bovis Lend Lease
Illawarra and South East	Richard Crookes Construction
New England/North Coast	The Reed Group
Northern Sydney	Bovis Lend Lease
Riverina	Laing O'Rourke
South Western Sydney	Hansen Yuncken
Sydney	Abigroup
Western NSW	Laing O'Rourke
Western Sydney	Brookfield Multiplex

As outlined in the Tender Evaluation Report, the best value tender in each region was spread across four companies. However, the limitations of financial capacity and risk management of only two regions per company meant in some regions the best value tenderer was not awarded the contract. The decision to reduce the delivery risk and select the second and third best value tenderers increased managing contractor fees by \$23.0 million. The Western New South Wales and New England/North Coast regions were two of the four regions where either the second or third best value tenderers were appointed.

Probity auditor

The Department appointed a probity auditor to review the expression of interest and tender process. This was appropriate given the size, risks and nature of the tender process. Overall, the probity auditor found the Department had complied with the NSW Procurement Code and the NSW Tendering Guidelines.

MANAGING CONTRACTOR FEES

The estimated managing contractor fees for the P21 program at November 2010 was \$313 million. This accounts for 11.6 per cent of the total project costs for the P21 program. The tendered and approved managing contractor fees (site supervision, project management and profit margin) range from 6.9 per cent (Fee A and Fee B) to 18 per cent (Fee A) and 25 per cent (Fee B).

Fee A applies to projects where more than 85 per cent of the work (by value) is to be carried out by a single subcontractor. Fee B applies to projects where no subcontractor will be greater than 85 per cent of the total subcontract costs (by value). Fee A projects would result in less contract and site management compared to a Fee B project

Whilst the Department did negotiate a \$10.0 million reduction in managing contractor fees with the successful tenderers, the approved tendered fees were still \$40.0 million, or 18.1 per cent, higher than its own estimate.

The higher than expected managing contractor fees were largely attributable to the country regions such as the Riverina, Western New South Wales and North Coast/New England. The comparison between the Department’s own estimate and tendered amounts is shown in the table below. The tendered fees of \$261 million were based on the original program budget at the time.

	Tendered and approved (%)	Department’s estimate (%)	Tendered and approved fees (\$m)	Department’s estimate (\$m)**
Project management and site supervision - Fee A	7.4	2.0	74	18
Project management and site supervision - Fee B	10.9	7.6	101	86
Profit margin	2.7	4.0	51	77
Incentive	1.7	2.0	35	40
Total Fee A	11.8	8.0	Na	na
Total Fee B	15.3	13.6	Na	na
Total	13.1*	11.1*	261	221

Source: Department of Education and Training (unaudited).

*represents weighted average

** This was based on Australian Government advice the Department would receive \$2.77 billion of P21 funding.

na - not available.

Before the Department commenced the tender process, it engaged an independent quantity surveyor to develop its own estimates of management contractor fees for each region. The quantity surveyor’s estimate was \$221 million, or 11.1 per cent of total construction costs. This included a two percent incentive fee for completing works to an appropriate standard and on time. The tendered and approved fees were 13.1 per cent of total construction costs or \$40.0 million higher than the quantity surveyor’s estimate.

The Department advised the \$40.0 million difference between its pre tender estimate of managing contractor fees and approved tendered fees was reasonable because the pre tender estimate was prepared in a short time frame without full knowledge of the methodology that tenderers would base their price on. It stated the pre tender estimate was significantly impacted by assumptions such as how the managing contractors would deploy their resources and their understanding and pricing of the risks associated with the benchmark market value process.

In two of the three country regions, the approved managing contractor fees were 100 per cent or more than the pre tender estimate. According to the Tender Report prepared by the Tender Evaluation Committee, some of the reasons for the higher than expected fees were due to lower budgeted works, the dispersed nature of the schools and the managing contractors being located in Sydney. The selection of the second and third best value tenderers, because of the limitation of a company not managing more than two regions, also contributed to the higher than expected managing contractor fees.

The Department advised an alternative model, such as geographically based and aggregated design, development and construct contracts (one contract for say 10-20 schools) may have better managed risk in respect of managing contractor fee costs in the regional areas. This, together with the deployment of multiple local contractors would have mitigated the time risk associated with the P21 program.

P21 Management fees vs Business as usual

The Department analysed the management fees under the P21 program against the estimated fees under business as usual. This analysis was performed after selecting the managing contractors.

	P21 program	Department - business as usual
	(%)	(%)
Project management fees and profit	8.5	6.0
Site supervision	5.7	5.5
Incentive fee	1.7	--
Total	15.9	11.5

Source: Department of Education and Training (unaudited).

The Department's analysis highlights that it is paying around 4.4 per cent more for managing the P21 program compared to business as usual. Of this difference, 1.7 per cent is attributable to the incentive fee which was included to encourage completion of projects on time and within the benchmark market value. This means that 2.7 per cent is attributable to other factors. The Department concluded the 2.7 per cent premium was due to factors such as additional risk transferred to the managing contractor, such as time and budget risk. It also concluded increased level of reporting and transparency and a shorter planning and procurement process also contributed to the higher management fees.

P21 Management fees vs Australian Government Guidelines

I recommend the Department re-estimate its project management fees and advise the Australian Government if its fees exceed the four per cent benchmark.

I understand the Department of Education, Employment and Workplace Relations (DEEWR) stipulated project management fees under the P21 program should not exceed four per cent of total costs. The Department has publicly stated on its BER website and in submissions to various parliamentary inquiries that project management fees do not exceed four per cent. However, based on my analysis, shown below, the Department's project management fees do exceed this benchmark. This table only relates to project management fees. It excludes site supervision, profit margin and incentive fees. The Department advised the Australian Government has not defined project management fees.

	Department (%)	Audit Office estimate (%)	DEEWR benchmark (%)
Managing contractor's project management fees	2.7	3.1	na
Department of Education and Training project management fees	1.3	1.3	na
Total	4.0	4.4	4.0

Source: Department of Education and Training (unaudited).
na - not available.

I recommend for future projects, where tenderers do not provide the information requested (such as a split between project management and site supervision fees) the tender evaluation committee request this information before completing the tender process.

The 0.4 per cent difference between the Department's publicly stated figure and my estimate is due to some managing contractors not splitting their project management and site supervision fees in their tenders.

For example, one managing contractor's tender included over 10 per cent for site supervision and nil for project management. They failed to split their fees between the two components. The Department did not factor this shortcoming into their publicly communicated figure of 4.0 per cent.

My estimate of 4.4 per cent for project management fees was derived from applying an average from the other successful tenderers in similar regions who did split their fees between project management and site supervision.

P21 Management fees vs Other States and independent schools

In their interim report released in August 2010, the BER Taskforce concluded the Department was paying the highest percentage of management and design fees when compared with the Victorian Government, Victorian Catholic schools, New South Wales Catholic (Sydney Diocese only) schools, the Queensland Government and the Western Australian Government. It also estimated the Department was paying around five per cent more than it was before the BER started. A summary of the BER Taskforce's interim findings are shown in the table below.

	NSW Department of Education and Training	NSW Catholic Sydney Diocese	Victorian Public schools	Queensland public schools (round three)
	(%)	(%)	(%)	(%)
Program management, project management and design fees	20-24	15-17	12.5	9-13

Source: Building the Education Revolution Implementation Taskforce: Interim Report August 2010

The BER Taskforce suggested the higher management fees payable to the managing contractors in New South Wales were prima facie due to a higher assumption of risk and liability than managers in some of the other contract models. However, it concluded managing contractors are able to mitigate much of this risk to subcontractors who would reasonably price this into their tendered fees. This view is consistent with my review of a sample of projects.

I recommend the Department examine the managing contractors' records to confirm they have provided the level of site supervision stipulated in their tender. I believe most of the site supervision was carried out by subcontractors of the managing contractors and therefore there is a risk of the Department paying for a service that was not provided by managing contractors.

Later in this report, I have reported cost estimates, provided to me by an independent quantity surveyor, for a sample of nine projects. The quantity surveyor found that managing contractors' fees were up to 412 per cent higher than his estimate of a reasonable managing contractor fee. The quantity surveyor considered the responsibilities of the managing contractor set out in the tender documents and actual contracts, and he felt most of this responsibility had been passed onto the managing contractor's subcontractor. For example, he felt the subcontractor would provide most site supervision.

The BER Taskforce proposes to closely review the costs claimed by managing contractors in selected P21 projects and include its findings in its full report to be released in November/December 2010.

VALUE FOR MONEY

The BER Guidelines did not define value for money. Instead it stated education authorities must have tendering and procurement arrangements that demonstrate value for money. In the absence of a definition, the Department adopted the following value for money definition:

The best price for completing the work to the required quality standard and within the set timeframe.

Value for money is generally made up of three components, quality, time and cost. To deliver overall value for money requires an element of each component. However, the weighting to each one is not always the same and can result in a trade off. For example, a low cost outcome might be achieved by reducing quality. In assessing value for money, it appears the Department placed more importance on time and quality. That is, delivering the required works within the timeframes stipulated in the BER Guidelines and constructing facilities that meet the Department's Standards.

The ability to commence construction on as many projects as quickly as possible was one of the objectives of the P21 program. This highlights the importance of the time aspect. The second objective of the P21 program was to build learning environments that support achievement and develop learning potential. This objective is synonymous with achieving a quality outcome.

Quality is important. If a facility being built under the P21 program does not meet the Department's Standards then, in its opinion, it cannot represent value for money. For example, building a Core 14 multipurpose hall that does not comply with the Standard's and represents a hazard to students will not meet a school's needs, irrespective that it could be delivered on time and on budget.

There has been some debate as to whether the quality sought by the Department in its Standards is higher than other education authorities. My review did not examine if there were any substantive differences between building quality.

The Department established a number of cost control and value for money checks to ensure the price paid for construction work was fair, reasonable, and good value for money in the current market. These checks included:

- reviewing and approving the preliminary construction estimate and the estimated construction sum for all projects
- the use of competitive tendering for all school projects
- using the BMV process to determine the maximum cost payable to the managing contractor.

These three checks are explained in more detail below.

APPROVING PROJECT BUDGETS

Once the school had approved its project the managing contractor prepared a Preliminary Cost Estimate (PCE). The primary objective of the PCE was to confirm the project was affordable and within the approved funding envelope for the school. If the PCE was above the funding envelope then the managing contractor worked with the school to reduce the PCE to within the available funds. This may have involved changing the site location of the new facility, changing the design or de-scoping works such as rainwater tanks and solar panels. If the PCE was still higher than the school budget (after these cost saving strategies), the school was required to change the project.

Upon the Department approving the PCE the managing contractor proceeded to preparing an Estimated Construction Sum (ECS). The ECS is a detailed estimate which breaks down the total project costs into a number of components such as design and documentation, preliminaries, site services, site works, superstructure and structure costs. The ECS represents a managing contractor's best cost estimate based on the project brief, site specific issues, experience, knowledge and the current market conditions. The ECS is the cost that appears on the Department's BER website.

The managing contractor could not tender for works until the Department approved the ECS. Approval involved Departmental quantity surveyors reviewing the managing contractor's detailed cost estimates against:

- the drawings provided for the project
- internal database of prices which was developed using a combination of historical tender data for similar projects, and prices submitted by the managing contractors at the beginning of the BER program for seven standard building types.

I recommend irrespective of time constraints, the Department not approve ECS's that are substantially higher than their own assessment. The Department should investigate significant variances, negotiate with the managing contractors and set the ECS based on their own assessment, not the managing contractor's assessment.

I found that for 1,270 projects, the Department's quantity surveyors assessed the project cost to be lower than the managing contractor's ECS. Despite this lower assessment, the Department still approved the managing contractor's ECS. The total difference for the 1,270 projects was \$188 million, or 13.3 per cent of the total ECS.

The Department advised their review of ECSs was not rigorous. They advised the rigour applied to reviewing ECSs depended on the complexity of the project, the value of the ECS and the time constraints imposed by the BER Guidelines. In some cases the Department only completed a partial review of ECSs.

In my opinion, the review and approval of ECSs by the Department's quantity surveyors was critical to delivering projects at a price that reflected value for money. This was highlighted in the checklist used by the quantity surveyors. The checklist required the quantity surveyors to verify the ECS as 'representing value in the current market'. Its importance in achieving value for money was also highlighted in legal advice obtained by the Department which concluded '*the key to whether the ECS...process led to or contributed to value for money lies in the administration of the process by the Department of Education and Training*'. By not rigorously assessing each ECS I do not believe the Department properly administered this important control in achieving value for money.

My analysis of approved ECSs found the Department's quantity surveyors approved 1,270 ECSs that were higher than their own assessment. This is contrary to normal business practice and the Department should have further investigated the causes for the differences between their own assessment and the managing contractor's assessment. After completing their investigations, they should have set the ECS at their estimated cost, not the managing contractor's estimate.

Whilst an organisation may set a threshold at say 10 per cent greater than their own assessment, in the case of P21 projects there were instances where managing contractors' ECSs were 100 per cent higher than the Department's own assessment. Despite these large differences in cost assessments, the Department still approved the managing contractors' ECSs. Under the contract the Department had the right to not accept an ECS for any reason whatsoever.

The Department advised the approval of ECSs was a desktop exercise without detailed knowledge of the site and therefore could not take into account additional costs that resulted from topography, distance from services and other site specific details. The Department advised where the ECS differed substantially from their own assessment, the managing contractor was asked to provide reasons explaining why. From my review nothing came to my attention to confirm this occurred other than the approval letter sent to the managing contractor stipulating that some components of their ECS were outside the Department's assessment.

In normal circumstances an organisation will develop their pre tender estimate for a project (similar to the assessment performed by the Department's quantity surveyors) and on that basis proceed with obtaining funding and project approval from the board or agency head. If upon tendering for the project the marketplace priced the project significantly higher than the pre tender estimate, then the organisation would look to negotiate a price that was acceptable to them. In the worst case scenario it may consider retendering because the prices submitted were not within a range the organisation deemed to be value for money.

Whilst in most cases the managing contractor's ECS was within the overall school project budget, over inflating the estimated costs from the outset will minimise the opportunity to negotiate a better price with tenderers and improve value for money outcomes. The analysis of ECSs above the Department's own assessment is shown in the table below.

Region	ECS greater than Department estimate (number of projects)	Number of approved ECSs	ECS greater than Department estimate (% of approved ECSs)	Difference in estimates (\$m)
Hunter/Central Coast	198	221	89.6	45
Illawarra and South East	197	203	97.0	35
New England/North Coast	135	144	93.8	8
North Sydney	142	160	88.8	34
Riverina	56	95	58.9	5
South Western Sydney	156	301	51.8	18
Sydney	214	233	91.8	32
Western NSW	51	82	62.2	3
Western Sydney	121	246	49.2	8
Total	1,270	1,685	75.4	188

Source: Department of Education and Training (unaudited).

The table shows that over 85 per cent of the ECSs for projects in the Hunter/Central Coast, Illawarra, Northern Sydney and Sydney regions were greater than the Department's estimate. These regions combined accounted for over 77.7 per cent of the \$188 million difference in estimates.

It is fair to say that irrespective of where you set your pre tender estimate, the market may ultimately determine the final price. But as managing contractors went to the marketplace with pre tender estimates set at \$188 million higher than the Department's internal pre tender estimate means the Department missed out on the opportunity to negotiate a better deal with successful tenderers. To demonstrate this point a good example is the multipurpose hall, COLA and canteen project at Mount St Thomas Public School.

	Department pre tender estimate (\$)	Managing contractor ECS (\$)	Difference (\$)	Difference (%)
Design and documentation	95,620	127,334	31,714	33.2
Preliminaries	191,183	191,183	--	--
Site Preparation & Bulk Earthworks and external works	--	265,558	265,558	100
Other costs	1,346,556	1,224,306	122,250	10
Total cost to construct (excluding management fees and GST)	1,633,359	1,808,381	175,022	10.7

Source: Department of Education and Training (unaudited).

The table above demonstrates the Department, based on its knowledge of the project and current market prices, estimated the multipurpose hall, COLA and canteen project at Mount St Thomas School would cost \$1,633,359, some \$175,022 or 10.7 per cent less than the estimate submitted by the managing contractor (excluding management fees and GST). And within this total cost, the managing contractor's design and documentation costs were some 33.2 per cent higher than the Department's estimate. Whilst the Department made the managing contractor aware of these significant differences, it did not attempt to negotiate a lower ECS. It approved the ECS at \$1,808,381. This is contrary to normal business practice.

It appears that approval of ECSs by Departmental staff was largely focused on whether the ECS was within the project budget, and the Department largely relied on the tender and BMV processes to achieve value for money. This is evident from the Department's instruction to its quantity surveyors which focused on comparing the ECS with the school budget. However, as noted by the BER Taskforce in their Interim Report, relying on competitive tendering alone is a necessary, but not sufficient approach, to ensuring value for money. Furthermore, whilst it is correct to say that through the BMV process the Department might enforce a lower cost, as explained later in this report, the BMV process only applies to 20 per cent of the project costs, thus limiting its effectiveness in ensuring value for money.

Estimated Construction Sum higher than project budget

If the ECS for a project exceeded the project budget, the Department still approved it on the basis the managing contractor had to value engineer the project to no more than 100 per cent of the project budget, or offset the increased cost with savings from other schools in the same region. Value engineering essentially involved de-scoping works from the project. Common items that were de-scoped were solar panel cells, covered walkways and rainwater tanks. The Department provided instructions which outlined which items they could de-scope. At June 2010, the Department had de-scoped \$67.4 million of works.

In July 2010, the Minister for Education announced that \$50.0 million of de-scoped items would now be provided. Had the Department made a concerted effort to reduce ECSs to their own assessment then the need for de-scoping may have been alleviated. A lot of concerns by stakeholders were the exclusion of items promised at the beginning of the program, such as rainwater tanks and solar panels.

PROCURING GOODS AND SERVICES

All managing contractors were directed to comply with the NSW Procurement Code. This was enforced by the Department through its contract with each managing contractor. The requirement to comply with the same standards applicable to government agencies meant all managing contractors had to tender for all school projects. The NSW Procurement Code seeks to ensure that procurement activities are fair, ethical and transparent, and achieve value for money when expending public funds.

To ensure each managing contractor complied with this requirement, the Department established an audit program to address the risks of:

- fraud and corruption arising within the program
- probity issues (or allegations) arising as part of the contractor procurement process
- inadequate managing contractor procurement processes that could result in cost blow outs and cost overruns.

The audit program comprises reviewing the managing contractor’s procurement framework, their tendering and procurement processes, and conducting special request audits. This audit activity is performed by the Governance Unit established in the IPO. The audits completed at July 2010 are outlined in the table below.

	Procurement framework	Tendering and Procurement	Special request audits	Tendering spot checks
Total audits to be completed	7	70	N/A	1
Audits completed at July 2010	7	16	15	1
Audits in progress at July 2010	--	18	11	--

Source: Department of Education and Training (unaudited).
 N/A - not applicable

Procurement framework audits

The Department audited each managing contractor’s procurement framework in early September 2009 (when less than 50 projects had started construction), assessing their framework against the following elements of the NSW Procurement Code: tender methods and process; evaluation criteria; submission of tenders; confidentiality; evaluation of tenders; clarification of tenders; and tender negotiation. One reason for the audits was to assist managing contractors establish a framework that was consistent with the NSW Procurement Code.

The audits were completed at an early stage of the program so changes to their practices could be made, if required, to ensure later procurement efforts were aligned with the NSW Procurement Code.

Overall, the audits concluded the managing contractors were materially complying with the NSW Procurement Code. The audits found six of the seven managing contractors had not included the criteria by which tenders would be evaluated in the tender documentation. This requirement and a number of minor opportunities for improvement were identified and these were accepted and implemented by the managing contractors.

Tendering and procurement audits

In April 2010, the Department commenced its tendering and procurement audits. These audits review a sample of project tenders to ensure compliance with the NSW Procurement Code as well as the NSW Tendering Guidelines.

At July 2010, the Department completed 16 tendering and procurement audits. While the audits found the managing contractors had materially complied with the NSW Procurement Code they did identify some issues which did not compromise the tender process. The issues included:

- some tender evaluation processes lacked detail and scrutiny in many areas eg. price, qualifications, exclusions
- insufficient documentation on why packaging a number of school projects as one tender was appropriate
- information used as the basis for making recommendations was sometimes incomplete, inaccurate or unsubstantiated
- some tender evaluation reports did not detail the tender box, method of delivery, and the tender opening process
- insufficient documentation on whether the acceptance of late tenders compromised the integrity of the tender
- insufficient documentation of negotiations that took place with tenderers
- tender evaluation committee members not signing a confidentiality and conflict of interest declaration.

Special request audits

At July 2010, the Department completed 15 special request audits. These audits are similar to the tendering and procurement audits however, they are conducted when concerns are raised by one or more project stakeholders. These audits also examine value for money. The assessment of value for money was determined by referring to information in Rawlinson's Australian Construction Handbook and costs incurred for similar projects before the BER commenced.

The cost analyses within special request audits generally focus on design and documentation, preliminaries, and design and price risk cost components only. They do not check whether value for money was achieved on other costs such as structural costs, site services, site works and management fees as these were subject to competitive tender.

Of the 15 completed audits, the Department found one instance where a managing contractor had not materially complied with the NSW Procurement Code. The managing contractor advised the Department it did not comply because of time pressures.

Whilst the managing contractor did not comply with the NSW Procurement Code, the audit concluded the non compliance did not have a negative impact on the cost of the project. The audit recommended the managing contractor review and make corrections to all future procurement efforts to ensure compliance. It also recommended a further audit once the Subcontractor Award Report and actual construction sum figures become available for that project.

From the completed audits, the Department also identified two instances where value for money was not achieved on either preliminaries and/or design and documentation costs. One of the audits related to multiple schools in the New England/North Coast region. The results of these audits are outlined in the table below.

	Department pre tender estimate	Approved ECS	Upper acceptable estimate used in the audit	Difference
	(\$)	(\$)	(\$)	(\$)
Tarcutta Public School - design, documentation and preliminaries	26,719	91,510	64,807	26,703
Coffs Harbour Public School - preliminaries	207,067	233,740	178,589	55,151
Narranga Public School - preliminaries	457,146	341,860	245,707	96,153
Sandy Beach Public School - preliminaries	na	334,213	276,226	57,987
Toormina Public School - preliminaries	na	222,515	177,835	44,680
Yamba Public School - design, documentation and preliminaries	na	417,734	355,494	62,240

Source: Department of Education and Training (unaudited). Figures are GST exclusive.
na - not available.

In the case of Tarcutta Public School, the Department had assessed the project preliminaries plus design and documentation costs to be \$26,719. Despite this, the Department approved the ECS for these items at \$91,510, or 243 per cent more than its estimate. This highlights my previous observation regarding the Department's failure to adjust ECSs in line with their own assessment. It appears the Department made a choice to accept this significant variance in order to complete projects within the timeframe available.

The Department advised it will conduct a further audit of those projects whose cost elements were assessed as representing value for money. They will do this once the Sub-contractor Award Report and actual construction sum figures become available.

Direct negotiations

At 31 July 2010, the Department identified only one instance of a managing contractor not tendering for works. The contractor chose to enter into direct negotiations with preferred suppliers. The direct negotiations were only undertaken for the provision of site works, not for the whole project. In this case, the managing contractor experienced difficulty in finding suitable trades people to complete the work by the set deadline.

I recommend the Department request statutory declarations from managing contractors which states they have tendered for all works. If managing contractors have entered into direct negotiations they should list these as exceptions in the statutory declaration.

Upon receiving the statutory declaration, the Department should audit a sample of direct negotiations to confirm this did not result in an adverse value for money outcome.

The Department is unable to confirm the exact number of direct negotiations that have occurred across the program. I suggest they seek a statutory declaration from managing contractors to find out how often this procurement method was used. The Department should also audit some direct negotiations to ensure it has not resulted in poor value for money outcomes.

The NSW Tendering Guidelines allow direct negotiations (without prior competitive tendering) in specific circumstances. However, the guidelines say that direct negotiations should be avoided as there are very few circumstances in which this approach will result in the best value for money. Under the guidelines the agency must obtain high level authorisation beforehand and must demonstrate that direct negotiation is the best way of achieving value for money.

The Department's audit into the one instance of direct negotiation found insufficient evidence that the Department approved this before the negotiations were conducted. It also found the managing contractor could not provide sufficient evidence that it conducted the direct negotiations in accordance with a specified negotiation protocol or that it kept a detailed written record of direct negotiations.

Tender periods and marketplace competition

From the completed tendering and procurement, and special request audits, there is an emerging pattern of potential suppliers being unable to submit a tender because they did not have available capacity. The tender results for 26 projects are listed in the following table.

	Number of firms requested to submit a tender	Number of tenders received	Number of conforming tenders	Tender period length (Calendar Days)
Eungai Public	12	6	6	16
Dubbo North Public	5	5	5	17
Albury Public	5	4	4	24
Albury North Public	5	4	4	24
Corowa Public	5	4	4	24
Glemroy Public	5	4	4	24
Thurgoona Public	5	4	4	24
MDR package	6	5	3	15
Wagga Wagga Public	3	2	2	58
South Wagga Wagga Public	3	2	2	43
Hastings Public	4	2	2	21
Tottenham Central	5	2	2	15
Boombee Public	3	2	2	40
Coffs Harbour Public	3	2	2	40
Macleay Public	3	2	2	40
Narranga Public	3	2	2	40
Sandy Beach Public	3	2	2	40
Toormina Public	3	2	2	40
Yamba Public	3	2	2	40
North Wagga Public	7	3	1	21
Tarcutta Public	4	2	1	28
Turvey Public	4	2	1	28
June North	4	2	1	28
Uranquinty Public	4	2	1	28
Stuarts Point Public	1	Direct Negotiation	1	--

Source: Department of Education and Training (unaudited).

Of the 25 projects tendered, 17 projects received two or less conforming tenderers. In three of the 26 projects listed above, the period allowed for the tenderers to prepare their bids was less than 17 days. Although this complies with the NSW Tendering Guidelines, it may have been better to provide the marketplace with more time to respond to tenders though the table shows the school projects with the highest number of conforming tenders had amongst the shortest tender periods, and vice versa. The fact that, in many instances, the longer tender periods only resulted in one conforming tender being submitted may have indicated suppliers had no capacity at the time. This was especially evident for projects in non-metropolitan areas.

Negotiating with preferred tenderer

Whilst the NSW Tendering Guidelines do not require an entity to negotiate with the preferred tenderer, this practice is not uncommon when seeking to maximise value for money. For most of those projects listed in the table above which received only two tenders, there was no evidence that the managing contractor attempted to negotiate a lower price.

For example, one of the projects was a COLA at Hastings Public School. The managing contractor sent out invitations to four firms to tender for the works. Only two firms submitted a tender. The other two firms chose not to submit a tender on the basis they could not source key trades, they could not do any further work due to their current workload, or they were unable to prepare a tender within the required timeframe. In these circumstances, given the limited competition, and given the Department had told the managing contractor their ECS was some 20.6 per cent higher than the Department's estimate, it would have been prudent to enter into negotiations with the preferred tenderer. There was no evidence of this occurring.

Another example where it may have been prudent for the managing contractor to enter into negotiations with the preferred tenderer was the Tottenham Central Public canteen project. Of the five companies that requested a tender package, only two submitted a tender. Both tenders exceeded the Department's estimate by over 20 per cent. However, because the Department had approved the managing contractor's ECS, there was no real incentive for the managing contractor to try and negotiate a lower price.

I recommend for future projects or programs of similar nature and/or size, the Department consider nominating a Departmental officer to sit on the tender evaluation committee to ensure full compliance with the New South Wales Government Code of Practice for Procurement and NSW Government Procurement Guidelines - Tendering Guidelines. Their presence will also assist in maximising value for money by trying to negotiate a lower price with the preferred tenderer.

The Department should also issue an instruction to all managing contractors that states they must attempt to negotiate with the preferred tenderer either when:

- (a) very few tenders have been submitted for a project, and/or
- (b) the tendered price is significantly higher than the Department's cost estimate.

All the tenders were assessed by the managing contractors. As the primary client, the Department should have had some presence on the tender evaluation committees. This would have resulted in greater compliance with the NSW Procurement Code and NSW Tendering Guidelines, and could have resulted in more negotiations to maximise value for money.

Under business as usual arrangements, the Department uses DSTA to act as its managing contractor. This includes DSTA managing the tender process. Whilst DSTA is the Department's managing contractor, the Department nevertheless still has a representative on the tender evaluation committee to ensure the tender process results in the best possible outcome. This practice was not used for the P21 program. Had it been used it may have resulted in savings.

BENCHMARK MARKET VALUE PROCESS

The Department developed the BMV process as another measure to maximise value for money from the P21 program. The process involves establishing a BMV for each project by using the tendered cost of the project and the average tendered cost for similar projects under the P21.

The term benchmark generally implies that it is derived from an external source. However under the P21 the benchmark is determined using projects costs within the program. For this reason I believe the BMV process is somewhat misleading.

Once a BMV is established for the project, the Department will only pay the managing contractor the lower of the actual construction sum or 105 per cent of the BMV. All costs except for the managing contractor’s fees are subject to the BMV process. The BMV is the sum of:

- 80 per cent of the actual tendered cost for the project, and
- 20 per cent of the average tendered cost for similar projects.

This amount is multiplied by 105 per cent to calculate the final BMV.

The final actual payment for a project could be less than the BMV, however, 105 per cent of the BMV is the maximum amount payable for a project (excluding management fees).

I recommend the Department obtain the managing contractors written acceptance of the 80/20 split used to calculate the Benchmark Market Value.

The managing contractors have not accepted, in writing, the 80/20 split used by the Department. The signed contract between the Department and the managing contractors only refers to using similar projects under the P21 program to calculate the BMV. It makes no reference to how it should work. While the Department has received legal advice indicating it does not require formal sign off from the managing contractors, I recommend the Department seek the managing contractors written acceptance. This will avoid any future disputes. The Department advised they have consulted the managing contractors and they have agreed to the BMV model.

Whilst the Department has indicated the BMV acts as a mechanism to ensure it obtains value for money, its ability to do this is quite limited. This is because 80 per cent of the BMV is derived from the tendered cost for the actual project. Only 20 per cent of the project cost is compared with similar projects in the P21 program. To illustrate this, the table below is a worked example of the canteen project at Tottenham Central Public where the actual tendered cost for the project was \$464,277.

	Lowest cost (\$)	Highest cost (\$)
BMV - 80 per cent of tendered cost	371,422	371,422
BMV - 20 per cent of similar projects (say average cost of \$500,000 - worst case scenario)	N/A	100,000
BMV - 20 per cent of similar projects (say average cost of \$350,000 - best case scenario)	70,000	N/A
Total BMV	441,422	471,422
105 per cent of BMV	463,493	494,993
Actual tendered cost	464,277	464,277
Maximum potential saving from BMV	784	Nil

Source: Actual tendered cost obtained from the Department of Education and Training.
N/A - not applicable.

The table shows the maximum saving to the Department, assuming a BMV of \$350,000 for similar projects, is \$784, or 0.2 per cent of the tendered cost. Because the BMV uses tendered costs within the P21 program (including the project subject to BMV), it is highly unlikely that the BMV for this project would be less than \$350,000.

PROJECT COST ANALYSIS

To help with my audit of the Department's financial statements, I engaged Muller Partnership, an independent quantity surveying firm, to estimate the construction cost for nine P21 projects. The cost estimates prepared by Muller Partnership have assisted me in assessing whether the carrying value of the Department's assets materially reflect fair value at 30 June 2010, which is a requirement of Australian Accounting Standards.

Based on the information provided to them by the Department, Muller Partnership believes that in all projects except one, the estimated construction cost would be between 2.3 per cent and 39.7 per cent lower (in a business as usual environment) than the estimated construction cost/actual tendered amounts under the P21 program. The average difference across the nine projects was 12.7 per cent. The biggest variance was on the hall, COLA and toilets at Merrylands East Public School. Muller Partnership believes the estimated cost to construct the hall, COLA and toilets is \$1,645,755. The ECS was \$2,299,601, a difference of \$653,846.

I took into account a number of factors when selecting which projects I should review. This included selecting schools from different regions and selecting common projects. I also took into account projects that were reported in the media as being overly expensive.

I selected Muller Partnership through a selective procurement process. Muller Partnership are independent of the Department's BER program of works. They have not performed any work for the Department or its managing contractors. The senior staff from Muller Partnership have over 20 years experience in all areas of quantity surveying.

Case Study 1: Mount St Thomas Public School (Core 21 hall, canteen and COLA)

The school's P&C association was concerned about the size of the multipurpose hall and its cost.

Under the P21 program Mount St Thomas Public School agreed to the construction of a new Core 21 multipurpose hall, canteen and COLA. Based on the school's full time equivalent population of 312 students at the time of the funding allocation, the school was entitled to funding of \$2.5 million.

In responding to requests for project nominations in March 2009, the school submitted a number of proposals. One of those proposals was for a new hall, canteen and COLA. Other proposals included replacing two demountable buildings and an upgrade to the administration building. It was agreed between the school and the Department that a new school hall and associated works represented the school's highest priority.

Construction of the new hall and associated works commenced in November 2009. At June 2010, the project was over 50 per cent complete and the project is expected to be completed in November 2010. The school is located in the Wollongong local government area.

Multipurpose hall size

The multipurpose hall is consistent with the floor space requirements set out in the Department's Standards. The hall has 190 square metres of floor space, which is made up of a 44 square metre stage and 146 square metres for student to sit.

The Standards state the size of a multipurpose hall is determined by the number of enrolled students. Multipurpose halls are designed to provide enough floor seating space for enrolled students.

Cost

Muller Partnership provided me with an estimated construction cost for this project in today's environment and under normal circumstances, without the time constraints imposed by the Australian Government. Based on their estimate, the tendered cost to complete the multipurpose hall and associated works is some 19.3 per cent higher. The table below provides a comparison between the tendered cost and my estimate.

	Audit Office estimate	Tendered amount	Difference	Difference
	\$	\$	\$	%
Construction costs*	1,643,083	1,829,048	185,965	11.3
Management fees	57,336	189,490	132,154	230.5
TOTAL COST	1,691,419	2,018,538	327,119	19.3
Cost per square metre	3,297	3,935	638	19.3

*Construction costs exclude IPO management fee, design costs, design and price risk, substation allowance and managing contractor incentive fee.

I attempted to analyse the cost of this project against the cost for similar Departmental projects completed before the BER commenced. The Department advised it could not provide me with data for comparable projects built between 2000 and 2009.

The Department advised they have 29 other projects with the same facility type within the P21 program and the tendered cost of these projects range from \$1,677,625 to \$2,264,593. The tendered amount for the Mount St Thomas project lies just above the middle of this cost range.

The Department also advised the NSW Architect's Office Principal Quantity Surveyor estimates delivering projects under the P21 program has increased costs by 10.5 per cent, compared to the Department's business as usual costs.

Case Study 2: Tottenham Central Public (Canteen and classroom refurbishment)

The school's P&C association was concerned the new canteen did not represent value for money, was half the size of the original building and had limited cooking facilities.

Under the P21 program Tottenham Central Public agreed to the construction of a new canteen and refurbishment of some classrooms. Based on the school's full time equivalent population at the time of the funding allocation, the school was entitled to funding of \$850,000.

Construction of the new canteen and associated works was completed in March 2010. The school is located in the Western New South Wales region.

Cost

Muller Partnership provided me with an estimated construction cost for this project in today's environment and under normal circumstances, without the time constraints imposed by the Australian Government. Based on their estimate, the tendered cost to complete the canteen and classroom refurbishment is some 2.3 per cent higher. The table below provides a comparison between the tendered cost and my estimate.

	Audit Office estimate	Tendered amount	Difference	Difference
	\$	\$	\$	%
Construction costs*	660,946	650,667	(10,279)	(1.6)
Management fees	89,315	117,120	27,805	31.1
TOTAL COST	750,261	767,787	(19,987)	2.3
Cost per square metre	1,753	1,794	41	2.3

*Construction costs exclude IPO management fee, design costs, design and price risk, substation allowance and managing contractor incentive fee.

My estimate of \$750,261 includes \$81,400 to upgrade electrical services at the school. This upgrade was required to meet the needs of the new canteen.

I attempted to analyse the cost of this project against the cost for similar Departmental projects completed before the BER commenced. The Department advised it could not provide me with data for comparable projects built between 2000 and 2009.

The Department advised they have two other projects with the same facility type within the P21 program and the tendered cost range from \$709,737 to \$872,039. The tendered cost of the Tottenham Central project lies slightly below the middle of this cost range.

The Department also advised the NSW Architect's Office Principal Quantity Surveyor estimates delivering projects under the P21 program has increased costs by 10.5 per cent, compared to the Department's business as usual costs.

Case Study 3: Irrawang Public School (Core 14 hall and COLA)

Irrawang Public School agreed to the construction of a new Core 14 multipurpose hall and COLA. Based on the school's full time equivalent population at the time of the funding allocation, the school was entitled to funding of \$2.0 million.

In responding to requests for project nominations in March 2009, the school submitted three proposals. One of those proposals was for a new multipurpose hall and toilet upgrade. Other proposals included improving the sports courts and provision of covered walkways between three classrooms and the administration area. It was agreed between the school and the Department that a new multipurpose hall and COLA represented the school's highest priority.

Construction of the new multipurpose hall and COLA was completed in February 2010. The school is located in the Hunter region.

Cost

Muller Partnership provided me with an estimated construction cost for this project in today's environment and under normal circumstances, without the time constraints imposed by the Australian Government. Based on their estimate, the tendered cost to complete the hall and COLA is some 11.2 per cent higher than their estimate. The table below provides a comparison between the tendered cost and my estimate.

	Audit Office estimate	Tendered amount	Difference	Difference
	\$	\$	\$	%
Construction costs*	1,401,068	1,518,699	117,631	8.4
Management fees	83,825	133,038	49,213	58.7
TOTAL COST	1,484,893	1,651,737	166,844	11.2
Cost per square metre	3,126	3,477	351	11.2

*Construction costs exclude IPO management fee, design costs, design and price risk, substation allowance and managing contractor incentive fee.

I attempted to analyse the cost of this project against the cost for similar Departmental projects completed before the BER commenced. The Department advised it could not provide me with data for comparable projects built between 2000 and 2009.

The Department advised they have 159 other projects with the same facility type within the P21 program and the tendered cost of those projects range from \$1,195,104 to \$2,349,227. The tendered cost of the Irrawang Public School project lies just below the middle of this cost range.

The Department also advised the NSW Architect's Office Principal Quantity Surveyor estimates delivering projects under the P21 program has increased costs by 10.5 per cent, compared to the Department's business as usual costs.

Case Study 4: Caroline Chisholm School (Core 7 hall)

The school agreed to the construction of a new Core 7 multipurpose hall. Based on the school's full time equivalent population at the time of the funding allocation, the school was entitled to funding of \$850,000.

In responding to requests for project nominations in March 2009, the school submitted a number of proposals including a new hall and new library. It was agreed between the school and the Department that a multipurpose hall represented the school's highest priority.

Construction of the new hall commenced in January 2010. At August 2010, the hall was 95 per cent complete. The project is expected to be completed in November 2010. The school is located in the South Western Sydney region.

Cost

Muller Partnership provided me with an estimated construction cost for this project in today's environment and under normal circumstances, without the time constraints imposed by the Australian Government. Based on their estimate, the tendered cost to complete the hall is some 22.0 per cent higher. The table below provides a comparison between the tendered cost and my estimate.

	Audit Office estimate	Tendered amount	Difference	Difference
	\$	\$	\$	%
Construction costs*	692,883	795,431	102,548	14.8
Management fees	46,975	107,383	60,408	128.6
TOTAL COST	739,858	902,814	162,956	22.0
Cost per square metre	5,400	6,589	1,189	22.0

*Construction costs exclude IPO management fee, design costs, design and price risk, substation allowance and managing contractor incentive fee.

I attempted to analyse the cost of this project against the cost for similar Departmental projects completed before the BER commenced. The Department advised it could not provide me with data for comparable projects built between 2000 and 2009.

The Department advised they have four other projects with the same facility type within the P21 program and the tendered cost of those projects range from \$709,737 to \$942,351. The tendered cost of the Caroline Chisholm Public School project lies at the high end of this cost range.

The Department also advised the NSW Architect's Office Principal Quantity Surveyor estimates delivering projects under the P21 program has increased costs by 10.5 per cent, compared to the Department's business as usual costs.

Case Study 5: Blacktown South Public School (Core 21 library and new classrooms)

The school agreed to the construction of a new Core 21 library and new classrooms. Based on the school's full time equivalent population at the time of the funding allocation, the school was entitled to funding of \$3.0 million.

In responding to requests for project nominations in March 2009, the school submitted a number of proposals including a new modular design range library and new classrooms. It was agreed between the school and the Department that a new school library and classrooms represented the school's highest priorities.

Construction of the new library and classrooms at Blacktown South commenced in November 2009. At August 2010, the library project was over 90 per cent complete. The classrooms project was around 50 per cent complete. The project is expected to be completed in December 2010. The school is in Western Sydney.

Cost

Muller Partnership provided me with an estimated construction cost for this project in today's environment and under normal circumstances, without the time constraints imposed by the Australian Government. Based on their estimate, the ECS to complete the library and new classrooms is some 5.8 per cent higher. The table below provides a comparison between the ECS and my estimate.

	Audit Office estimate	ECS**	Difference	Difference
	\$	\$	\$	%
Construction costs*	2,646,819	2,662,648	15,829	0.6
Management fees	92,871	234,847	141,976	152.9
TOTAL COST	2,739,690	2,897,495	157,805	5.8
Cost per square metre	2,748	2,906	158	5.8

*Construction costs exclude IPO management fee, design costs, design and price risk, substation allowance and managing contractor incentive fee.

** Actual tendered amount is not available.

I attempted to analyse the cost of this project against the cost for similar Departmental projects completed before the BER commenced. The Department advised it could not provide me with data for comparable projects built between 2000 and 2009.

The Department also advised they do not have any directly comparable projects within the P21 program.

The Department also advised the NSW Architect's Office Principal Quantity Surveyor estimates delivering projects under the P21 program has increased costs by 10.5 per cent, compared to the Department's business as usual costs.

Case Study 6: Goolgowi Public School (Core 7 library and classroom refurbishment)

The school agreed to the construction of a new Core 7 library and classroom refurbishment. This analysis refers only to the new library. Based on the school's full time equivalent population at the time of the funding allocation, the school was entitled to funding of \$850,000.

In responding to requests for project nominations in March 2009, the school submitted a number of proposals including a new library, covered walkways and an upgrade to its administration building. It was agreed between the school and the Department that a new school library and classroom refurbishment represented the school's highest priority.

Construction of the new library was completed in June 2010. The school is in the Riverina region.

Cost

Muller Partnership provided me with an estimated construction cost for this project in today's environment and under normal circumstances, without the time constraints imposed by the Australian Government. Based on their estimate, the tendered cost to complete the library and classroom refurbishment was 4.6 per cent lower. The table below provides a comparison between the tendered cost and my estimate.

	Audit Office estimate	Tendered amount	Difference	Difference
	\$	\$	\$	%
Construction costs*	716,973	662,063	(54,910)	(7.7)
Management fees	101,812	119,171	17,359	17.1
TOTAL COST	818,785	781,234	(37,551)	(4.6)
Cost per square metre	5,807	5,541	(266)	(4.6)

*Construction costs exclude IPO management fee, design costs, design and price risk, substation allowance and managing contractor incentive fee.

I attempted to analyse the cost of this project against the cost for similar Departmental projects completed before the BER commenced. The Department advised it could not provide me with data for comparable projects built between 2000 and 2009.

The Department advised they have 34 other projects with the same facility type within the P21 program and the tendered cost of these projects range from \$523,958 to \$874,263. The tendered cost of the Goolgowi Public School project lies at the high end of this cost range.

The Department also advised the NSW Architect's Office Principal Quantity Surveyor estimates delivering projects under the P21 program has increased costs by 10.5 per cent, compared to the Department's business as usual costs.

Case Study 7: Turramurra Public School (Core 21 library and administration refurbishment)

The school agreed to the construction of a new Core 21 library and a refurbishment of an administration building. Based on the school’s full time equivalent population at the time of the funding allocation, the school was entitled to funding of \$3.0 million.

In responding to requests for project nominations in March 2009, the school submitted a number of proposals including a COLA, an electrical upgrade, toilet upgrade and improved access for students with special needs to the administration area. The school did not nominate a library. However, subsequent consultation with the school community identified a central library as the school’s highest priority.

Construction of the new library commenced in November 2009. At August 2010, the project was over 90 per cent complete. The school is the Northern Sydney region.

Cost

Muller Partnership provided me with an estimated construction cost for this project in today’s environment and under normal circumstances, without the time constraints imposed by the Australian Government. Based on their estimate, the tendered cost to complete the library and administration refurbishment is some 14.3 per cent higher than their estimate. The table below provides a comparison between the tendered cost and my estimate.

	Audit Office estimate	Tendered amount	Difference	Difference
	\$	\$	\$	%
Construction costs*	2,155,284	2,345,095	189,811	8.8
Management fees	75,624	205,430	129,806	171.6
TOTAL COST	2,230,908	2,550,525	319,617	14.3
Cost per square metre	3,229	3,691	463	14.3

*Construction costs exclude IPO management fee, design costs, design and price risk, substation allowance and managing contractor incentive fee.

I attempted to analyse the cost of this project against the cost for similar Departmental projects completed before the BER commenced. The Department advised it could not provide me with data for comparable projects built between 2000 and 2009.

The Department advised they do not have any directly comparable projects within the BER program.

The Department also advised the NSW Architect’s Office Principal Quantity Surveyor estimates delivering projects under the P21 program has increased costs by 10.5 per cent, compared to the Department’s business as usual costs.

Case Study 8: Marrickville Public School (COLA, covered walkway and toilet refurbishment)

Stakeholders were concerned about excessive costs. The school agreed to the construction of a new COLA, covered walkway and a toilet refurbishment. Based on the school's full time equivalent population at the time of the funding allocation, the school was entitled to funding of \$850,000.

In responding to requests for project nominations in March 2009, the school submitted a number of proposals including a new COLA, toilet upgrade and an upgrade to the playground. It was agreed between the school and the Department that a new COLA, covered walkway and toilet represented the school's highest priority.

Construction of the new COLA, covered walkway and toilet was completed in May 2010. The school is located in the Sydney region.

Cost

Muller Partnership provided me with an estimated construction cost for this project in today's environment and under normal circumstances, without the time constraints imposed by the Australian Government. Based on their estimate, the tendered cost to complete the COLA, covered walkway and toilet refurbishment is 4.2 per cent higher. The table below provides a comparison between the tendered cost and my estimate.

	Audit Office estimate	Tendered amount	Difference	Difference
	\$	\$	\$	%
Construction costs*	613,237	640,808	27,571	4.4
Management fees	44,169	44,512	46	0.0
TOTAL COST	657,406	685,023	27,617	4.2
Cost per square metre	1,050	1,094	44	4.2

*Construction costs exclude IPO management fee, design costs, design and price risk, substation allowance and managing contractor incentive fee.

I attempted to analyse the cost of this project against the cost for similar Departmental projects completed before the BER commenced. The Department advised it could not provide me with data for comparable projects built between 2000 and 2009.

The Department advised they do not have any directly comparable projects within the BER program.

The Department also advised the NSW Architect's Office Principal Quantity Surveyor estimates delivering projects under the P21 program has increased costs by 10.5 per cent, compared to the Department's business as usual costs.

Case Study 9: Merrylands East Public School (Core 14 hall, COLA and toilets)

Under the P21 program Merrylands East Public School agreed to the construction of a new Core 14 multipurpose hall, COLA and toilets. Based on the school’s full time equivalent population at the time of the funding allocation, the school was entitled to funding of \$2.5 million.

In responding to requests for project nominations in March 2009, the school submitted a number of proposals including the proposal for a new hall, canteen and covered walkways. It was agreed between the school and the Department that a new multipurpose hall, COLA and toilets represented the school’s highest priority.

I understand the school recently obtained approval to self manage this project. The school is located in the South Western Sydney Region.

Cost

Muller Partnership provided me with an estimated construction cost for this project in today’s environment and under normal circumstances, without the time constraints imposed by the Australian Government. Based on their estimate, the ECS to complete the hall, COLA and toilets was 39.7 per cent higher. The table below provides a comparison between the ECS and my estimate.

	Audit Office estimate	ECS	Difference	Difference
	\$	\$	\$	%
Construction costs*	1,589,967	2,014,102	424,135	26.7
Management fees	55,788	285,499	229,711	411.8
TOTAL COST	1,645,755	2,299,601	653,846	39.7
Cost per square metre	3,014	4,211	1,197	39.7

*Construction costs exclude IPO management fee, design costs, design and price risk, substation allowance and managing contractor incentive fee.

I attempted to analyse the cost of this project against the cost for similar Departmental projects completed before the BER commenced. The Department advised it could not provide me with data for comparable projects built between 2000 and 2009.

The Department advised they do not have any directly comparable projects within the BER program.

The Department also advised the NSW Architect’s Office Principal Quantity Surveyor estimates delivering projects under the P21 program has increased costs by 10.5 per cent, compared to the Department’s business as usual costs.

Comments from the Department of Training and Education

When the BER was initiated in February/March 2009, the Australian stock market had halved in value in the previous 15 months, interest rates were at a 49-year low, advanced economies were forecasting the worst recession in a generation, and growth was expected to slow to a crawl in China and India.

Australia expected rapidly rising unemployment at best, with a recession a real possibility. And within Australia, NSW seemed at greatest risk with the highest rates of household debt, the slowest growth in state final demand for the previous year and a very sharp fall in building approvals.

The BER was a two-year stimulus program. Its over-riding objective was to create a rapid increase in aggregate demand and employment.

The intergovernmental agreements make clear that quick delivery and strict adherence to timeframes was the first concern. The stimulus investment was to be targeted, timely and temporary, with all works finished by March 2011.

NSW reacted immediately. Within weeks we had engaged managing contractors and on 11 March 2009 the NSW Parliament passed legislation to expedite planning approvals for school buildings and new social housing.

In the six months to December 2009, ABS data shows approvals for building work in NSW public schools rose nearly 1,400%.

Now, 20 months later, NSW public schools have delivered the fastest and largest stimulus of any education system. The third and final element of the BER, the P21 program, will be 99% completed to schedule between December 2010 and March 2011.

The latest ABS data shows in 2009-2010 the value of non-residential construction in NSW rose by 14.8% on the year before. Without the BER stimulus it would have fallen, as it did in most other states.

NSW has delivered on its commitments under the intergovernmental agreements, including making sure apprentices have undertaken 10% of the BER work.

And despite the pace of delivery, the BER in NSW public schools has a safety record five times as good as the Australian construction industry.

The BER stimulus program has delivered good value for money overall with more than 97% satisfaction based on complaints data, but we are working to improve value in a small number of projects with problems.

In coming months the Department will re-instate into scope many of the smaller items removed earlier from projects as a result of our conservative approach to managing the total budget.

The Department is also working with the managing contractors to rectify any defects in projects at their expense.

The Department welcomes many of the findings of the audit but, as the body of the report indicates, we disagree with a number of conclusions.

The Department did check and negotiate the initial cost estimates - the so-called estimated construction sums - provided by the managing contractors. We provided the audit with examples of these.

Where time allowed managing contractors did re-tender projects when the market price they received was judged too high. For example, the managing contractor delivering projects in the Illawarra and South East NSW re-tendered 27% of projects.

As the report makes clear, the very small number of schools - nine of 1,794 - it subjected to a cost analysis are not representative of the program. This very limited analysis found projects were 12.7% more expensive than usual construction.

The NSW Government Architect's Office Principal Quantity Surveyor estimates the cost premium from accelerated delivery of the BER at around 10.5% compared to ordinary construction.

Regardless of quantity surveyor's estimates, the price is ultimately determined by the market to deliver the project as specified.

In four regions of NSW the Department accepted recommendations to appoint managing contractors that did not offer the lowest prices.

This cost \$23 million more but greatly reduced the program risks to time, quality and safety of relying on too few managing contractors to deliver the program. On this basis, the extra cost was formally assessed as representing the best value.

(signed)

*Michael Coutts-Trotter
Director-General*

Dated: 30 November 2010

Department of Education and Training

AUDIT OPINION

The audits of the Department 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 parent entity.

KEY ISSUE

Commentary on the Building Education Revolution Program audit is included in this report.

As a result of this audit and due to the significant projects under construction the Department will need to:

- assess the implications for asset revaluation
- plan for higher maintenance expenses in future years.

PERFORMANCE INFORMATION

The New South Wales State Plan provides the overall direction for improvements in performance and it significantly influenced the Department's priorities for 2010. Its priorities included:

- increasing levels of attainment for all students, including increasing the percentage of students exceeding the national benchmarks in reading and numeracy
- more students completing Year 12 or recognised vocational training
- closing the performance gap between Aboriginal students and all students, at schools and at the New South Wales Technical and Further Education Commission (TAFE NSW)
- increasing the proportion of population aged 15-64 participating in vocational education and training.

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

- literacy and numeracy
- year 12 retention rates
- achievement gap for Aboriginal students
- government school enrolments.

Literacy and Numeracy

Since 2008, all Australian schools use the National Assessment Program - Literacy and Numeracy (NAPLAN) to assess the literacy and numeracy learning of students at Years 3, 5, 7 and 9. Students participate in NAPLAN tests in May of each year and 2010 is the third year of testing.

The table below details the 2010 NAPLAN summary results of the percentage of students at or above the national minimum standard:

Years	Change	NSW			National	
		2010 %	2009 %	2010 Ranking	2010 %	2009 %
Reading						
Year 3	↓	95.2	95.6	3	93.9	93.7
Year 5	↓	93.0	93.7	3	91.3	91.7
Year 7	↑	95.0	94.8	4	94.8	94.0
Year 9	↓	91.2	93.6	3	90.7	92.2
Writing						
Year 3	↓	96.8	97.2	2	95.6	95.7
Year 5	↑	95.1	95.0	1	93.1	93.0
Year 7	↓	93.3	93.7	4	92.6	92.5
Year 9	↓	87.6	89.0	3	87.2	87.8
Spelling						
Year 3	↓	93.8	94.9	3	91.0	92.2
Year 5	↓	94.1	94.6	<i>equal 1</i>	91.9	92.4
Year 7	↓	94.1	94.6	2	92.9	92.9
Year 9	↓	91.1	91.5	2	89.6	89.7
Punctuation and Grammar						
Year 3	↓	93.6	94.8	3	92.0	92.4
Year 5	↑	93.8	93.7	3	92.2	92.0
Year 7	↓	91.8	92.5	4	91.5	92.1
Year 9	↑	91.5	90.9	3	90.8	90.4
Numeracy						
Year 3	↓	95.0	95.5	3	94.2	94.0
Year 5	↓	94.6	95.5	3	93.6	94.2
Year 7	↓	94.9	95.1	5	95.0	94.8
Year 9	↓	93.1	95.5	3	93.1	95.0

Source: Australian Curriculum, Assessment and Reporting Authority (ACARA) - National Assessment Program - Literacy and Numeracy Summary Report 2010 (unaudited).

Notes:

- Key: ↑ Change upwards, ↓ Change downwards, - No change
- The rankings range from one to eight (highest to lowest).

The results of the 2010 national tests indicate New South Wales students continue to perform consistently better than the national average. Although the changes for New South Wales are mostly consistent with the trends nationally, the State's performance and ranking is lower in most domains compared to 2009.

The Department advised it spent \$230 million (\$174 million in 2008-09) on the literacy and numeracy plan in 2009-10 and an additional \$959 million (\$968 million) will be spent over the next four years to further improve student literacy and numeracy levels.

Retention Rates from Years 7 to 12 for Government Schools

Year ended 31 December	2009 %	2008 %	2007 %	2006 %	2005 %
All students	66.3	64.6	64.5	65.1	65.8
Aboriginal students	33.1	32.2	30.9	28.7	29.4
Students from language backgrounds other than English	108.0	106.0	101.8	105.4	109.5
Students from low socio-economic status backgrounds	53.9	54.5	53.2	52.9	55.5
Geographically isolated students	46.8	41.1	48.6	41.3	45.6

Source: DET Statistical Compendium 2009 (unaudited).

Notes:

- Retention rates are 'apparent' as they do not track individual students through their secondary schooling.
- Retention rates for students from low socio-economic status backgrounds and geographically isolated students for 2002 to 2006, 2008 and 2009 are based on participating schools in 2007, 2008 and 2009 respectively.
- Year 12 retention rates can exceed more than 100 per cent due to a number of factors including migration of students from interstate and overseas
- Care should be exercised in interpreting changes in apparent retention rates for Aboriginal students and students from geographically isolated areas due to the small numbers involved
- The 2009 rate for all students is consistent with the confidentialised data published in Table 4.03 of the DET Statistical Compendium 2009 and sourced from ABS Schools Australia.

Over the past five years the retention rates from Years 7 to 12 have remained relatively stable. The retention rate for geographically isolated students turned around a five year low in 2008 with an increase of 5.7 per cent in 2009. The Department continued a range of strategies it put in place in 2007 that were designed to encourage more students to complete Year 12. It expects that the initiatives will start to impact positively on retention rates in 2012 when the 2007 Year 7 students are due to reach Year 12.

Retention Rates of Full-time Students for Government Schools by State (2005-2009) for Years 7/8 to 12

Years	NSW %	Vic %	Qld %	SA %	WA %	Tas %	NT %	ACT %	National %
2009	66.3	73.2	72.8	69.1	69.2	61.3	61.2	99.5	70.1
2008	64.6	71.9	70.3	64.7	68.2	61.3	67.6	95.9	68.3
2007	64.5	73.9	71.1	64.0	63.1	63.3	69.4	96.6	68.3
2006	65.1	72.6	71.6	61.9	65.1	63.2	72.3	103.2	68.5
2005	65.8	74.0	73.0	61.7	65.4	65.5	70.5	99.6	69.4

Source: DET Statistical Compendium 2009 (unaudited).

Notes:

- Retention rates are 'apparent' as they do not track individual students through their secondary schooling.
- Care should be exercised in the interpretation of apparent retention rates as the method of calculation does not take into account a range of factors including:
 - Differing enrolment policies across jurisdictions (which contribute to different age-grade structures)
 - Students enrolled in Year 12 on a part-time basis or repeating a year
 - Movements of students between States and between school sectors
 - Impact of full-fee paying overseas students
 - Varying enrolment patterns in which students choose to complete their secondary schooling at TAFE NSW.
- Apparent retention rates can exceed more than 100 per cent due to a number of factors including migration of students from interstate and overseas.

Although retention rates in New South Wales improved in 2009, they still fell below the national average. The State's ranking relative to other States and Territories improved slightly moving from seventh to sixth.

Full-time Participation Rates for 15 to 24 Year Olds

Years	2009 %	2008 %	2007 %	2006 %	2005 %
NSW	81.7	83.4	82.4	81.8	82.3
National	81.0	83.9	83.6	82.8	82.2

Source: Australian Bureau of Statistics, Survey of Education and Work, 2005-2009 (unaudited).

Notes: Full-time participation is defined as participation in full-time education or training or full-time work, or a combination of both part-time education or training and part-time work.

The Survey of Education and Work estimates the proportion of 15 to 24 year olds participating in full-time education or training, full-time work, or a combination of part-time education or training and part-time work. Overall, New South Wales ranked fourth relative to other States and Territories.

Nationally, and for most States and Territories, there was a fall in the full-time participation rate between 2008 and 2009 owing to the global financial crisis.

The Department is implementing a number of measures to increase participation by youth at risk to ensure they have access to education that leads to workforce participation. Legislation was introduced in 2009 to increase the school leaving age. From January 2010, all students must complete school to Year 10 and then stay on at school, go to TAFE, or get a job until they at least turn 17. Under the Learn or Earn initiative, young people up to the age of 18 who do not complete Year 12 and have not yet got a job have a guaranteed training place at TAFE NSW. The Department advised that the Government has allocated some \$3.9 million in 2011 to fund Employment Advisers to work in schools with students at risk of leaving school early.

The Apprentices Placement Service helps retrenched apprentices and trainees find a new employer and continue their apprenticeships or traineeships. The Government has a target of delivering 4,000 additional apprenticeships and 2,000 new cadetships by 2012.

The Achievement Gap for Aboriginal Students

Reading and numeracy targets set under the New South Wales State Plan for Aboriginal students are to halve the gaps in minimum and proficient standards that existed in 2008 between Aboriginal students and all students by 2012 and eliminated by 2016.

The table below details the 2009 NAPLAN Summary Results of the percentage of Aboriginal students against all student peers at or above the national minimum standard and the achievement gap between them:

Years	All students			Aboriginal students			Achievement
	NSW 2009 %	NSW Ranking	National 2009 %	NSW 2009 %	NSW Ranking	National 2009 %	Gap %
Reading							
Year 3	95.6	1	93.7	85.8	3	75.1	9.8
Year 5	93.7	3	91.7	77.9	3	66.7	15.8
Year 7	94.8	3	94.0	81.2	4	73.2	13.6
Year 9	93.6	3	92.2	78.2	3	67.0	15.4
Writing							
Year 3	97.2	1	95.7	90.8	2	79.9	6.4
Year 5	95.0	1	93.0	81.5	3	70.1	13.5
Year 7	93.7	<i>equal</i> 1	92.5	77.2	2	69.9	16.5
Year 9	89.0	3	87.8	67.1	4	59.0	21.9
Spelling							
Year 3	94.9	1	92.2	82.8	2	69.6	12.1
Year 5	94.6	1	92.4	81.7	2	71.5	12.9
Year 7	94.6	1	92.9	81.9	1	74.3	12.7
Year 9	91.5	1	89.7	74.4	2	66.1	17.1
Punctuation and Grammar							
Year 3	94.8	2	92.4	81.6	3	68.7	13.2
Year 5	93.7	3	92.0	75.0	4	64.3	18.7
Year 7	92.5	3	92.1	72.2	4	64.9	20.3
Year 9	90.9	3	90.4	69.5	4	60.8	21.4
Numeracy							
Year 3	95.5	2	94.0	84.1	3	74.0	11.4
Year 5	95.5	<i>equal</i> 1	94.2	82.5	4	74.2	13.0
Year 7	95.1	3	94.8	80.4	4	75.8	14.7
Year 9	95.5	2	95.0	80.9	4	75.0	14.6

Source: Ministerial Council for Education, Early Childhood Develop and Youth Affairs (MCEECDYA) - National Assessment Program - Literacy and Numeracy Summary Report 2009 (unaudited).

Notes:

- At the time of preparing this Report the 2010 NAPLAN results by indigenous status are not available on the ACARA website
- The rankings range from one to eight (highest to lowest).

The results of the 2009 national tests for New South Wales Aboriginal students indicated similar results to 2008, in that:

- they performed consistently better than the national average for Aboriginal students
- the comparison against all students show significant gaps
- the gaps against all students are less in the early years than in the later years.

The Department has allocated funding of \$65.0 million over four years to improve the academic achievements of Aboriginal students, by designing specialised teaching programs in order to reduce the gap. The Department advised that of the \$11.3 million allocated in 2009-10 (\$10.7 million in 2008-09), \$9.4 million was spent (\$8.4 million).

Government Schools

New South Wales' expenditure per student was lower than the national average for both primary and secondary schools in 2008-09.

At 30 June	NSW 2008-09	NSW 2007-08	National 2008-09	NSW Ranking amongst all States and Territories (d)	NSW Ranking Previous Year (d)
Recurrent Expenditure (\$) per student on Government Schools (a)					
Primary	12,054	11,148	12,391	6	7
Secondary	14,957	13,977	15,312	4	4
Overall	13,260	12,324	13,544	4	7
Student to Teaching Staff Ratios - Government Schools (b)					
Primary	15.9	15.9	15.5	1	1
Secondary	12.4	12.4	12.3	4	5
Overall	14.2	14.3	14.0	3	2
Full-Time Student Enrolment - Government Schools as a percentage of all schools (c)					
Primary	69.6	69.6	69.4	5	5
Secondary	61.9	62.0	60.7	4	4
Overall	66.2	66.3	65.7	4	4

(a) Source: Australian Curriculum, Assessment and Reporting Authority (ACARA) - National Report on Schooling in Australia, 2009. Incorporates both salaries and non-salary costs. Includes actual or notional payroll tax and notional eight per cent user cost of capital (unaudited).

(b) Source: Australian Bureau of Statistics, Schools Australia 2009 (Table 23).

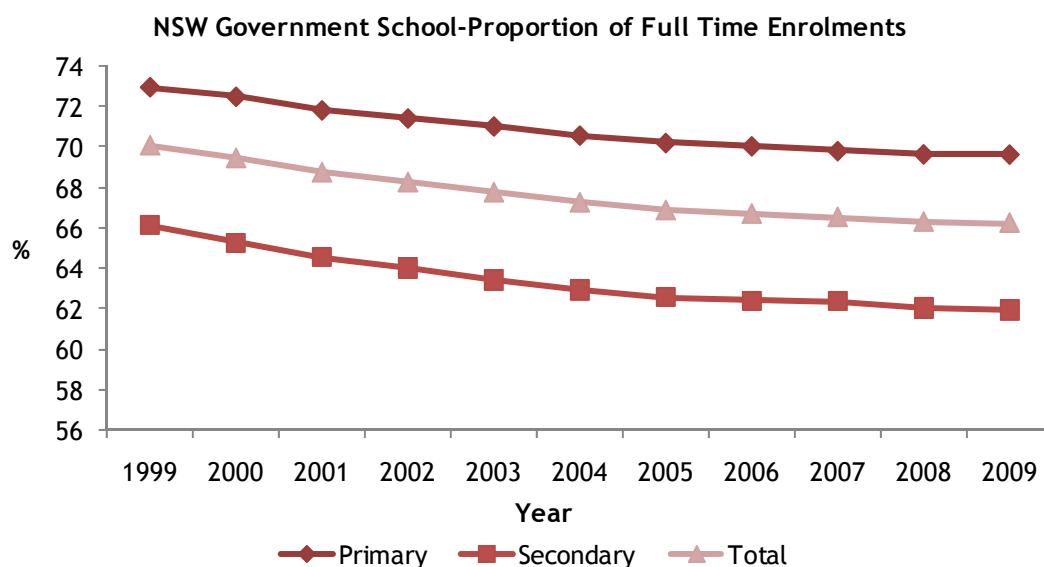
(c) Source: Australian Bureau of Statistics, Schools Australia 2009 (Table 7).

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

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

Student to teacher ratios for New South Wales were marginally higher than the national average. The overall ratio of 14.2 was higher than the New South Wales private sector ratio of 13.8 students per teacher.

The proportion of all students enrolling in government schools has been declining for the past ten years. The most significant decline has been in secondary schools, falling from 66.1 per cent in 1999 to 61.9 per cent in 2009. The movement of students between sectors now seems to be stabilising. The chart below illustrates the decline over the last decade.



Source: Australian Bureau of Statistics, Schools Australia 2009 (Table 7) (unaudited).

Student Attendance Rates

Government school students' attendance rates have been stable in the years between 2005 and 2009. Around 92 per cent of students are present at school on an average school day.

The student attendance rates by region in the government schools are detailed below:

Region	2009 %	2008 %	2007 %	2006 %	2005 %
Hunter/Central Coast	91.0	90.9	91.0	91.1	91.0
Illawarra and South East	91.2	90.9	91.0	91.1	90.8
New England	89.1	89.6	89.6	89.5	89.7
North Coast	89.7	89.7	89.9	90.2	89.8
Northern Sydney	94.3	93.8	93.9	93.8	93.6
Riverina	90.9	90.9	91.4	91.3	91.3
South Western Sydney	92.1	92.1	92.1	92.1	91.6
Sydney	93.4	93.0	93.1	92.8	92.5
Western New South Wales	89.3	89.3	89.5	89.7	89.4
Western Sydney	91.7	91.7	91.7	91.6	91.5
State Total	91.7	91.6	91.6	91.6	91.4

Source: DET Planning and Innovation Return of Absences collection 2006 - 2009 (unaudited).

Notes:

- Attendance rates based on actual term enrolments
- Year 12 absences and enrolments during Term 4 have been excluded from calculations.

OTHER INFORMATION

Department

I identified some opportunities for improvement to the Department's accounting and internal control procedures, mainly in the areas of property, plant and equipment recording, payroll and accounts payable. These have been reported to management.

Schools

For the school financial year ended 30 November 2009, I audited financial transactions at 67 primary schools, 4 high schools and 1 central school (K-12).

I identified opportunities for schools to improve their internal controls and general compliance with Departmental guidelines, which I reported to school principals. Many of my findings were similar to those of the previous year. The Department has advised it communicates common findings to all schools and directs them to take corrective action.

Connected Classrooms Program (CCP)

The CCP commenced in 2007-08 and consists of three components with a total investment of \$158 million over four years.

- The Interactive Classroom Project (ICP) will equip every New South Wales public school with an interactive whiteboard, data projector, control computer, network device and video conferencing components.
- The Learning Tools Project will upgrade student email; provide an individual online working space for all students and teachers and online access to student reports for parents.
- The Network Bandwidth Enhancement Project, for network upgrades, will increase bandwidth speed and secure browsing and content filtering to better enable interactive learning environments.

Year ended 30 June	Total Budget Over 4 Years \$'000	2010 Actual \$'000	Total Costs to Date \$'000
Interactive Classrooms Project	65,021	18,990	53,513
Learning Tools Project	29,164	5,981	17,347
Network Bandwidth Enhancement Project	63,437	15,069	41,023
Total	157,622	40,040	111,883

Source: DET Statistics (unaudited).

At 30 June 2010, the Department advised it had installed 1,778 schools (1,003 in 2008-09) with an interactive classroom and upgraded 2,493 DET sites with bandwidth. The Core Network Infrastructure environment had been upgraded and all students across New South Wales public schools now have access to the NSW DET online collaborative Learning Tool, 'blogED'.

Digital Education Revolution (DER)

The DER program is funded through the Australian Government's National Secondary School Computer Fund to provide all secondary students with a 1:1 computer ratio by December 2011. The funding agreements to date amount to \$264 million with further funding of \$183 million (\$179 million) to be made available over five years. Additional funding of \$3.9 million was provided as a 'top-up' to New South Wales in 2010.

The Department aims to achieve this ratio by providing a wireless enabled laptop computer to all Years 9 to 12 students for their individual use.

Contracts awarded to date include:

- \$150 million to supply approximately 260,000 student laptops
- \$70.0 million for wireless network access
- on-costs of \$189 million to cover agreed additional expenditure. The on-costs agreement includes funding for wireless connectivity, professional learning and curriculum support and the employment of over 500 technology support officers, mostly school based.

Achievements to date include:

- completion of a second rollout of student laptops (130,000 laptops issued to date)
- completion of a wireless network rollout in schools
- technology support officers established in 463 schools and 57 regions as well as 50 Jumpstart ICT cadet positions across the state.

Total expenditure on the DER program to 30 June 2010 was \$177.0 million (\$11.9 million in 2008-09).

School Facilities and Building Maintenance

The Department has a 4 year enhancement program for addressing maintenance backlog. The total cost of this project, as at 2004, was identified at \$120 million. The Government allocated additional funding of \$30.0 million per annum over the four years from 2006-07 to 2009-10. The Department advised that it has now completed the program of works to reduce the maintenance backlog.

The expenditure details for each region are reflected in the table below:

Year ended 30 June	2010 \$'000	2009 \$'000
Hunter/Central Coast	4,132	3,958
Illawarra and South East	2,261	1,221
New England	1,638	1,293
North Coast	2,939	2,787
Northern Sydney	6,181	5,086
Riverina	2,143	1,480
South Western Sydney	4,769	3,772
Sydney	3,917	5,984
Western New South Wales	2,104	2,008
Western Sydney	5,103	3,734
Total	35,187	31,323

Source: DET Statistics (unaudited).

Total school maintenance expenditure increased from \$292 million in 2008-09 to \$378 million in 2009-10. Included in this amount was \$114 million in Australian Government funded school maintenance programs that were undertaken as part of the BER National School Pride Program.

The Department provides advice to The Treasury, as part of the State Budget process, on its Total Asset Management Plan and funding requirements for the provision of education facilities. The Department uses proceeds from the sale of surplus parts of school sites to partially fund improved facilities. In 2009-10 the Department received \$5.1 million from such sales.

Planned Computer Systems Replacement

In 2006, I reported the Department's Learning Management and Business Reform (LMBR) program will replace its finance, payroll and human resources systems and the school management system in two phases over an eight year period.

- Phase 1 will implement the SAP finance solution in to state and regional office locations, schools and TAFE NSW, as well as the SAP human resources and payroll system into TAFE NSW. Phase 1 implementation costs are estimated at \$153 million.
- Phase 2 of the program is the development of a student administration system for schools and TAFE NSW and the implementation of the SAP human resources and payroll system across State and regional office areas and schools. Phase 2 implementation costs are estimated at \$218 million.

Phase 1 of the program has been completed for the implementation of the new finance system into State and regional offices in March 2010 and TAFE NSW institutes in October 2010. The next stage of Phase 1 is the rollout of the finance system to the public schools. The software build for schools is scheduled to be completed in 2010, with a planned rolling implementation from 2011.

The Business Transformation Executive Sub Committee is the governance body for the program. A risk management methodology and approach has been developed and implemented. The program reports on major risks to the Department's executive and to its Audit and Risk Committee.

Phase 2 of the design of the SAP human resources and payroll system into state and regional office areas and schools is planned to be launched in 2012 and the student administration system for schools and TAFE NSW in 2014.

Expenditure in 2009-10 was \$45.1 million (\$43.5 million) and total costs incurred to 30 June 2010 were \$119 million (\$74.1 million). Currently LMBR projects are forecasted to exceed budget by \$47.2m due mainly to costs not initially included in the Department's business case including training of \$12.4 million, software maintenance of \$9.2 million, salaries and oncosts of \$10.6 million and computer support of \$7.2 million.

I will continue to review the program's implementation and monitor its progress.

Human Resources

I reviewed the following areas relating to human resources:

- leave recording
- management of annual leave balances in excess of threshold policies
- teacher age profiles and turnover to identify the number of permanent teachers nearing retirement age and actions taken to address any risks arising
- highly accomplished teachers
- management of flex leave
- extent of contract staff.

Leave Recording

The Department mandated the use of an online leave system called eLAPS (Electronic Leave Application Processing System) for all State and regional office staff on 1 March 2006. At 30 June 2010, 55.4 per cent (45.7 per cent in 2009) of all leave applications received from teachers and 50.5 per cent (41.2 per cent) from school administrative and support staff have been submitted electronically through eLAPS. However, around half the numbers of leave applications are still recorded on the manual system, which the Department advised largely relate to complex leave entitlements that require more analysis and manual calculation by the staff in the Employee Services Centres.

Using a range of communication channels, the Human Resources Directorate will continue to encourage staff in schools to submit electronic leave applications through eLAPS. In addition, system enhancements to enable temporary school administrative and support staff and teachers to access eLAPS have been scoped. These enhancements are on hold pending the implementation of the SAP human resources and payroll system as part of the LMBR program.

Annual Leave Balances

I recommend the Department continue to review the effectiveness of its policies for managing excessive annual leave balances.

Number of staff with more than 40 days annual leave

Entitlement (days) at 30 June 2010	No. of Employees	Total Days	Liability \$'000
>100	28	3,656	1,049
81-100	15	1,333	445
61-80	74	5,006	1,534
41-60	698	32,979	9,605
Total	815	42,974	12,633

There has been some improvement from last year. In 2009-10, 815 (898) employees had excess annual leave balances totalling 42,974 days (50,746 days) and a liability of \$12.6 million (\$14.7 million). Even though employees in this category only represented 6.5 per cent (7.9 per cent) of total employees at 30 June 2010, the liability represented 27.3 per cent (33.8 per cent) of total liabilities.

The Department advised that the Human Resources Directorate reviews leave balances annually. Employees with annual leave balances in excess of 40 days are advised that, in accordance with the Award, they must reduce their leave balance by a given date or obtain the appropriate approval under the Award to conserve their excess annual leave. In addition, business managers are provided additional advice on potential strategies to assist in reducing excessive annual leave balances and a listing of their staff with excess annual leave balances.

Teacher Age Profiles and Turnover

The Department continues to face the loss of large numbers of retiring teachers and their associated skills. While the overall impact of the ageing workforce is likely to be gradual, there is still a risk of teacher shortages.

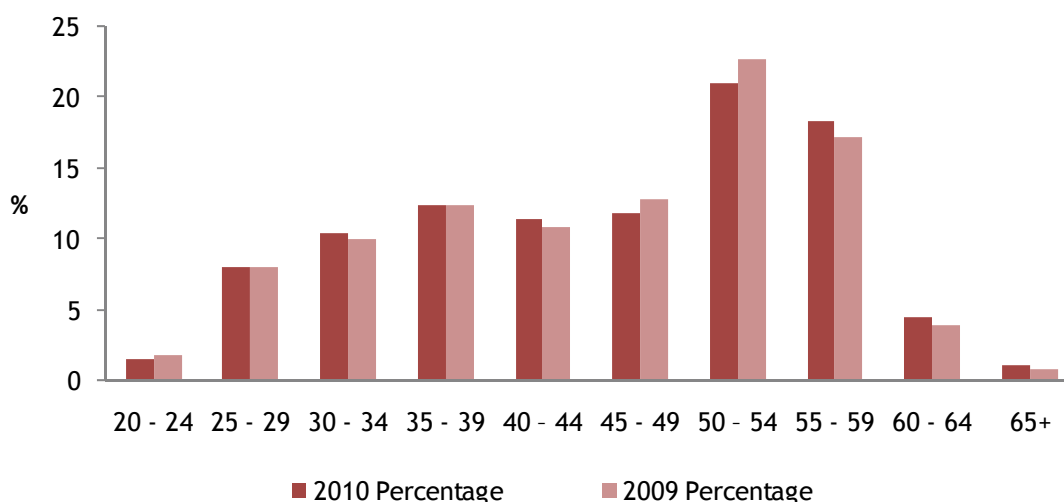
Using departmental statistics, the table below details the age profile of permanent teachers at 1 July 2010:

Age Group	2010		2009	
	No. of Teachers	Percentage	No. of Teachers	Percentage
20 - 24	735	1.5	868	1.8
25 - 29	3,863	7.9	3,924	7.9
30 - 34	5,071	10.3	4,941	10.0
35 - 39	6,031	12.3	6,077	12.3
40 - 44	5,616	11.4	5,325	10.8
45 - 49	5,799	11.8	6,290	12.7
50 - 54	10,354	21.0	11,185	22.7
55 - 59	9,016	18.3	8,439	17.1
60 - 64	2,234	4.5	1,927	3.9
65+	479	1.0	374	0.8
Total	49,198	100.0	49,350	100.0

Source: DET Personnel system (unaudited).

Statistics show that 44.8 per cent (44.5 per cent) of school teachers are aged 50 years or over and the Department advised many of these employees may retire over the next seven years.

Aging Profile of Permanent Teachers Workforce



To ensure an adequate supply of teachers, the Department continues to undertake comprehensive workforce planning to develop teacher supply and demand projections for permanent teachers over a seven-year period. The workforce plan is updated at least annually and more frequently if needed. This enables the Department to put in place strategies to avoid any projected shortfalls in workforce supply. The Department has initiatives in place to attract new teachers such as active promotion of teaching as a career and teacher education scholarships and retraining programs.

The teacher separations for each region are reflected in the table below:

Region	No of Separations 2009	2009 %	2008 %	2007 %
Hunter/Central Coast	274	4.1	5.2	4.6
Illawarra and South East	195	4.3	5.9	4.9
New England	69	4.2	5.6	4.3
North Coast	228	5.0	6.3	4.1
Northern Sydney	224	4.6	5.4	5.3
Riverina	112	4.6	5.4	4.2
South Western Sydney	227	2.6	3.5	3.4
Sydney	186	3.2	5.3	4.3
Western New South Wales	115	3.8	4.9	3.3
Western Sydney	213	3.2	4.4	3.6
Total	1,843	3.7	5.0	4.1

Source: DET Personnel system (unaudited).

Note: Separations include resignations, retirements, medical retirements, terminations and deaths.

The Department advised that overall it has a very stable workforce and the teacher separation rates are relatively low, varying between three per cent and five per cent since 1997. A number of initiatives have contributed to the retention of new and experienced teachers, including competitive teacher salaries, and comprehensive training and mentoring programs for new teachers.

Highly Accomplished Teachers

Highly accomplished teachers are appointed based on merit. They are required to meet selection criteria, including successful completion of a preliminary online application for Professional Accomplishment or Professional Leadership with the New South Wales Institute of Teachers.

The number of highly accomplished teachers appointed in 2009-10 included 13 in Centres for Excellence schools, 3 in Low Socio Economic Status (SES) National Partnership (NP) schools and 10 in Low SES NP reform extension schools.

The table below list the regions where the highly accomplished teachers were appointed in 2009-10:

Region	Centres for Excellence Schools	Low SES NP Schools	Low SES NP Reform Extension Schools
Hunter/Central Coast	2	--	1
Illawarra and South East	2	--	2
New England	1	2	--
North Coast	--	--	--
Northern Sydney	2	--	--
Riverina	1	--	2
South Western Sydney	2	1	2
Sydney	--	--	1
Western New South Wales	1	--	--
Western Sydney	2	--	2
Total	13	3	10

Source: DET Personnel system (unaudited).

The progress of teacher quality in Centres for Excellence is monitored through an increase in quality teaching practices across the school and cluster schools including:

- mentoring and support for early career teachers
- quality supervision, mentoring and support to initial teacher education students
- productive working relationships with university partners
- ongoing professional learning aligned to teaching standards
- increased support for teachers to achieve accreditation at mandatory and voluntary levels.

Flex Leave

The Department does not centrally manage flex time and could not provide detailed information relating to flex time accrued and forfeited by staff. The Department advised flex time and flex leave is managed in accordance with the flexible working hours agreement. It is the responsibility of each employee's supervisor to monitor flex time and it is not practical to be centrally monitored. To undertake central monitoring of flex time would require additional resources to be allocated to human resources. I will follow up this issue next year with the Department to determine whether it is managing flex time effectively.

Use of Contract Staff

I recommend the Department:

- create and maintain a central record of all contract employees to determine, monitor and analyse the cost of contract employees, the number of contract employees and the period of service for all contract employees
- periodically review the roles and responsibilities of all contract employees to ensure:
 - reliance on contractors is not excessive
 - use of contract employees instead of 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 contract employees continues to represent value for money.

The Department uses a decentralised approach to manage contract employees.

In 2009-10, the Department paid \$76.3 million to a total of 962 contractors. Fifty nine contractors or 6.1 per cent of contract employees had been engaged for more than 12 months and 788 new contractors were employed during the year.

The table below list the top ten contractors engaged during the year:

Position Description	Term of Employment			Total \$
	From	To	Months	
Regional Program Director	1 April 2009	31 March 2011	24	550,516
Regional Program Director	1 April 2009	31 March 2011	24	492,168
Project Director	18 May 2009	31 March 2011	22	479,975
Regional Program Director	1 April 2009	31 March 2011	24	460,470
Program Director	1 February 2009	31 August 2010	19	434,201
Cost Planner	1 April 2009	31 March 2011	24	395,485
Design & Planning Engineer	1 April 2009	31 March 2011	24	384,000
Authorised Person	1 April 2009	31 March 2011	24	383,121
Authorised Person	1 April 2009	31 March 2011	24	382,445
Authorised Person	24 April 2009	20 April 2011	24	360,780
Total				4,323,161

Source: DET Accounts Payables system (unaudited).

The retention of contract employees for extended periods may result in additional costs to the Department.

The Department advised that the contractors listed in the table are all engaged in the Building Education Revolution (BER).

Of the total contractors for 2009-10, BER contractors made up 28.9 per cent (\$22.0 million) and ITD contractors 62.9 per cent (\$48.0 million). The Department advised the large number of contractors engaged in ITD is due to the specialised nature of the work involved and the inability of the Department to attract full time employees to these roles due to current market rates.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	8,350,553	8,158,551	7,379,479	7,195,480
Operating expenses	2,085,718	1,766,849	1,731,616	1,478,451
Depreciation and amortisation	406,060	405,939	329,631	327,848
Grants and subsidies	303,213	210,488	341,260	234,212
Other expenses	11,812	9,455	11,812	9,455
TOTAL EXPENSES	11,157,356	10,551,282	9,793,798	9,245,446
TOTAL REVENUE	998,609	951,554	905,260	924,290
Other gains	1,743	3,088	6,555	3,072
NET COST OF SERVICES	10,157,004	9,596,640	8,881,983	8,318,084
Less Government contributions	12,262,598	9,752,250	10,907,412	8,480,140
SURPLUS	2,105,594	155,610	2,025,429	162,056
OTHER COMPREHENSIVE (EXPENSE)/INCOME	(3,215)	(24,314)	60	--
TOTAL COMPREHENSIVE INCOME	2,102,379	131,296	2,025,489	162,056

Employee related expenses represent 75.4 per cent (77.8 per cent) of total expenditure of the Department. The \$184 million increase was primarily due to a 3.8 per cent salary increase for teachers in January 2010 and a four per cent salary increase for administrative staff effective July 2009.

The increase in government contributions of \$2.4 billion was primarily due to a \$657 million rise in recurrent appropriation for Australian Government initiatives and a \$1.8 billion increase in capital appropriation mainly due to the BER.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	932,085	851,328	745,144	689,264
Non-current assets	19,291,514	17,029,562	16,221,370	14,038,235
TOTAL ASSETS	20,223,599	17,880,890	16,966,514	14,727,499
Current liabilities	1,013,478	841,957	784,713	645,509
Non-current liabilities	302,617	199,590	301,783	198,748
TOTAL LIABILITIES	1,316,095	1,041,547	1,086,496	844,257
NET ASSETS	18,907,504	16,839,343	15,880,018	13,883,242

The increase in current assets of \$55.9 million was primarily due to an increase of \$8.6 million in the Department's cash at bank, the school bank balances of \$15.6 million, receivables of \$38.5 million and a decrease in non-current assets held for sale of \$6.8 million.

Non-current assets increased \$2.2 billion due largely to the BER program.

Current liabilities increased \$139 million due mainly to an increase in payables of \$107 million, a liability to Consolidated Fund of \$14.6 million and a rise in employee benefits and related on-costs provisions of \$15.6 million.

The increase in non-current liabilities of \$103 million was due primarily to advances from Treasury of \$85.0 million and an increase in borrowings of \$17.2 million relating to the public private partnership projects for construction, design, finance and maintenance of a number of schools.

Surplus Properties

During 2009-10, 31 school properties (29), surplus to the Department's needs, were sold for \$33.0 million (\$16.1 million). At 30 June 2010, the value of surplus properties was \$63.1 million.

Abridged Service Group Information

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

Year ended 30 June	Net Cost of Services			Net Assets	
	2010 Budget* \$'000	2010 Actual \$'000	2009 Actual \$'000	2010 Actual \$'000	2009 Actual \$'000
Preschool education services in government schools	26,376	28,540	27,450	(2,077)	(1,960)
Primary education services in government schools	4,469,888	4,517,076	4,249,775	8,525,917	7,419,128
Secondary education services in government schools	4,073,703	4,018,826	3,815,948	6,238,771	5,429,364
Non-government schools	21,676	12,546	10,262	(99)	(111)
TAFE NSW and community education	1,404,380	1,364,729	1,337,970	3,079,135	3,002,919
Vocational education and training	201,211	224,431	162,724	(4,266)	(3,743)
NSW Adult Migrant English Service (AMES)	--	(9,144)	(7,489)	(5,447)	(2,989)
Not Attributable**	--	--	--	1,075,570	996,735
Total all service groups	10,197,234	10,157,004	9,596,640	18,907,504	16,839,343

* Per the 2009-10 Budget Papers - net of transfer payments.

** Represents items that could not be reliably allocated to a 'service group'.

Cost of Providing Government School Education

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

Year ended 30 June	2010	2009	2008	2007
Actual enrolments(a):				
Primary students	432,884	431,447	430,885	431,618
Secondary students	316,129	314,290	307,260	307,018
Total	749,013	745,737	738,145	738,636
Service group costs(b):				
Primary \$m	4,517	4,250	3,904	3,721
Secondary \$m	4,019	3,816	3,597	3,346
Total \$m	8,536	8,066	7,501	7,067
Funding per student:				
Primary \$	10,435	9,851	9,060	8,621
Secondary \$	12,713	12,142	11,707	10,898
Average \$	11,396	10,816	10,162	9,568

Source: DET Statistics.

(a) The 2010 figures are estimated figures provided by the Human Resource Planning Unit as actual enrolment figures were not available at the time of the preparation of this Report (unaudited). The school enrolments above differ from those published in ACARA, which are sourced from ABS, Schools Australia 2009 (Table 7).

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

Average enrolments increased by 1.4 per cent over the last four years and the costs of funding per student increased by 19.1 per cent during the same period.

The table below details the number of Year 1 to 12 students currently enrolled in New South Wales government schools who were from outside the government system and the percentage of 2010 enrolments by region.

Region	2010		2009	
	Number	% Enrolments	Number	% Enrolments
Hunter/Central Coast	3,453	3.6	3,319	3.5
Illawarra and South East	3,028	4.9	2,669	4.3
New England	1,215	6.2	1,203	6.2
North Coast	3,653	6.1	3,416	5.7
Northern Sydney	4,195	5.4	4,173	5.5
Riverina	1,969	6.7	1,746	6.0
South Western Sydney	4,968	4.4	4,937	4.3
Sydney	3,644	4.6	3,631	4.7
Western New South Wales	2,037	5.9	2,001	5.9
Western Sydney	4,088	4.5	3,997	4.5
Total	32,250	4.9	31,092	4.7

Source: Data Analysis and Collections, Planning and Innovation. Data extracted from National Schools Statistics Collections (NSSC) 2009 and 2010 (Preliminary) (unaudited).

Notes:

- Even though NSSC data is still preliminary, no significant changes in numbers are expected once post census validation is completed.
- The number of students from outside the government system for 2009 was adjusted down for the maximum calculated duplicates.
- It is not possible to further differentiate whether this group of students was from the non-government sector, interstate or overseas.
- Figures reported above exclude 2010 Kindergarten students and support students.
- Figures were derived by comparing students who are currently enrolled in the government system with their whereabouts same time last year.

The table below details the number of international students in government schools and fees raised over the past four years:

Year	2009	2008	2007	2006
Number of students enrolled	4,123	3,470	2,814	2,100
Fees raised \$m	37.8	34.1	25.9	20.4

Source: Data provided by DET International and TAFE NSW National Business (unaudited).

Notes:

- Data above is for calendar years, not financial years.
- Students do not contribute equally to the revenue raised. This is due to the followings:
 - The number of students enrolled includes students enrolled for any part of the calendar year.
 - There is a different fee charged for primary school, junior secondary school, senior secondary school and intensive English provision.
- International students may enrol for more than one year. Therefore, the total number of students for the four years reported does not indicate the number of individual international students involved.

Income from international students continued to increase. In 2009 the number of international students enrolled increased by 18.8 per cent (23.3 per cent) resulting in an increase in fees of \$3.7 million (\$8.2 million) or 10.9 per cent (31.7 per cent).

Cost of Funding Non-Government School Education by the Department

In 2009-10, the New South Wales Government provided funding to 926 (930) non-government schools. Funding is mainly in the form of a per capita allowance and an interest subsidy scheme. Some broad trends of funding per student were:

Year ended 30 June	2010	2009	2008	2007
Average enrolments(a):				
Primary Students	188,499	187,406	186,537	186,005
Secondary Students	187,143	185,451	183,399	182,676
Total	375,642	372,857	369,936	368,681
Service group costs(b):				
Primary \$m	344	336	323	303
Secondary \$m	438	422	408	390
Total \$m	782	758	731	693
Funding per student:				
Primary \$	1,824	1,791	1,729	1,629
Secondary \$	2,339	2,276	2,224	2,137
Average \$	2,080	2,033	1,975	1,881

Source: Department of Education and Training (unaudited).

(a) Average enrolments represent those non-government enrolments that qualified and received State recurrent funding.

This does not include full fee paying overseas students.

(b) Service group costs used in calculating cost per student included per capita grants, interest rate subsidies.

Average enrolments increased by 1.9 per cent over the last four years and the costs of funding per student increased by 10.6 per cent during the same period.

DEPARTMENT ACTIVITIES

The Department coordinates the delivery of education and training services in New South Wales from pre-school to tertiary. It is responsible for providing school education, vocational education and training and has certain regulatory and service responsibilities to private schools, private providers of education and training and universities.

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

CONTROLLED ENTITIES

New South Wales Technical and Further Education Commission (TAFE NSW)

Separate comments on TAFE NSW and its controlled entities TAFE NSW Commission Division are included elsewhere in this Report.

NSW Adult Migrant English Service (AMES)

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

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

FINANCIAL INFORMATION

Year ended 30 June	2010 \$'000	2009 \$'000
Revenue	50,165	49,426
Employee related expenses	19,529	18,376
Other expenses	30,433	31,523
Surplus/(Deficit)	203	(473)
Other comprehensive expense	(3,302)	(24,344)
Total comprehensive expense	(3,099)	(24,817)
Net liabilities (at 30 June)	(5,442)	(2,343)

Other comprehensive expense decreased by \$21.0 million (increased by \$22.5 million) due to a smaller superannuation actuarial loss recognised. The large increase recognised in the previous year was due to an increase in superannuation liability from a prepaid superannuation in 2007-08 to a net superannuation liability in 2008-09 as a result of falls in superannuation reserves due to the global financial crisis.

New South Wales Technical and Further Education Commission

AUDIT OPINION

The audits of the Commission and its controlled 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.

PERFORMANCE INFORMATION

Size and Scope of the Commission in New South Wales

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

Year ended 30 June	2006-2009 Change % Increase/ (Decrease)	2009	2008	2007	2006
Total enrolments	4.9	524,838	504,009	497,747	500,410
Annual student hours (ASH) ('000)	9.9	119,521	112,660	108,509	108,785
Net cost of services * (\$'000)	0.8	1,221,636	1,188,845	1,204,231	1,212,107
ASH per enrolment	5.1	228	224	218	217
Net cost of services/enrolment (\$)	(3.9)	2,328	2,359	2,419	2,422
Net cost of services per ASH (\$)	(8.2)	10.22	10.53	11.10	11.14

* Net cost of services is for the financial year ended 30 June, whereas enrolments and student hours are for the calendar year.

Source: New South Wales Technical and Further Education Commission (unaudited).

Enrolments have increased 4.9 per cent while training hours delivered have risen 9.9 per cent since 2006. The Commission advised this trend reflects a change in the student profile, with an increasing number of students undertaking studies in longer higher level qualifications. In 2009, 45.6 per cent of all enrolments were for these higher level qualifications (Certificate III and above) compared to 40 per cent in 2006.

Higher level qualifications provide better employment outcomes. Increasing the number of people with higher level qualifications has been an agreed goal of State and Australian governments for several years.

The Commission advised enrolments by unemployed students have increased 30.1 per cent since 2006. Over the same period enrolments by Aboriginal and Torres Strait Islanders and students from language backgrounds other than English have increased by 31.7 per cent, and 20.5 per cent respectively.

The Commission offers over 1,200 work related courses across a wide range of industry areas, many of which include training for a clean energy future. The State Plan contains a target of 5.0 per cent for green skills training as a percentage of total enrolments. The Commission advised green skills training now accounts for 7.3 per cent of its enrolments.

New South Wales Vocational Education and training (VET) Cost per Student Hour

The table below provides details of the volume of VET hours delivered in New South Wales from training providers in receipt of Government funding. Government expenditure per student hour has decreased by 2.4 per cent since 2008. The Commission advised the overall reduced expenditure is due to increased efficiency.

Year ended 30 June	2008-2009 Change Decrease	2009	2008
Government recurrent expenditure* (\$m)	72	1,360	1,432
Student hours (million)	3.1	109.5	112.6
Expenditure per student hour (\$/hour)	0.3	12.4	12.7

Source: National Centre for Vocational Education Research, 2005-09 Australian vocational education and training statistics - financial information. Unpublished data from NCVER. The costs noted in the table above have been adjusted to 2009 dollars to exclude the effect of inflation. (unaudited).

* Government Recurrent Expenditure is made up of:

TAFE NSW (approx 83 per cent of total), VET programs within NSW DET, agricultural colleges and NSW Adult Migrant English Service.

OTHER INFORMATION

I recommend the Commission better manage the review and transfer of completed projects in capital works in progress.

I have reported to the Commission for the last three years the need to better manage the review and transfer of completed projects in capital works in progress to completed assets. The balance of these projects totalled \$73.5 million at 30 June 2010 (\$91.1 million in 2008-09). The Commission advised that, following the introduction of the SAP finance system, a new process is being implemented to review assets under construction which have not been transferred to the fixed asset register at month end.

Maintenance Backlog

TAFE maintenance is managed by each TAFE Institute. A nominal \$35.0 million in funding per annum has been provided over the last five financial years for maintenance as part of the global recurrent allocations to the TAFE Institutes.

TAFE Institutes determine, within their recurrent allocations, the amount expended on maintenance based on services priorities for each financial year. At 30 June 2010, the maintenance backlog was estimated by management to be \$8.0 million (\$37.6 million). The backlog is not considered significant in the context of the estimated replacement value of TAFE NSW buildings of \$4.8 billion.

Human Resources

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

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

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

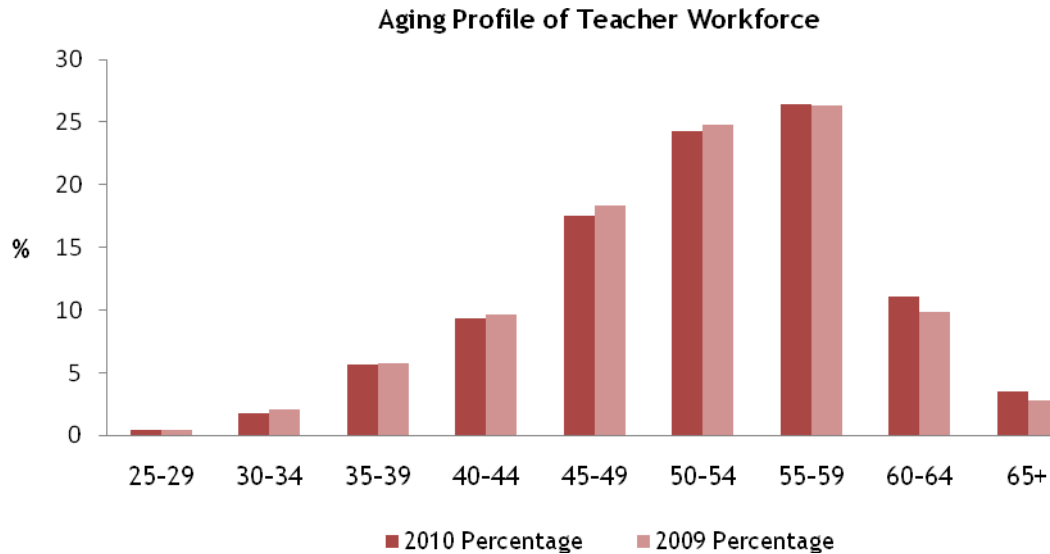
Workforce Ageing

The Commission has 41.0 per cent of its permanent teachers over 55 and 65.3 per cent are over 50. A large number of permanent teachers are likely to retire over the next five to ten years increasing the risk and significant loss of knowledge and skills for the Commission. The Commission advises strategies are in place to manage this risk including knowledge transfer strategies, phased retirement and the provision of flexible work options.

The age profile of the Commission's permanent teachers is shown below:

Age-group	2010		2009	
	No of Teachers	%	No of Teachers	%
25-29	19	0.4	20	0.4
30-34	79	1.8	91	2.0
35-39	250	5.7	260	5.8
40-44	411	9.3	433	9.6
45-49	770	17.5	822	18.3
50-54	1,071	24.3	1,114	24.8
55-59	1,163	26.4	1,184	26.4
60-64	487	11.1	441	9.8
65 +	154	3.5	125	2.8
Total	4,404	100	4,490	100

Source: Information provided by the Commission (unaudited).



To ensure an adequate supply of teachers, the Commission undertakes regular workforce planning to ensure it has the appropriate skilled teaching workforce to meet its needs. The Commission also has initiatives in place to attract new teachers such as developing targeted recruitment campaigns retention of younger teachers and promoting TAFE teaching as a career.

Extent of Contract Staff

I recommend the Commission:

- create and maintain a central record of all contract employees to determine, monitor and analyse the cost of contract employees, the number of contract employees and the period of service for all contract employees
- periodically review the roles and responsibilities of all contract employees to ensure:
 - reliance on contractors is not excessive
 - use of contract employees instead of permanent employees is appropriate
 - contractors do not become de facto employees by virtue of being with the Commission for an extended period of time
 - use of contract employees continues to represent value for money.

In 2009-10 the Commission paid \$18.1 million to contractors representing 1.4 per cent of total employee related costs. The highest amounts paid to an individual contractor and an employment agency for the year were \$164,000 and \$983,000 respectively.

The Commission uses a decentralised approach to engage and record contractors and does not maintain a central register of contractors. As a result the Commission was unable to provide the following information as at 30 June 2010:

- the number of contractors engaged
- the number of contractors engaged through employment agencies
- the period of service of contractors engaged.

The engagement of contract employees for extended periods may result in additional costs to the Commission. The Commission should review its practices relating to contract employees to ensure they are appropriate to achieve desired outcomes and comply with employment related legislation.

The Commission advised TAFE NSW requires a mix of permanent and casual staff to ensure education and training reflects current industry standards. Recruitment is undertaken at the Institute level.

Flex time

The Commission does not centrally manage flex time and could not provide detailed information relating to flex time accrued and forfeited by staff. The Commission advised flex time and flex leave is managed in accordance with the Department of Education and Training's flexible working hours agreement. It is the responsibility of each employee's supervisor to monitor flex time and it is not practical to be centrally monitored. To undertake central monitoring of flex time would require additional resources to be allocated to human resources. I will follow this issue up next year with the Commission to determine whether flex time is being effectively managed.

Annual Leave Balances

The Commission 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 759 employees at 30 June 2009 to 650 employees at 30 June 2010. At this level the employees in this category represent 5.8 per cent (6.8 per cent) of total employees. Total annual leave liability to 30 June 2010 was \$9.8 million (\$9.9 million).

Overtime

Overtime costs decreased by 11 per cent in 2009-10.

Year ended 30 June	2010	2009	2008
Overtime (\$m)	25.6	28.8	29.4
Salaries (\$m)	1,050.7	1009.7	1,002.1
Overtime as % of salary	2.4	2.9	3.0

As shown in the table below, 144 (157) non-teaching TAFE NSW employees earn 20 per cent or more of their base salary in overtime.

Overtime to Base Salary %	Number of Non-Teaching Employees		
	2010	2009	2008
71 - 100	--	--	1
61 - 70	--	--	1
51 - 60	3	4	8
41 - 50	22	22	29
31 - 40	39	54	92
21 - 30	80	77	107
10 - 20	158	169	169
0 > - 10	1,773	1,856	1,915
Nil	4,357	4,384	4,573
Total	6,432	6,566	6,895

For three (four) employees overtime was more than 50 per cent of their base salary. Overtime worked by non-teaching staff is paid at penalty rates, which is a relatively expensive way of obtaining more resources.

Employee	Annual Overtime \$	Base Salary \$	Annual Gross \$	Overtime to Base Salary %
Employee 1	23,834	41,252	69,445	57.8
Employee 2	24,066	44,007	57,366	54.7
Employee 3	21,165	41,252	58,510	51.3

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

- it was the cheapest alternative for providing the required services
- the cost of some overtime has been built into the budget for commercial activities
- of industrial action and other circumstances beyond the control of the Commission
- TAFE NSW operating hours are from 6.00am to 10.00pm, Monday to Saturday, therefore some overtime is unavoidable.

Workers Compensation Claims

Year Ended 30 June	2010	2009*	2008*	2007*
Number of claims incurring cost	632	627	699	639
Number of stress claims incurring cost	76	66	101	82
Estimated cost for all workers compensation claims (\$m)	7.3	6.8	9.1	8.5
Estimated cost for stress claims (\$m)	2.2	1.9	3.6	2.2
Days lost - all injuries	5,285**	5,669	6,993	14,269
Days lost - stress claims	1,323**	1,515	2,707	4,263

* Figures for prior years include data accumulated to date. Therefore the total days lost and costs are higher for the earlier years due to the passage of more time.

** Data for the Days lost is lower as a result of delays experienced in processing time lost by the Fund Manager following the transition to the DET case management system. As a result lost time data is not comparable to previous years.

Source: New South Wales Technical and Further Education Commission (unaudited).

In 2009-10, the Commission had 15,844 (15,062) full time equivalent employees and 76 (66) stress claims were made, a 15.2 per cent increase compared to 2008-09. The average cost per stress claim in 2009-10 was \$29,471 (\$28,971) compared to \$11,696 (\$10,766) for all types of injuries. The number of workers' compensation claims has remained relatively stable compared to 2008-09.

Workers Compensation Premiums Benchmark

For the year to 30 June	2011	2010	2009	2008	2007
Equivalent full time employees (EFT)***	15,844	15,844	15,962	16,231	16,037
Premium cost (\$m)	16.3	15.2	16.2	16.8	18.2
Benchmark* (\$m)	14.8	14.4	15.0	14.5	14.8
Excess** (\$m)	1.5	0.8	1.2	2.3	3.4

* Benchmark paid by The Treasury.

** Excess paid by TAFE NSW.

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

The insurer sets a benchmark for agencies that determines the level of Treasury funding. If an agency's premiums exceed the benchmark, the agency needs to fund the excess. This offers a financial incentive for agencies to actively manage their workers' compensation costs and minimise workplace injuries.

The Commission's workers compensation deposit premium has risen by \$1.1 million (7.3 per cent) for 2010-11, marginally offset by an increase in Treasury funding. At this level the premium is 90 per cent (95 per cent) funded by Treasury. Management advised the increase in the deposit premium is largely due to an increase in the cost of weekly benefits on claims.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	954,767	944,255	--	--
Personnel services	338,132	343,344	1,242,514	1,232,114
Other operating expenses	376,090	307,779	376,090	307,779
Depreciation and amortisation	76,409	78,072	76,409	78,072
TOTAL EXPENSES	1,745,398	1,673,450	1,695,013	1,617,965
TOTAL REVENUE	471,046	396,026	471,046	396,313
Other gains/(losses)	(4,812)	16	(4,812)	16
NET COST OF SERVICES	1,279,164	1,277,408	1,228,779	1,221,636
Government contributions	1,355,186	1,272,110	1,304,801	1,216,626
SURPLUS/(DEFICIT)	76,022	(5,298)	76,022	(5,010)
OTHER COMPREHENSIVE INCOME	27	--	27	--
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	76,049	(5,298)	76,049	(5,010)

The increase in other operating expenses was predominately due to an increase in expenditure for maintenance of \$37.2 million and minor stores, provisions, plant and computing of \$12.6 million as a result of funding from the Better TAFE Facilities Program.

Australian Government contributions of \$35.6 million for investment in infrastructure were the significant cause of the rise in revenue. The remaining increase is attributable to the increase in student enrolment numbers, referred to previously.

The movement in other gains/(losses) was due to asset write offs.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	204,870	181,321	204,870	181,321
Non-current assets	3,070,095	2,991,280	3,070,095	2,991,280
TOTAL ASSETS	3,274,965	3,172,601	3,274,965	3,172,601
Current liabilities	241,196	212,669	242,030	213,511
Non-current liabilities	834	842	--	--
TOTAL LIABILITIES	242,030	213,511	242,030	213,511
NET ASSETS	3,032,935	2,959,090	3,032,935	2,959,090

Current assets increased due primarily to a rise in cash and cash equivalents of \$14.8 million.

The increase in current liabilities was largely due to an increase in unearned revenue of \$27.0 million as a result of new programs and increased commercial activity.

COMMISSION ACTIVITIES

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

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

The Commission provides vocational and pre-vocational education and training services through its ten Institutes and the Open Training and Education Network (OTEN). While the Institutes and OTEN observe Commission policies and priorities, they develop their own education and training profiles and manage their own operations.

Since December 1997, the Commission has been a controlled entity of the Department of Education and Training.

The Commission is subject to the control and direction of the Minister for Education and Training.

For further information on the Commission, refer to www.tafensw.edu.au.

The four Metropolitan Institutes are Northern Sydney, South Western, Sydney and Western Sydney. The six Country Institutes are Hunter, Illawarra, New England, North Coast, Riverina and Western.

CONTROLLED ENTITIES

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

New South Wales Technical and Further Education Commission Division

The Division provides personnel services to the Commission.

Office of the Board of Studies

AUDIT OPINION

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

OTHER INFORMATION

Human Resources

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

- management of annual leave balances in excess of threshold policies
- extent of overtime.

Annual Leave Balances

The Office 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 29 employees at 30 June 2009 to 24 employees at 30 June 2010. At 30 June 2010 employees in this category represent 9.8 per cent (11.0 per cent at 30 June 2009) of total employees.

Overtime

Overtime payments in 2009-10 totalled \$700,000 (\$600,000) or 3.7 per cent (3.3 per cent) of base salary expense for the year. For two employees, overtime was more than 50.0 per cent of their base salary while 14 employees earned 20.0 per cent or more of their base salary in overtime.

The Office advised this is due to the combined impact of the annual examination program requirement for after-hours, usually weekend work at peak periods and the impact of the staffing freeze.

Australian Curriculum

In 2009-10, the Office continued to support the work of the Australian Curriculum, Assessment and Reporting Authority (ACARA) and has worked collaboratively with all States and Territories, and the education sectors in NSW to develop an Australian curriculum. NSW Treasury has provided an initial allocation of \$6.0 million over two years to support the development and implementation of the Australian curriculum.

Subject to Federal, State and Territory Ministers of Education endorsement, ACARA advises substantial implementation of phase 1 subjects (English, Mathematics, Science and History) is expected by the end of 2013 for Kindergarten to Year 10.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Employee Related expenses	80,686	80,208
Other operating expenses	23,957	23,781
Depreciation and amortisation	1,930	1,954
TOTAL EXPENSES	106,573	105,943
Sales of goods and services	7,718	6,209
Grant and contributions	937	955
Other	551	488
TOTAL REVENUES	9,206	7,652
Loss on Disposal	(1)	(43)
NET COST OF SERVICES	97,368	98,334
Government contributions	97,666	98,351
SURPLUS	298	17
OTHER COMPREHENSIVE INCOME	--	--
TOTAL COMPREHENSIVE INCOME	298	17

The increase in sales of goods and services is primarily due to a bi-annual receipt of copyright fees from Copyright Agency Limited. There was also a general rise in fees for examinations.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	7,699	6,873
Non-current assets	7,499	8,141
TOTAL ASSETS	15,198	15,014
Current liabilities	5,595	5,710
Non-current liabilities	248	247
TOTAL LIABILITIES	5,843	5,957
NET ASSETS	9,355	9,057

Current assets increased due to a rise in cash and cash equivalents offset by a decrease in receivables and inventories.

Abridged Service Group Information

Office of the Board of Studies net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2010 Budget * \$'000	2010 Actual \$'000	2009 Actual \$'000	2010 Actual \$'000	2009 Actual \$'000
Curriculum Development and Support	9,128	7,736	8,322	766	1,251
Examinations Assessments and Credentialing	87,733	86,448	86,755	3,811	4,376
Registration and Accreditation	3,588	3,361	3,513	(200)	(127)
Not Attributable **	0	(177)	(256)	4,978	3,557
Total all service groups	100,449	97,368	98,334	9,355	9,057

* Per the New South Wales 2009-10 Budget Papers

** Represents items that could not be reliably allocated to a 'service group'

OFFICE ACTIVITIES

The Office is responsible for developing and delivering professional and administrative services to the Minister for Education and Training, the Board of Studies and its committees. This includes developing and supporting New South Wales curriculum, registering and accrediting non-government schools, registering home schooling, and assessing and examining students for the New South Wales School Certificate and Higher School Certificate (HSC). The Office carries out functions delegated to it by the Board of Studies, including employing staff to run the HSC. The Office bears the cost of carrying out those functions and does not charge the Board for those services.

The Office also includes the Australian Music Examinations Board (NSW) and the Aboriginal Education Consultative Group. The Office is a department under the *Public Sector Employment and Management Act 2002*.

For further information on the Office of the Board of Studies, refer to www.boardofstudies.nsw.edu.au.

Minister for Gaming and Racing

Refer to Appendix 1 for:

Casino, Liquor and Gaming Control Authority

Responsible Gambling Fund

Minister for Lands

Wentworth Park Sporting Complex Trust

Wentworth Park Sporting Complex 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

Unresolved Loan Repayment - Repeat Issue

I have previously recommended that the Trust endeavour to reach agreement with Greyhound Racing NSW regarding the treatment of monies provided in 1985-87 by the former Racecourse Development Fund.

The Trust records a loan of \$6.5 million payable to Greyhound Racing NSW. The money was provided in the period 1985-87 by the former Racecourse Development Fund (the Fund) to finalise construction of the main grandstand. At that time, grant status was not attached to the loan. The loan was transferred to Greyhound Racing NSW following privatisation of the TAB and winding up of the Fund.

The Trust's Board advised that it does not have the capacity to repay the loan and believes that, in respect of the original arrangements, there is no obligation for repayment. The Trust and Greyhound Racing NSW have met during the course of the year to discuss the status of the loan. To date there has been no consensus as to its status and the Trust has referred the matter to the Land and Property Management Authority.

FINANCIAL INFORMATION

Year ended 30 June	2010 \$'000	2009 \$'000
Revenue	1,598	674
Expenses	2,398	2,853
Deficit	800	2,179
Net assets (at 30 June)	39,018	39,468

The increase in revenue in 2009-10 was largely due to assets with a value of \$879,000 being received free of charge. The assets mostly comprised land used for parking during race meetings that was previously under the control of the Council of the City of Sydney.

The Trust earns revenue through office rental, licence fees and interest income. Office rental is limited to level two of the Sporting Complex, due to the exclusive access rights of the Greyhound Breeders, Owners and Trainers Association (GBOTA) under their licence agreement. The Trust also receives licence revenue from telecommunication providers who use the Grandstand roof for their networks.

A summary of the major revenue streams is provided in the following table:

Year ended 30 June	2010 \$'000	2009 \$'000
Rental revenue	442	403
Licence revenue from racing associations	143	141
Licence revenue from telecommunications providers	103	97
Interest income	12	12

Expenditure decreased by \$455,000 in 2009-10 compared to the previous year due to one-off expenses being incurred in 2008-09, including a \$332,000 decrement on the revaluation of Trust buildings, increases in repairs and maintenance costs of \$199,000, and \$66,000 in demolition costs.

Despite the Trust's positive net cash flows, the continuing deficit is due to depreciation of the grandstand, which totalled \$1.8 million (\$1.7 million). The conditions under the licence agreement with the GBOTA, while only attracting a small portion of the Trust's income, secure funding for major capital works and maintenance of the sporting complex infrastructure.

TRUST ACTIVITIES

The Trust is established under the *Crown Lands Act 1989*. Its main function is the care, control and management of the Reserve (Wentworth Park Sporting Complex). It is under the control of the Minister for Lands.

The Trust is empowered to grant leases, subject to Ministerial approval, and licences for the use of the Wentworth Park Sporting Complex for prescribed purposes.

For further information on the Trust refer to www.wentworthparksport.com.au.

Minister for Planning

Sydney Olympic Park Authority

Sydney Olympic Park Authority

AUDIT OPINION

The audits of the Authority and its controlled 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

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

Human Resources

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

- extent of contract staff
- management of annual leave balances in excess of threshold policies
- extent of overtime.

A summary of the results of my review follows.

Employment of Contractors

The Authority has employed a number of contractors for longer than one year.

The number of contract employees and the duration since their start date is shown below:

Year end 30 June 2010	Number of contract employees
Duration since contract start date	
2-5 years	3
1-2 years	1
Less than 1 year	43
Total	48

Source: the Authority (unaudited).

Total payments to contractors in 2009-10 amounted to \$560,000. The retention of contract employees for extended periods may result in additional costs to the Authority. The Authority has advised it uses contractors where it is appropriate and cost effective to do so. It maintains and monitors a register of contractors.

Annual Leave Balances

The number of employees with annual leave balances in excess of 40 days has increased slightly from 21 employees as at 30 June 2009 to 22 employees at 30 June 2010. This represents 11.3 per cent of total permanent employees at 30 June 2010. The annual leave liability as at 30 June 2010 was \$1.5 million (\$1.3 million at 30 June 2009).

Overtime

Overtime payments in 2009-10 amounted to \$410,000 (\$320,000) or 2.3 per cent (2.1 per cent) of base salary expense for the year. Four employees were paid overtime of between 20.0 per cent and 40.0 per cent of their base salary. These levels of overtime indicate the Authority is managing overtime effectively.

Master Plan 2030

The Authority has adopted Master Plan 2030. The Master Plan is aimed at providing a comprehensive blueprint for the sustainable development of the Park over the next 20 years. The Authority anticipates construction of new high-grade commercial office space, medium to high density housing, education campus facilities and retail outlets will support an expected daily population of up to 50,000 people by 2030.

Major Projects at the Park

Stage 1 of the \$190 million residential development is underway. Contracts have been exchanged on 80.0 per cent of stage 1 units. The project will be completed in three stages, with stage 1 scheduled for occupancy in early 2012.

Other developments planned or underway include:

- \$90 million office and retail development
- \$60 million commercial development
- \$20 million serviced apartment complex.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	400	19,824	--	--
Personnel services	22,836	565	22,836	19,755
Operating expenses	48,689	53,014	48,550	52,367
Depreciation and amortisation	50,124	50,706	50,124	50,706
Grants and subsidies	469	800	1,189	1,520
TOTAL EXPENSES	122,518	124,909	122,699	124,348
TOTAL REVENUE	53,804	44,762	53,944	45,464
Loss on sale of non-current assets	(20)	(129)	(20)	(129)
Other gains	23,146	21,946	23,146	21,946
NET COST OF SERVICES	45,588	58,330	45,629	57,067
Government contributions	39,160	34,914	39,160	34,106
DEFICIT	6,428	23,416	6,469	22,961
OTHER COMPREHENSIVE INCOME				
Revaluation of property plant and equipment	7,691	79,346	7,691	79,346
TOTAL OTHER COMPREHENSIVE INCOME	7,691	79,346	7,691	79,346
TOTAL COMPREHENSIVE INCOME	1,263	55,930	1,222	56,385

Staff are now employed by Communities NSW due to the abolishment of the Authority's employment divisions under the 'Public Sector Employment and Management (Departmental Amalgamations) Order 2009'. The overall increase in employee related/personnel services expense is due largely to the administrative restructure of the former State Sports Centre Trust operations, which were incorporated into the Authority from 31 November 2009.

Total revenue increased mainly due to the receipt of the stage 1 instalment of \$5.6 million for the sale of site 3 residential development. The remaining increase is due to a rise in revenue from estate levies, car parking fees and revenue from the Aquatic and Athletic Centres and State Sports Centre.

Other gains primarily represent the emerging value of the right to receive assets over the concession period.

The increase in Government contributions is mainly due to lower asset sales transferred to the Crown Entity.

The decrease in other comprehensive income was due to the revaluation of infrastructure in the prior year.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	61,649	52,112	60,063	50,522
Non-current assets	1,769,809	1,768,636	1,769,809	1,768,636
TOTAL ASSETS	1,831,458	1,820,748	1,829,872	1,819,158
Current liabilities	12,156	15,621	12,150	15,569
Non-current Liabilities	55,994	55,345	55,994	55,345
TOTAL LIABILITIES	68,150	70,966	68,144	70,914
NET ASSETS	1,763,308	1,749,782	1,761,728	1,748,244

The rise in current assets includes an increase in receivables of \$7.9 million and cash and cash equivalents of \$1.6 million.

The decrease in current liabilities was largely as a result of settling the liability for rectification works at the Sydney Showground.

AUTHORITY'S ACTIVITIES

The Authority was established in July 2001 by the *Sydney Olympic Park Authority Act 2001*, as a statutory body. It assumed certain assets and rights of the Olympic Coordination Authority, Bicentennial Park Trust and the State Sports Centre.

Under the Act, the Authority:

- promotes, coordinates and manages the orderly and economic development and use of Sydney Olympic Park, including the provision and management of infrastructure
- conducts cultural, sporting, educational, commercial, tourist, recreational, entertainment, and transport activities and facilities
- protects and enhances the natural and cultural heritage of Sydney Olympic Park, including the Millennium Parklands
- provides, operates, and maintains public transport facilities within Sydney Olympic Park
- liaises with and maintains arrangements with Olympic organisations, such as the International Olympic Committee and the Australian Olympic Committee Incorporated.

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

CONTROLLED ENTITIES

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

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

Entity Name	Website
Parklands Foundation Limited	*

* This entity does not have a website.

On 10 September 2009, the Authority as the sole member of Parklands Foundation Limited, resolved to wind down the Foundation. Any existing programs will be consolidated into the Authority.

Minister for Sport and Recreation

Centennial Parklands Foundation

Centennial Park Trust

Sydney Cricket and Sports Ground Trust

Illawarra Venues Authority

Refer to Appendix 1 for:

Combat Sports Authority of NSW

*Hunter Region Sporting Venues Authority (2009)

*Hunter Region Sporting Venues Authority (2010)

New South Wales Institute of Sport

Parramatta Park Trust

State Sports Centre Trust

Sydney 2009 World Masters Games Organising Committee

*The audit was incomplete at the time of compiling this Volume

The comment will be included in a later Volume

Centennial Parklands Foundation

AUDIT OPINION

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

It is impractical for the Foundation to maintain an effective system of internal control over donations it receives until their initial entry into the financial records. Accordingly, I was unable to express an opinion as to whether all donation revenues received by the Foundation were recorded. Last year's Independent Auditor's Report was similarly qualified.

OTHER INFORMATION

Establishment of Centennial Parklands Foundation Limited

I recommend the Foundation determine whether it controls Centennial Parklands Foundation Limited for financial reporting purposes.

During the year, the Foundation established a company limited by guarantee, Centennial Parklands Foundation Limited. The company was registered on 30 March 2010, but was not consolidated into the Foundation's financial statements for the year ended 30 June 2010. Due to the governance structure of the new company, the Foundation was uncertain whether it controlled the company for financial reporting purposes. I concluded the non-consolidation of the company's transactions and balances did not have had a material impact on the Foundation's financial statements for the year ended 30 June 2010. The Foundation needs to determine whether the company is controlled for financial reporting purposes.

FINANCIAL INFORMATION

Year ended 30 June	2010 \$'000	2009 \$'000
Revenue	980	1,026
Expenses	817	801
Surplus	163	225
Net assets (at 30 June)	859	696

Revenue in 2009-10 included grants and donations of \$409,000 (\$378,000 in 2008-09) and goods and services received free of charge from the Centennial Park and Moore Park Trust of \$178,000 (\$197,000).

Expenses included grants and donations to the Centennial Park and Moore Park Trust of \$486,000 (\$390,000). This amount included: \$180,000 towards the Centennial Parklands tree replacement program with 198 young trees planted in 2009-10; and \$160,000 towards the establishment of the Centennial Parklands Education Precinct, which was formally launched on 30 September 2009.

The Foundation successfully raised \$88,000 from the Evergreen fund raising dinner held on 29 October 2009. The money will be used to plant a new circle of semi-mature trees to replace aging trees inside Centennial Park's 3.6 km Grand Drive. In 2009-10, the first stage of planting was completed, comprising 15 semi-mature trees.

At 30 June 2010, the Foundation had 344 members (393).

FOUNDATION ACTIVITIES

The Foundation was established as an independent charitable organisation by the Centennial Park and Moore Park Trust under the 'Centennial Parklands Foundation Deed' in July 1998. It is subject to the control and direction of the Minister for Sport and Recreation. Its principal objectives are to:

- preserve the natural environmental value of Centennial Parklands
- encourage and promote enjoyment of recreation and activity within natural surroundings
- recognise and appreciate the natural and historical significance of Centennial Parklands
- enhance and promote all other aspects of the environmental benefits provided by Centennial Parklands to be enjoyed by all members of the public, and
- provide information, education and research about the natural environment.

For further information on the Foundation, refer to www.yourparklands.org.au.

Centennial Park 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.

PERFORMANCE INFORMATION

Park Visits

The table below shows visits have increased steadily over the past five years.

The net cost to government per visit has decreased over the last four years, indicating the Trust has been able to generate revenues, control costs and reduce reliance on government funding over this period. The Trust continues to focus on enhancing existing revenue streams through its marketing and business development strategies.

Year ended 30 June	2010	2009	2008	2007	2006
Annual number and costs per visit					
Annual number of visits ('000s)	6,146	5,967	5,790	5,620	5,460
Cost per visit including depreciation (\$)	4.06	4.40	4.21	4.10	3.90
Cost per visit - maintenance (\$)	0.49	0.57	0.53	0.56	0.47
Net cost to government per visit - recurrent funding (\$)	0.27	0.30	0.32	0.39	0.50

Source: Centennial Park and Moore Park Trust Annual Report (unaudited).

OTHER INFORMATION

Following an administrative restructure, effective from 1 July 2009, the Trust now receives some corporate services support from Communities NSW. The Trust continues to operate under its enabling legislation.

The main achievements in 2009-2010 were:

- delivering 20 capital works projects valued at \$3.8 million across the Parklands
- securing additional funding of \$2.1 million from the New South Wales Government for the Trust's Capital Investment Program (CIP) 2010-2011. Total funding expected for the four years 2009-13 has now increased from \$17.2 million to \$19.3 million
- launching the new Education Precinct, which includes a discovery garden and community plant nursery
- obtaining a contribution, through the Centennial Parklands Foundation, of \$350,000 towards environmental and education projects.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Sale of goods and services	9,116	9,177
Investment revenue	9,151	8,614
Grants	5,154	7,388
Other revenue	973	1,594
TOTAL REVENUE	24,394	26,773
Personnel services	5,554	5,659
Other expenses	19,389	20,589
TOTAL EXPENSES	24,943	26,248
(DEFICIT)/SURPLUS	(549)	525
OTHER COMPREHENSIVE INCOME		
Gain on revaluation of property, plant and equipment	37,978	7,819
TOTAL OTHER COMPREHENSIVE INCOME	37,978	7,819
TOTAL COMPREHENSIVE INCOME	37,429	8,344

The Trust's revenue decreased by \$2.4 million compared to the previous year. This was largely attributable to a decrease of \$1.6 million in government grants and a decrease of \$766,000 in contributed assets, which were recorded as 'Other revenue' in 2008-09.

Total expenses decreased by \$1.3 million due to reductions of \$508,000 in depreciation expenses and \$354,000 in maintenance expenses, primarily reflecting a lower incidence of damage to assets.

At 30 June 2010, the Trust revalued land, buildings and infrastructure (including trees) resulting in a gain in value of \$38.0 million.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	11,239	10,695
Non-current assets	777,015	740,651
TOTAL ASSETS	788,254	751,346
Current liabilities	4,926	4,736
Non-current liabilities	5,395	6,106
TOTAL LIABILITIES	10,321	10,842
NET ASSETS	777,933	740,504

Non-current assets increased by \$36.4 million primarily due to the revaluation of land, building and infrastructure assets.

TRUST ACTIVITIES

The Trust is constituted under the *Centennial Park and Moore Park Trust Act 1983*. It is subject to the control and direction of the Minister for Sport and Recreation. Its principal objectives are to:

- maintain and improve Trust lands
- encourage the use and enjoyment of Trust lands by promoting and increasing the recreational, historical, scientific, educational, cultural and environmental value of those lands
- maintain the right of the public to the use of Trust lands
- ensure the protection of the environment within Trust lands.

For further information on the Trust, refer to www.cp.nsw.gov.au.

Sydney Cricket and Sports Ground Trust

AUDIT OPINION

The audits of the Trust and its controlled entity's financial statements for the year ended 28 February 2010 resulted in unqualified Independent Auditor's Reports.

OTHER INFORMATION

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

Human Resources

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

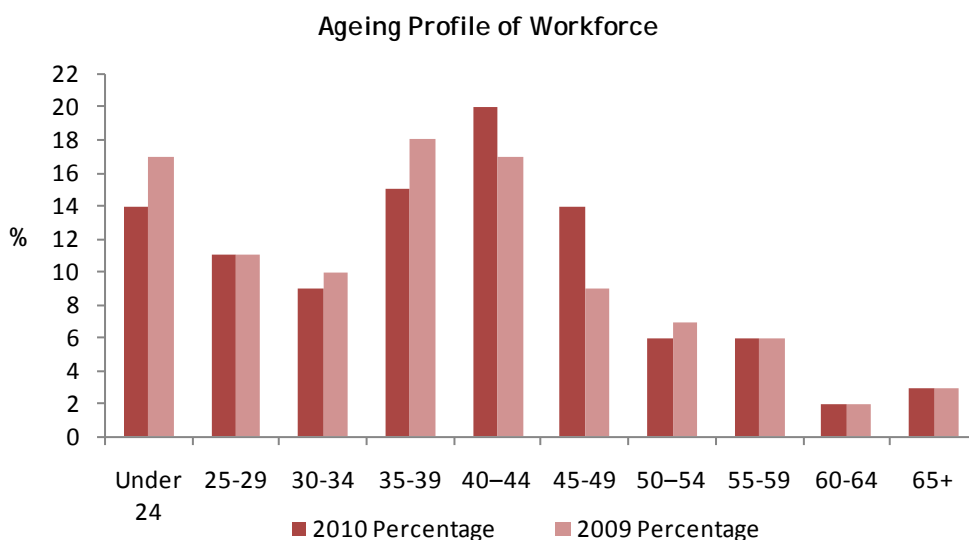
- employee age profile
- trend in long service leave liabilities
- extent of overtime.

A summary of the results of my review follows.

Workforce Ageing

Eleven per cent of the Trust's employees (10.0 per cent in 2008-09) are over 55 years of age and 17.0 (17.0) per cent over 50. Based on the age profile of its employees the Trust does not appear to have a significant risk from an ageing workforce.

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



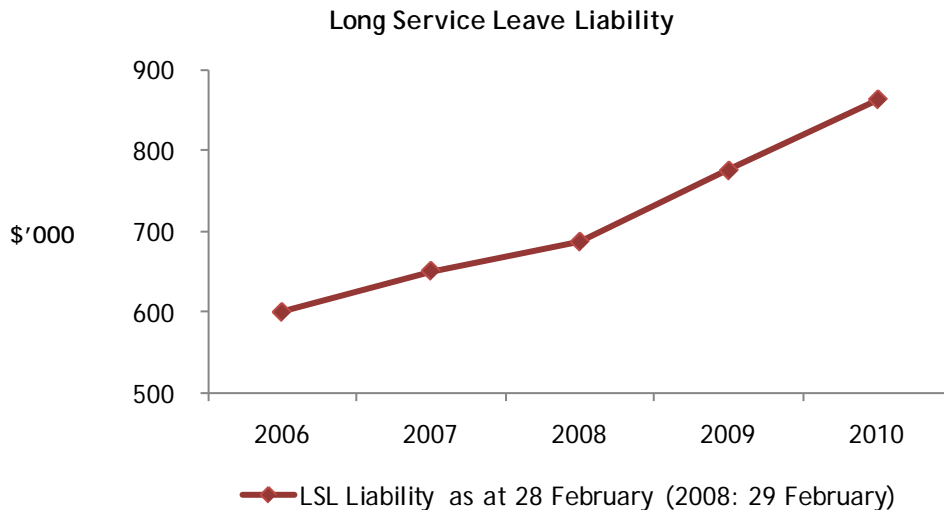
At 28 February	2010		2009	
	No. of Employees*	%	No. of Employees*	%
Age Group				
Up to 34	34	34.0	41	38.7
35-39	15	15.0	19	17.9
40-44	20	20.0	18	17.0
45-49	14	14.0	10	9.4
50-54	6	6.0	7	6.6
55-59	6	6.0	6	5.7
60-64	2	2.0	2	1.9
65+	3	3.0	3	2.8
Total	100	100	106	100

Source: Information provided by the Trust (unaudited)

* Number of employees based on full time equivalents

Long Service Leave Liability

The Trust's liability for long service leave entitlements at 28 February 2010 amounted to \$863,000 (\$775,000). This liability has increased by 43.8 per cent over the last five years.



The Trust will need to ensure it has an adequate plan to fund this liability in the future, because long service leave liabilities continue to increase over time with increases in employee remuneration.

Overtime

Overtime payments in 2009-10 were \$215,000 (\$275,000), 3.2 per cent (4.1 per cent) of base salary expenses for the year. Thirty per cent (38.9 per cent) of employees received a payment for working overtime, receiving on average, \$5,800 (\$4,750) each in overtime payments.

FINANCIAL INFORMATION

Abridged Statements of Comprehensive Income

Year ended 28 February	2010 \$'000	2009 \$'000
Government grants	-	25,000
Membership	15,795	16,866
Hire fees	17,885	7,346
Catering	12,269	13,525
Other revenue	25,003	24,069
TOTAL REVENUE	70,952	86,806
Operating costs	40,661	34,657
Employee related expenses	13,001	13,471
Other expenditure	13,896	11,584
TOTAL EXPENDITURE	67,558	59,712
Gain/(Loss) on disposal of non-current assets	2	(166)
SURPLUS	3,396	26,928
OTHER COMPREHENSIVE INCOME		
Net increase in asset revaluation reserve	14,439	--
Superannuation actuarial gains/(losses)	209	(713)
TOTAL COMPREHENSIVE INCOME/(EXPENSES)	14,648	(713)
TOTAL COMPREHENSIVE INCOME	18,044	26,215

The Trust received an Australian Government grant of \$25.0 million for the Victor Trumper Stand project in 2008-09. This project was completed in the previous year and no further government grants were received.

Hire fees and operating costs increased by \$10.5 million and \$6.0 million respectively, largely due to the Trust staging and promoting the Edinburgh Military Tattoo. Other events contributing to the increase included three concerts, four West Tigers home games and one soccer international.

Abridged Statements of Financial Position

At 28 February	2010 \$'000	2009 \$'000
Current assets	21,298	12,845
Non-current assets	568,091	559,236
TOTAL ASSETS	589,389	572,081
Current liabilities	39,103	33,144
Non-current liabilities	35,160	41,855
TOTAL LIABILITIES	74,263	74,999
NET ASSETS	515,126	497,082

The Trust revalued its land and buildings this year based on an independent assessment. This resulted in a \$14.4 million increase in the value of non-current assets. The previous revaluation was performed in 2006-07.

Current assets increased by \$8.5 million in 2009-10 largely due to a \$9.6 million increase in cash and cash equivalents. Cash and cash equivalents increased due to receipts from major events held in February 2010. Current liabilities increased by \$6.0 million as expenses associated with these events were paid in the next financial year in line with creditor trade terms

Non-current liabilities decreased by \$6.7 million primarily due to a \$5.9 million repayment of borrowings during 2009-10.

TRUST ACTIVITIES

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

The *Sydney Cricket and Sports Ground Act 1978* established the Trust as a Corporation. The Trust is subject to the control and direction of the Minister for Sport and Recreation.

The Trust consists of 15 members, 13 appointed by the Governor and two elected by members. Each Trustee is appointed for a term of up to four years.

For further information on the Trust, refer to www.scgt.nsw.gov.au.

CONTROLLED ENTITY

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

Entity Name	Website
Sydney Cricket and Sports Ground Trust Division	*

* This entity does not have a website

Illawarra Venues Authority

AUDIT OPINION

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

KEY ISSUES

Dissolution of Wollongong Sportsground Trust

The *Sporting Venues Authorities Act 2008* dissolved the Wollongong Sportsground Trust (the Trust) on 30 November 2009 and established the Illawarra Venues Authority (the Authority). The change did not impact operations. The Board members of the former Trust were immediately appointed as Board members of the Authority and there were no changes to business plans, budgets, staffing, functions, objectives or rights. The Trust's liabilities and assets were transferred to the Authority on 30 November 2009.

As the Authority only came into existence on 30 November 2009, it was required to prepare financial statements for the period from that date to 30 June 2010, a seven month period. Trust operations for the period 1 July 2009 to 30 November 2009 were included in the notes to the Authority's financial statements.

New Grandstand

The Authority's goal is to become financially self sufficient and provide effectively for the maintenance and replenishment of its key assets, the WIN Entertainment Centre and WIN Stadium.

On 16 October 2009, the New South Wales Government announced it would provide \$28.9 million for the replacement of the Western Grandstand. This will allow WIN Stadium to meet national and international standards, and remain competitive in attracting significant future sporting events. Work on the new grandstand commenced in 2010 and is expected to be completed in 2012.

PERFORMANCE INFORMATION

The Authority provided the following information regarding its performance.

WIN Entertainment Centre

Year ended 30 June	2010	2009	2008
Number of events	52	55	61
Event days	54	68	85
Attendance	143,800	128,712	158,555
Average attendance per event day	2,663	1,893	1,865

Average attendance at the WIN Entertainment Centre increased by 40 per cent in 2009-10 due to a number of major music events including two concerts by PINK, and concerts by Lady GaGa, Keith Urban, Tom Jones and John Mayer.

WIN Stadium

Year ended 30 June	2010	2009	2008
Number of events	35	28	29
Event days	35	30	29
Attendance	128,294	128,974	127,082
Average attendance per event day	3,666	4,299	4,382

While the number of events increased in 2009-10, the average attendance at WIN Stadium fell by 14.7 per cent. This reflects an increase in the number of small events. Average attendance at St George Illawarra Dragons home games increased from 11,172 to 12,604 per game.

FINANCIAL INFORMATION

	IVA	WSGT
	Period 30/11/2009 to 30/6/2010 \$'000	Period 1/7/2009 to 30/11/2009 \$'000
Revenue	3,823	1,357
Personnel services expense	946	678
Other expenses	1,547	1,079
Profit / (Loss)	1,330	(400)
Net assets (at 30 June/November)	59,581	56,261

Revenues in the first half of 2010 were bolstered by the fact that six of the seven Dragon's games were held in this period to allow construction of the new Western Grandstand to begin later in the year.

Net assets increased primarily as a result of a revaluation of land and buildings, comprising both the Stadium and the Entertainment Centre, by \$2.0 million.

AUTHORITY ACTIVITIES

The Authority is constituted by the *Sporting Venues Authorities Act 2008*. The Authority's major objectives are to:

- maintain and improve the Authority's land
- establish and manage sporting grounds, sporting facilities and recreational facilities (whether or not on the Authority's land)
- establish and manage facilities for the purposes of sporting competitions, sports training and sports education (whether or not on the Authority's land)
- permit the use of the whole or any part of the Authority's land for activities of a sporting, recreational or community nature, including the use of that land for events and general community access
- encourage the use and enjoyment of the Authority's land by the public and clubs, associations or other bodies, where appropriate
- undertake, provide or facilitate the undertaking or provision of, commercial and retail activities and facilities on the Authority's land
- make all reasonable attempts to ensure that any new development carried out on the Authority's land accords with best practice environmental and planning standards.

The Authority is subject to the control and direction of the Minister for Sport and Recreation. For further information on the Authority refer to www.wec.org.au.

Minister for Western Sydney

Western Sydney Parklands Trust

Western Sydney Parklands 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.

OTHER INFORMATION

I identified opportunities to improve the accounting and internal control procedures and reported them to management.

FINANCIAL INFORMATION

The following information relates to the Trust's finances.

Period ended 30 June	2010 \$'000	2009 \$'000
Revenue	13,324	11,937
Expenditure	11,409	4,151
Surplus	1,915	7,786
Net assets (at 30 June)	498,287	422,957

Expenses increased largely due to a grant of \$3.0 million to Blacktown City Council for improvements to the Nurragingy Reserve and a decrease of \$4.0 million in the valuation of land subject to a long term lease to Blacktown City Council.

At 30 June 2009, the park was valued at \$492 million (\$418 million in 2008). The increase in values is largely due to a revaluation increment of \$51.5 million and a transfer of properties from the Corporation Sole 'Minister Administering The *Environmental Planning And Assessment Act, 1979*' with a value of \$20.1 million.

TRUST ACTIVITIES

The Trust, established by the *Western Sydney Parklands Act 2006*, is subject to the control and direction of the Minister. Its principal function is to develop the parklands, stretching 27 kilometres from Mount Druitt to Hoxton Park, into multiuse urban parkland for the region of Western Sydney. Also, the Trust is to conserve, restore and enhance the natural environment and cultural and historical heritage of the parklands.

For further information on the Trust, refer to www.westernsydneyparklands.com.au.

Minister for Youth

Refer to Appendix 1 for:

NSW Commission For Children and Young People

Premier

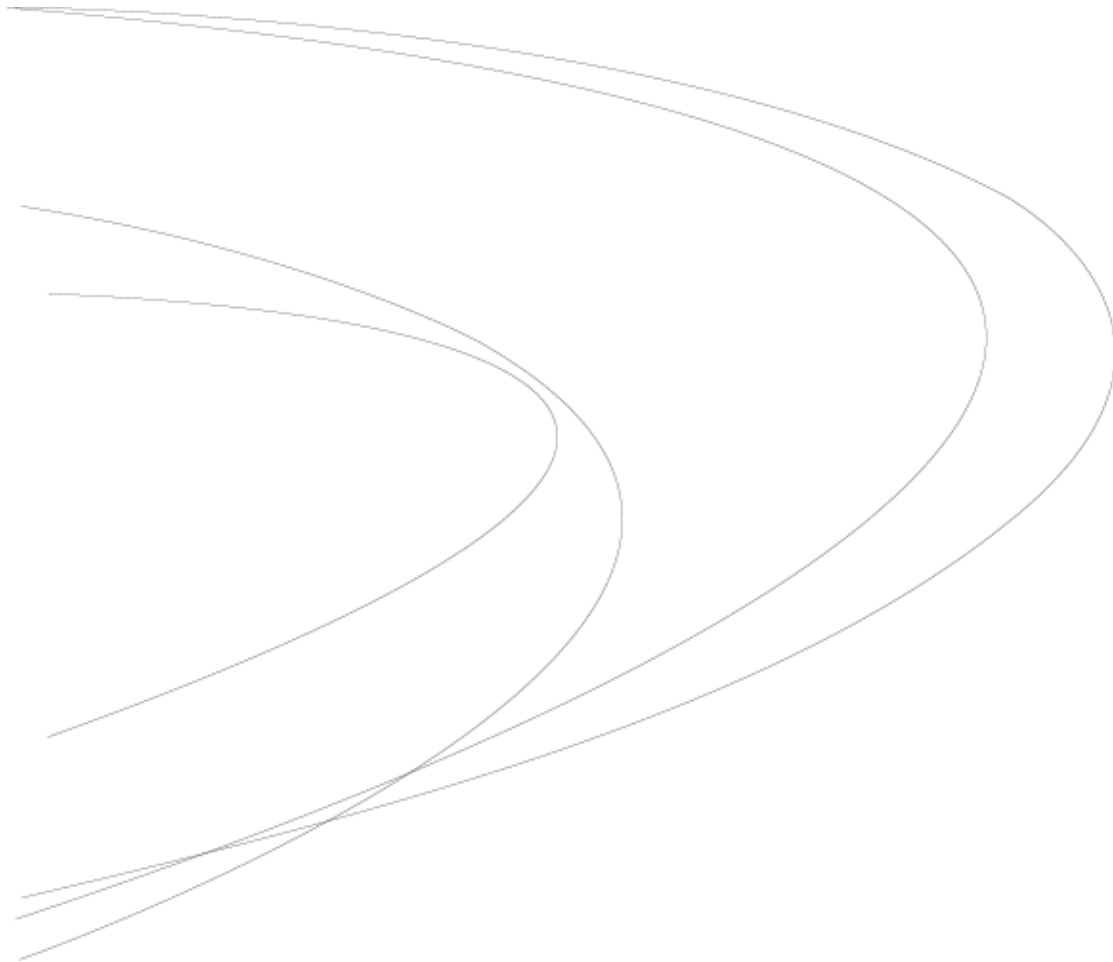
Refer to Appendix 1 for:

Cowra Japanese Garden Maintenance Foundation Limited

Cowra Japanese Garden Trust

Appendix

Appendix 1 Agencies not reported elsewhere in this Volume



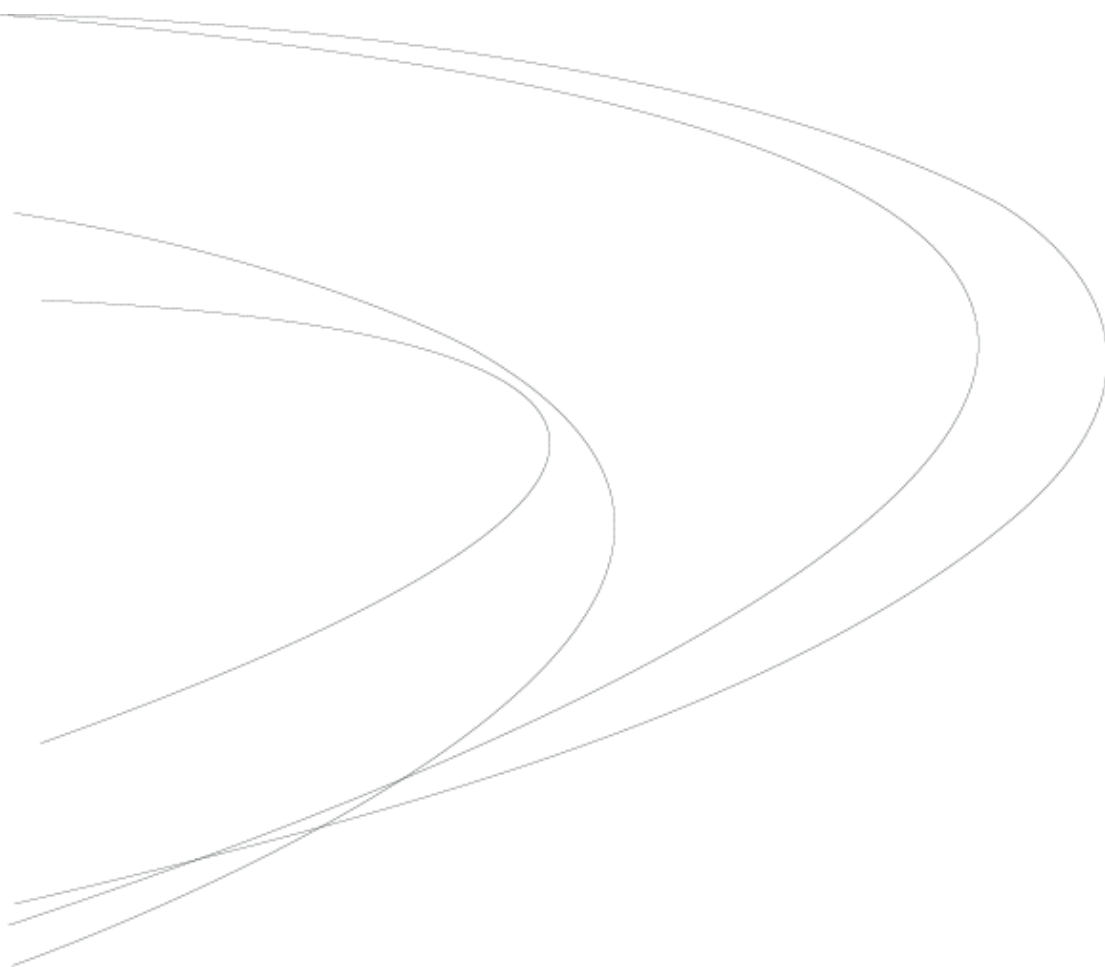
Appendix 1 - Agencies not reported elsewhere in this Volume

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

Entity Name	Website	Period/Year Ended
Art Gallery of New South Wales Foundation	www.artgallery.nsw.gov.au/support-us/join-the-gallery-foundation	30 June 2010
Casino, Liquor and Gaming Control Authority	www.clgca.nsw.gov.au	30 June 2010
Coffs Harbour Technology Park Limited	www.coffstechpark.com.au	30 June 2010
Combat Sports Authority of NSW	*	30 June 2010
Community Relations Commission for a Multicultural New South Wales	www.crc.nsw.gov.au/home	30 June 2010
Cowra Japanese Garden Maintenance Foundation Limited	www.cowraregion.com.au/japanesegarden	31 March 2010
Cowra Japanese Garden Trust	www.cowraregion.com.au/japanesegarden	31 March 2010
New South Wales Institute of Sport	www.nswis.com.au	30 June 2010
- Institute of Sport Division		30 June 2010
NSW Board of Vocational Education And Training	www.bvet.nsw.gov.au	30 June 2010
NSW Commission For Children and Young People	www.kids.nsw.gov.au	30 June 2010
NSW Institute of Teachers	www.nswteachers.nsw.edu.au	30 June 2010
- Office of The Institute of Teachers	*	30 June 2010
Parramatta Park Trust	www.ppt.nsw.gov.au	30 June 2010
Responsible Gambling Fund	*	30 June 2010
State Sports Centre Trust	*	30 November 2009
Sydney 2009 World Masters Games Organising Committee	*	30 June 2010
- Sydney 2009 World Masters Games Organising Committee Division	*	30 June 2010
The Board of Studies	www.boardofstudies.nsw.edu.au	30 June 2010
- Board of Studies Casual Staff Division	*	30 June 2010
The Brett Whiteley Foundation	www.artgallery.nsw.gov.au/about-us/people/brett-whiteley-foundation	30 June 2010
Uniprojects Pty Limited	*	30 June 2010
Universities Admissions Centre (NSW & ACT) Pty Limited	www.uac.edu.au	30 June 2010

* This entity does not have a website

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